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PERSPECTIVE

How to build *Daubert*-proof patent damages cases

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Patent damages were once like a sleepy neighborhood when compared to the hustle and bustle of patent infringement and validity. Injunctions were nearly automatic in patent cases and frequently created the most settlement leverage; the damages case was often an afterthought. The U.S. Court of Appeals for the Federal Circuit issued few groundbreaking damages opinions. Daubert motions were rarely filed, and almost never granted. And so litigants largely focused on liability issues from case outset through trial.

But then the late 1990s and early 2000s saw a sharp increase in patent cases filed by nonpracticing entities (NPEs), including so-called "patent trolls." Not long after, in 2006, the U.S. Supreme Court's decision in eBay v. MercExchange stripped away injunctive relief for NPEs. Suddenly, damages became the sole remedy, replacing injunctions as the settlement lever. Plaintiffs became more creative and more aggressive with damages — and the numbers skyrocketed.

On the other side of the coin, district courts were applying ever- increasing scrutiny on damages theories, both from plaintiff and defense standpoints. This scrutiny was grounded in stricter damages law from the Federal Circuit, which began to actively rein in patent damages awards around the same time as the eBay case. Perhaps the paramount legal principle cemented by the courts is that damages must be tied to the actual value of a claimed invention. This principle can be difficult to apply, especially where the claimed invention covers only a small feature within a larger commercial product — an issue that has received great attention in the courts.

As a result, to be successful, litigants are best served by developing a sound, fulsome and reasonable damages case. While the courts have more intensely scrutinized plaintiffs' damages theories, defendants must be equally focused on their damages case — and must start early. More specifically, litigants should begin planning and developing damages theories during the early stages of litigation, work with their experts to generate Daubert-proof opinions and theories, and then be prepared to simplify and boil down the damages case at trial. This process is the hallmark of a successful damages case.

Plan the Damages Case Early

It may not be self-evident today, but during the sleepy era of patent damages, litigants often spent little time on damages until just before the expert phase. Then, a mad scramble would ensue — hiring the expert near the close of fact discovery and trying to gather last minute fact discovery to support the case. The damages expert would then be handcuffed by the lack of evidence, which would frequently limit the available damages theories.

Plaintiffs should begin planning the damages case even before filing a lawsuit, and defendants should start upon notice of the suit. Parties must develop a proper discovery plan at the outset of discovery. They need to identify the damages theories — more than one is prudent — and map out the evidence needed to prove up those theories. Moreover, understanding and setting realistic goals during the early stages of litigation is invaluable for settlement negotiations.

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A Daubert-proof expert report is one supported by belts, suspenders and even safety pins.

Although damages experts can be expensive, the better practice is to engage damages experts early. The expert can provide valuable input regarding the key evidence to be collected from the opposing party to prove and formulate various damages theories. This is particularly important when evidence is to be collected from third parties. Additionally, damages experts can help in developing the damages case by providing input for discovery requests and responses.

Prepare a Daubert-proof Expert Report

The added judicial scrutiny has led to a rash of Daubert orders that have crippled damages opinions and at times even excluded them altogether. Damages experts once yawned when faced with a Daubert challenge. They now quake. Whether you are in-house counsel, trial counsel or a damages expert, it is critical to understand the principles that make you Daubert-proof — or at least Daubert-resistant.

When preparing a damages expert report, more is more. Collecting extensive damages evidence during the discovery phase — from both sides of the "v." and even third parties — enables the expert to create a robust damages report. Whenever possible, the expert should advance a primary damages theory, but also put forward alternative or backup theories sufficiently supported by the evidence in case one or more of the theories are excluded by the court.

A prime example stems from what many consider the Achilles heel of damages — trying to apportion the value of a patented feature from a larger complex product. Offering just one apportionment theory may drop you in "do-over" land (in which the expert must redo the report), or, result in total exclusion of your damages expert. But some judges simply do not allow do-overs. Discovering this fact, after the Daubert order issues, is an unpleasant surprise. So it makes sense to advance multiple apportionment theories as a hedge against exclusion of some. Moreover, it is valuable for an expert to check her conclusions — for example, using a licensing agreement to confirm the reasonableness of an apportionment analysis, or using multiple theories to triangulate on a number. Thus, a Daubert-proof expert report is one supported by belts, suspenders and even safety pins.

The expert report should also lay out the various damages theories in great detail, providing a clear analysis that relies on sound legal theories and tying the relevant facts to those theories. It is not uncommon that a well prepared damages expert report spans hundreds of pages, with schedules and spreadsheets. Importantly, the damages theories must be supported by the facts of the case, rather than present a generic and conclusory analysis. And, in today's damages world, the damages expert may need to "piggyback" on the technical expert, on other experts and even on fact witnesses from both sides. Later at trial, this comprehensive analysis will help the damages expert convince the jury that she did her homework, that she spoke to the key players and that her opinion is consistent with the technical side and themes of the case. At the same time, the damages theories should be reasonable and not vastly overstate the requested award. If the numbers are not defensible, an adverse Daubert ruling may follow.

Adhering to these principles will increase the odds of success in the Daubert phase. An expert armed with multiple theories, with checks, a detailed report, and a reasonable and defensible number, will hold up well at deposition and likely survive a Daubert challenge. In this era, courts commonly strike portions of damages reports — you can weather a ding to a detailed, multifaceted expert report; but you cannot afford total exclusion.

Simplify the Case for Trial

In contrast to the Daubert-proof expert report, when preparing for trial, less is more. Simplification is challenging. The damages theories are typically boiled down and presented concisely so the jury understands and remains engaged. The damages expert normally comes at the end of the case in chief — if the expert is long-winded, dull, and unclear, your case will end on a whimper. What you want is an alert jury that follows along with the expert and understands her various theories and their rationale. Moreover, the expert should present key points in a memorable fashion, so that the jury will jot them down and carry them into deliberation.

Boiling down and simplifying the damages case must be balanced, however, against the risk of an overturned verdict — a party must take care to enter sufficient evidence into the record to shore-up the damages award for post-trial motions and appeal. This is typically a larger issue for the plaintiff because the Federal Circuit has mainly focused on reining in damages awards. Neither the expert report nor the expert's demonstrative exhibits will be in evidence, and so they will not be available for post-trial motions or appeal. Instead, a party must get damages evidence into the record via admitted exhibits and testimony. This requirement may lead to more detailed and dull damages presentations (for example, with the expert reading a litany of figures into the record), creating tension against the goal of keeping the case simple and the jury engaged. Striking this balance requires skill and experience, but most importantly, careful planning from the very beginning of the case through completion.

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