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**PATENTS**

The authors look at the variance among district courts in granting “damages do-overs” after “overreaching on the first bite” in experts’ reports. They argue that a reluctance to grant second and third chances is consistent with Fed. R. Civ. P. 1 and 37(c)(1).

**Hiding in Plain Sight:  
Analyzing Requests for Patent Damages Do-Overs Under Fed. R. Civ. P. 37(c)(1)**

BY WILLIAM C. ROOKLIDGE AND MATTHEW J.  
SILVEIRA

*William C. Rooklidge is a partner at Jones Day in Irvine, Calif., who practices intellectual property litigation and related counseling, focusing on patent infringement trial and appellate litigation.*

*Matthew J. Silveira is an associate in the San Francisco office of Jones Day. He focuses his practice on appellate litigation, motions practice and legal strategy in complex civil litigation.*

*The views expressed in this paper belong to the authors only and should not be attributed to Jones Day or its clients.*

**O**n the eve of trial, the court excludes all or part of an expert opinion on patent damages. The court must then decide whether to give the party and its expert a “do-over,” or proceed to trial with a meager damages record. What guides the court’s analysis?

In recent years, courts have applied widely divergent standards in addressing this predicament, with some allowing plaintiff-patentees repeated opportunities to repair the record so that the case may be decided “on the merits,” and others leaving the plaintiff to its initial choice of proof. But courts need not grant or deny a do-over as a matter of course or be guided by instinct.

Federal Rule of Civil Procedure 37(c)(1) has given rise to established standards for courts to resolve requests for patent damages do-overs. Application of those standards allows courts to prevent gamesmanship and undue prejudice, while ensuring that do-overs are available when a defect is curable and there is minimal disruption to trial. As courts increasingly apply Rule 37(c)(1) in their analyses, parties should be prepared for the potential application of that rule from the outset of their cases.

**Existing Practice in the District Courts**

Predictably, the districts with the nation’s busiest patent dockets, particularly the Northern District of California, have issued many decisions on patent damages do-overs.<sup>1</sup> Yet, there is little in the way of a standard approach within individual districts, let alone within re-

gional circuits or nationwide.<sup>2</sup> Instead, the case law reveals a wide range of approaches.

In one prominent example of an expert repeatedly sent back to the drawing board, Judge Alsup of the Northern District of California gave the plaintiff-patentee in *Oracle v. Google* three chances to submit an admissible expert report on infringement damages. Judge Alsup rejected the first report, chiding the plaintiff for “overreach[ing] . . . evidently with the goal of seeing how much it could get away with, a ‘free bite,’ as it were” and cautioned that “the next bite will be for keeps.”<sup>3</sup> Nonetheless, when the second report also failed to measure up, Judge Alsup ordered further briefing on whether the expert should be provided with “a third opportunity to fix his damages calculations,”<sup>4</sup> and ultimately granted that relief.<sup>5</sup> After ordering certain adjustments to the third report, Judge Alsup permitted the parties to proceed to trial.<sup>6</sup>

A few months after the *Oracle v. Google* trial commenced in San Francisco, Magistrate Judge Grewal in San Jose faced a similar situation in *Dynetix Design Solutions, Inc. v. Synopsys, Inc.*<sup>7</sup> Presented with an expert damages report on the eve of trial that “employed impermissible and arbitrary methodologies to determine both the royalty base and the royalty rate,” Judge Grewal had to decide whether to give the plaintiff-patentee another chance. With a nod toward plaintiff’s “due process rights” and the example set by former Federal Circuit Chief Judge Rader sitting by designation in *Cornell University v. Hewlett-Packard Co.*,<sup>8</sup> Judge Grewal permitted plaintiff “one more opportunity to offer a new expert report on damages.”<sup>9</sup>

Although the examples above suggest a willingness to allow do-overs, the judges of the Northern District of California have not shown unlimited patience. In *Network Protection Sciences, LLC v. Fortinet, Inc.*, Judge Alsup drew a bright line at the first report, which he concluded was “not even close.”<sup>10</sup> Perhaps with *Oracle v. Google* freshly in mind, Judge Alsup explained that “[o]ver the course of many years and more than a dozen patent trials, [he] has concluded that giving a

second bite simply encourages overreaching on the first bite (by both sides).”<sup>11</sup> In *Apple Inc. v. Samsung Electronics Co.*, Judge Koh relied in part on Federal Rule of Evidence 403 to exclude an unfairly prejudicial lost profits theory offered by the plaintiff-patentee “on the literal eve of trial.”<sup>12</sup> And, in *Golden Bridge v. Apple Inc.*, Magistrate Judge Grewal held firm at a single do-over, reasoning that “Apple would suffer undue prejudice if GBT were to offer a new damages expert with yet a third theory, to which it would have had no meaningful time to respond.”<sup>13</sup>

The Northern District of California is not alone in confronting this issue. For example, in *Wi-Lan Inc. v. Alcatel-Lucent USA Inc.*, Judge Davis of the Eastern District of Texas recently granted defendant’s motion to exclude large portions of plaintiff’s expert damages report, but without explanation permitted the expert to “amend his report and recalculate his reasonable royalty in light of the Court’s ruling.”<sup>14</sup> On the other hand, Judge Andrews of the District of Delaware excluded a plaintiff-patentee’s expert testimony and then rejected proposed replacement expert testimony offered “on the eve of trial” because the defendant “would be prejudiced by [the plaintiff’s] late disclosure of [the proposed expert’s] damages analysis.”<sup>15</sup>

These decisions reflect the lack of consensus among trial judges regarding when to grant do-over requests and what analytical framework to apply in considering those requests. Indeed, judges across the country have reached diverging results based on a variety of considerations.<sup>16</sup>

<sup>11</sup> *Id.*

<sup>12</sup> No. 11-cv-01846, Dkt. No. 2719, at 5 (N.D. Cal. Nov. 12, 2013).

<sup>13</sup> No. 5:12-cv-04882, Dkt. No. 494, at 3 (N.D. Cal. June 1, 2014).

<sup>14</sup> Nos. 6:10-cv-00521, 6:13-cv-00252, Dkt. No. 421, at 7 (E.D. Tex. June 28, 2013); see also *ThinkOptics, Inc. v. Nintendo of America, Inc.*, No. 6:11-cv-00455, Dkt. No. 435, at 5 (E.D. Tex. June 21, 2014) (Judge Davis striking expert’s reasonable royalty analysis but allowing expert to amend his report and recalculate a reasonable royalty).

<sup>15</sup> *AVM Techs., LLC v. Intel Corp.*, 927 F. Supp. 2d 139, 147, 2013 BL 47598 (D. Del. 2013).

<sup>16</sup> See, e.g., *Intellectual Ventures I LLC v. Xilinx, Inc.*, No. 10-cv-01065-LPS, Dkt. No. 593, at 8 (D. Del. Apr. 14, 2014) (striking expert damages report and allowing the parties two days to advise the court how they wished to proceed given the “imminence of trial” and lack of clarity as to whether the expert could even “perform a ‘do over’ damages analysis”; ultimately, the court denied the patentee a do-over and the case settled (Dkt. No. 598)); *NetAirus Techs., LLC v. Apple, Inc.*, No. 10-cv-03257, Dkt. No. 533, at 9-10 (C.D. Cal. Oct. 23, 2013) (explaining that “third opportunity” to submit a completely new report was “inappropriate and unjustified” because “[i]t would cause undue prejudice on the eve of trial,” but allowing supplementation based on recently-produced data); *Lucent Techs. v. Microsoft Corp.*, No. 07-cv-02000, Dkt. No. 1323, at 2, 10-11, 2011 BL 183344, at \*1, 8 (S.D. Cal. July 13, 2011) (recounting two prior exclusion orders, excluding a portion of third report, and granting the expert a fourth chance to revise his calculations); *Dataquill Ltd. v. High Tech Computer Corp.*, 887 F. Supp. 2d 999, 1024, 2011 BL 339452 (S.D. Cal. 2011) (excluding portion of damages expert’s testimony but noting that “the Court will entertain appropriate motions to repair and prepare the record suitable for trial on the issue of damages”); *IP Innovation L.L.C. v. Red Hat, Inc.*, 705 F. Supp. 2d 687, 691, 2010 BL 311964 (E.D. Tex. 2010) (Rader, J.) (excluding patentee’s expert damages testimony, but agreeing to “en-

<sup>1</sup> See Scott Graham, *Judge Toys With One Strike Policy on Patent Damages*, THE RECORDER, Aug. 22, 2014 (commenting on the “increasingly common predicament” of patent litigators “bringing waves of Daubert motions challenging their opponents’ methodologies”).

<sup>2</sup> See *id.* (noting that “district judges can’t seem to agree on what penalty to impose when the challenges succeed”).

<sup>3</sup> *Oracle America, Inc. v. Google Inc.*, 798 F. Supp. 2d 1111, 1122, 2011 BL 191701 (N.D. Cal. 2011).

<sup>4</sup> *Oracle America Inc. v. Google Inc.*, No. 3:10-cv-03561, Dkt. No. 642, at 9 (N.D. Cal. Dec. 6, 2011) (tentative order); see also *Oracle America Inc. v. Google Inc.*, 847 F. Supp. 2d 1178, 1189, 2012 BL 6196 (N.D. Cal. 2012) (final order directing parties to submit memoranda “on whether [the expert] should be allowed a third try”).

<sup>5</sup> *Oracle America Inc. v. Google Inc.*, No. 3:10-cv-03561, Dkt. No. 702, at 2, 4-5 (N.D. Cal. Jan. 20, 2013).

<sup>6</sup> See *Oracle America Inc. v. Google Inc.*, No. 3:10-cv-03561, Dkt. No. 785 (N.D. Cal. Mar. 13, 2012); *Oracle America Inc. v. Google Inc.*, No. 3:10-cv-03561, Dkt. No. 828 (N.D. Cal. Mar. 26, 2012).

<sup>7</sup> No. 11-cv-05973, Dkt. No. 564, at 2 (N.D. Cal. Aug. 22, 2013).

<sup>8</sup> 609 F. Supp. 2d 279, 284 (N.D.N.Y. 2009).

<sup>9</sup> *Dynetix*, No. 11-cv-05973, Dkt. No. 564, at 9-10.

<sup>10</sup> No. 12-cv-01106, Dkt. No. 334, at 13 (N.D. Cal. Sept. 26, 2013).

Meanwhile, the Federal Circuit has not provided clear guidance regarding when do-overs are appropriate or what considerations should govern the analysis.<sup>17</sup> In *ePlus, Inc. v. Lawson Software, Inc.*, the Federal Circuit concluded that the trial court did not abuse its discretion by excluding expert damages testimony proffered by the patentee, but failed to identify a particular framework or standard to explain its decision to affirm.<sup>18</sup> Rather, the Federal Circuit stated:

Trial management is particularly subject to the wide latitude of the district court. Here the district court was reasonably concerned that any last-minute addition to the record would disrupt the proceedings and cause unacceptable delay. The district court was also concerned that by changing the damages calculation methodology on the eve of trial, ePlus would expose Lawson to an unjustified risk of prejudice. These concerns provided the district court with sufficient basis to preclude ePlus from presenting any evidence of damages at trial.<sup>19</sup>

By failing to identify a specific standard, whether tied to existing legal frameworks or unique to the patent context, the Federal Circuit has left trial courts without a roadmap to guide their approach to do-over requests. In the absence of such guidance, trial courts have tended to rely on two competing policies to inform their decisions.

## Two Diverging Policies Underlie Most Do-Over Decisions

The policy considerations motivating do-over decisions are often more apparent than the legal framework employed. Two basic approaches reflecting distinct policies emerge from the case law: (1) a lenient approach focused on resolving a case on the merits if at all possible, and (2) a fairness-based approach that holds patentees accountable for their strategic decisions. The latter approach finds considerably more support in the Federal Rules of Civil Procedure.

*Dynetix* articulates the lenient approach. Magistrate Judge Grewal was “loathe to leave [plaintiff] stripped of any damages expert testimony whatsoever,” despite the fact that the expert’s opinion was deeply flawed on many levels.<sup>20</sup> He granted a do-over for the express purpose of preventing plaintiff from being “left without any real evidence of damages.”<sup>21</sup> While referring generally to “due process rights,” Judge Grewal did not elaborate on how due process would be violated where the plaintiff (a) had an initial opportunity to submit damages evidence, and (b) would have the right to ap-

tain appropriate motions to repair and prepare a record suitable for trial on the issue of damages’); *Fenner Investments Ltd. v. Hewlett-Packard Co.*, No. 6:08-cv-00273, Dkt. No. 202, at 4 (E.D. Tex. Apr. 16, 2010) (striking portions of expert report, but granting patentee “leave to serve a supplemental report repairing these inadequacies”).

<sup>17</sup> See Graham, *supra* note 1 (“To date, there’s no clear guidance from the U.S. Court of Appeals for the Federal Circuit, leaving trial judges to plot their own courses on what some litigators have started to call a ‘Daubert do-over.’”).

<sup>18</sup> 700 F.3d 509, 523, 2012 BL 305821, 105 U.S.P.Q.2d 1190 (Fed. Cir. 2012) (85 PTCJ 131, 11/30/12).

<sup>19</sup> *Id.* at 515.

<sup>20</sup> *Dynetix*, No. 11-cv-05973, Dkt. No. 564 at 9; accord *id.* at 2 (finding “impermissible and arbitrary methodologies [were] used to determine both the royalty base and the royalty rate”).

<sup>21</sup> *Id.* at 9.

peal an order excluding that evidence.<sup>22</sup> Although the magistrate judge did not address prejudice to the defendant, despite the fact that trial was “imminent,”<sup>23</sup> he explained in a subsequent case that “the court’s goal always is to resolve the case on the merits so long as undue prejudice can be avoided.”<sup>24</sup>

In *Dynetix*, Magistrate Judge Grewal followed the lead of former Federal Circuit Chief Judge Rader, sitting by designation, in *Cornell*.<sup>25</sup> There, Judge Rader permitted plaintiff’s expert to revise its damages theory during trial even after being “surprise[d]” that plaintiff had ignored the judge’s “advance warning” that it would “scrutinize the damages proof.”<sup>26</sup> Judge Rader was more concerned with “leaving [plaintiff] without proof of damages” than the inevitable prejudice to defendant of being forced to rebut a new damages theory at trial.<sup>27</sup> A similar focus on a barren damages record grounded Judge Rader’s decision in *IP Innovation*, where, without any discussion of the prejudice to plaintiff or disruption of the proceedings, Judge Rader agreed to a do-over so that plaintiff could address “the lack of evidence in the record relating to damages.”<sup>28</sup> In each of these cases, the court focused on the state of the record, rather than how it got there and who would be prejudiced by a do-over.

Judge Alsup’s opinion in *Network Protection Sciences* addresses these competing policy concerns: “A second bite may be appropriate where the expert report can be salvaged with minimal disruption to an orderly trial, but where the report is not even close, there is a positive need to deny a second bite in order to encourage candor in the first place.”<sup>29</sup> Judge Alsup emphasized the prejudice to the defendant of permitting a do-over.<sup>30</sup> Although he recognized that the plaintiff may have difficulty “cobbl[ing] together a royalty case based on other disclosed witnesses and evidence,” Judge Alsup explained that the potential that the plaintiff would be unable to meet its burden of proof “is a problem clearly of plaintiff’s own overreaching.” *Id.*

<sup>22</sup> *Id.*

<sup>23</sup> *Id.*

<sup>24</sup> *Guzik Tech. Enters. v. Western Digital Corp.*, No. 5:11-cv-03786, Dkt. No. 446, at 15 (N.D. Cal. Nov. 18, 2013).

<sup>25</sup> See *Dynetix*, No. 11-cv-05973, Dkt. No. 564 at 9.

<sup>26</sup> *Cornell*, 609 F. Supp. 2d at 283.

<sup>27</sup> *Id.* at 284. A related justification for granting patent damages do-overs is that a plaintiff should be afforded every accommodation “[b]ecause upon a finding of infringement, [the plaintiff-patentee] is entitled to ‘in no event less than a reasonable royalty for the use made by the infringer.’” *Digital Reg of Tex. v. Adobe Sys.*, No. 12-cv-01971 CW, Dkt. No. 632, at 10 (N.D. Cal. Aug. 19, 2014) (quoting 35 U.S.C. § 284). This misconstrues the Patent Act. As the Federal Circuit recently made clear in *Apple Inc. v. Motorola*, No. 2012-1548, 110 U.S.P.Q.2d 1695, 1724 (Fed. Cir. Apr. 25, 2014) (88 PTCJ 12, 5/2/14), a patentee may be granted an award of zero damages in “a case completely lacking any evidence on which to base a damages award.” See Matthew J. Silveira, *Getting to Zero—Proving a Patentee is Entitled to No Infringement Damages After Apple v. Motorola*, 88 BNA’s Patent, Trademark & Copyright Journal 721 (July 11, 2014) (88 PTCJ 721, 7/11/14); see also Martha K. Gooding, *Patent Damages Mulligans? What Happens When the Patentee Fails to Sustain Its Burden of Proving a Reasonable Royalty?*, 83 Bloomberg BNA’s Patent Trademark & Copyright Journal 675 (Mar. 9, 2012) (83 PTCJ 675, 3/9/12).

<sup>28</sup> *IP Innovation*, 705 F. Supp. 2d at 691.

<sup>29</sup> No. 12-cv-01106, Dkt. No. 334, at 13-14.

<sup>30</sup> *Id.* at 14.

Judge Guilford of the Central District of California espouses a similar approach in his Standing Patent Rules. Judge Guilford discourages “[r]equests for a second bite at the apple,” explaining that “[a] legally and methodologically sound damages report is far more valuable . . . than a more aggressive report that is subject to exclusion under *Daubert*.”<sup>31</sup> And Martha Gooding, surveying the case law on patent “mulligans,” emphasizes that holding a plaintiff to its strategic decisions is a basic matter of fairness: “courts in patent infringement cases are not—and should not be—in the business of trying the parties’ cases or reaching out to repair evidentiary ‘gaps’ left by the parties.”<sup>32</sup>

The concerns enunciated by Judges Alsup, Guilford and Gooding echo core principles of the Federal Rules of Civil Procedure, which “should be construed and administered to secure the just, speedy, and inexpensive determination of every action and proceeding.” Fed. R. Civ. P. 1. Allowing repeated bites at the apple with the goal of reaching a decision on the merits “so long as undue prejudice can be avoided,”<sup>33</sup> ignores the latter two principles and takes a narrow view of the former. On the other hand, each of these principles is vindicated by a proper application of Rule 37(c)(1).

### Rule 37(c)(1) May Be Applied in Place of Bright-Line Rules or Boundless Discretion

Rule 37(c)(1) of the Federal Rules of Civil Procedure provides that “If a party fails to provide information or identify a witness as required by Rule 26(a) or (e), the party is not allowed to use that information or witness to supply evidence on a motion, at a hearing, or at a trial, unless the failure was substantially justified or is harmless.”<sup>34</sup> The rule also provides for alternate sanctions in that the court “may order payment of reasonable expenses, including attorney’s fees, caused by the failure,”<sup>35</sup> “inform the jury of the party’s failure,”<sup>36</sup> or “impose other appropriate sanctions . . .”<sup>37</sup>

Rule 37(c)(1), “implemented in the 1993 amendments to the Rules, is a recognized broadening of the sanctioning power. The Advisory Committee Notes describe it as a ‘self-executing,’ ‘automatic’ sanction to ‘provide a strong inducement for disclosure of material. . . .’ Courts have upheld the use of the sanction even when a litigant’s entire cause of action or defense has been precluded.”<sup>38</sup> Although the circuit courts review every discovery sanction for an abuse of discretion, they “give

particularly wide latitude to the district court’s discretion to issue sanctions under Rule 37(c)(1).”<sup>39</sup>

Two express exceptions ameliorate the harshness of Rule 37(c)(1). The information may be introduced if the parties’ failure to disclose the required information is substantially justified or harmless.<sup>40</sup> From the text of the rule and its exceptions, courts have identified four factors that should be considered in determining whether to exclude testimony under Rule 37(c)(1).<sup>41</sup> The Third Circuit identified those factors in *Meyers v. Pennypack Woods Home Ownership Assoc.*,<sup>42</sup> and in that circuit they are called “the Pennypack factors.” The Seventh Circuit adopted the Pennypack factors in *Spray-Rite Serv. Corp. v. Monsanto Co.*,<sup>43</sup> and the Ninth Circuit adopted the “Spray-Rite factors” in *Price v. Seydel*.<sup>44</sup> As formulated by the Seventh and Ninth Circuits, those factors are:

- (1) the prejudice or surprise in fact of the party against whom the excluded witnesses would have testified;
- (2) the ability of that party to cure the prejudice;
- (3) the extent to which waiver of the rule against calling unlisted witnesses would disrupt the orderly and efficient trial of the case or other cases in the court; and
- (4) bad faith or willfulness in failing to comply with the court’s order.

Regardless of which party moved for relief under Rule 37(c)(1), the party facing sanctions has the burden of proof.<sup>45</sup>

The four-factor test that courts have developed to aid in applying Rule 37(c)(1) can help judges avoid both knee-jerk denials and overly liberal grants of patent

<sup>39</sup> See, e.g., *ePlus v. Lawson*, 700 F.3d at 523. The Federal Circuit applies regional circuit law in procedural matters such as the application of Rule 37(c)(1). “Unless a procedural ruling raises issues unique to patent law, we apply the law of the appropriate regional circuit. According to the law of the Third Circuit, which controls here, exclusion of evidence by the district court is reviewed by an appellate court for abuse of discretion.” *Cooper Notification, Inc. v. Twitter, Inc.*, 545 F. App’x 959, 964, 2013 BL 233608 (Fed. Cir. 2013) (86 PTCJ 944, 9/13/13) (reviewing district court’s exclusion of evidence under the Third Circuit’s Pennypack factors).

<sup>40</sup> Fed. R. Civ. P. 37(c)(1).

<sup>41</sup> The rule was developed in the context of excluding witnesses that the party had not previously identified. It applies equally where the opinions in the proposed do-over were not previously identified. As the Ninth Circuit explained, “Federal Rule of Civil Procedure 26(a)(2)(B) requires the parties to disclose the identity of each expert witness ‘accompanied by a written report prepared and signed by the witness.’ Absent other direction from the court, a rebuttal report shall be filed ‘within 30 days after the disclosure’ of the evidence that the expert is assigned to rebut. Fed. R. Civ. P. 26(a)(2)(C). Rule 37(c)(1) gives teeth to these requirements by forbidding the use at trial of any information required to be disclosed by Rule 26(a) that is not properly disclosed.” *Yeti by Molly*, 259 F.3d at 1835-36.

<sup>42</sup> 559 F.2d 894, 904-05 (3d Cir. 1977).

<sup>43</sup> 684 F.2d 1226, 1245 (7th Cir. 1982), *aff’d on other grounds*, 465 U.S. 752 (1984).

<sup>44</sup> 961 F.2d 1470, 1474 (9th Cir. 1992). See also *Woodworker’s Supply, Inc. v. Principal Mut. Life Ins. Co.*, 170 F.3d 985, 993 (10th Cir. 1999); *Adalman v. Baker, Watts & Co.*, 807 F.2d 359, 369 (4th Cir. 1986); *United States v. Koziy*, 728 F.2d 1314, 1320-21 (11th Cir.), *cert. denied*, 469 U.S. 835 (1984).

<sup>45</sup> See *Yeti by Molly*, 259 F.3d at 1107 (“Implicit in Rule 37(c)(1) is that the burden is on the party facing sanctions to prove harmlessness.”).

<sup>31</sup> Rule 5.3, Hon. Andrew J. Guilford, Standing Patent Rules, <http://court.cacd.uscourts.gov/Cacd/JudgeReq.nsf/0/5359419014eb2dae882579f5006b0824?OpenDocument>.

<sup>32</sup> Gooding, *supra* note 27.

<sup>33</sup> *Guzik*, No. 5:11-cv-03786, Dkt. No. 446, at 15.

<sup>34</sup> Fed. R. Civ. P. 37(c)(1).

<sup>35</sup> Fed. R. Civ. P. 37(c)(1)(A).

<sup>36</sup> Fed. R. Civ. P. 37(c)(1)(B).

<sup>37</sup> Fed. R. Civ. P. 37(c)(1)(C).

<sup>38</sup> *Yeti by Molly Ltd. v. Deckers Outdoor Corp.*, 259 F.3d 1101, 1106, 59 U.S.P.Q.2d 1833 (9th Cir. 2001) (citations omitted). In *Yeti by Molly*, the Ninth Circuit affirmed the trial court’s decision to exclude defendant’s expert testimony because “Plaintiffs received [the expert’s] report one month before they were to litigate a complex case. To respond to it, plaintiffs would have had to depose [the expert] and prepare to question him at trial.” *Id.* at 1107.

damages expert do-overs. For example, Judge Andrews applied this approach in *AVM Technologies, LLC v. Intel Corp.*, by applying the Third Circuit's *Pennypack* factors and denying the patentee a do-over, excluding the proposed testimony as "untimely and prejudicial."<sup>46</sup> A review of other cases analyzing do-over requests demonstrates that the same factors considered in the Rule 37(c)(1) context frequently ground the trial court's analysis even where that Rule is not formally applied.

### Prejudice or Surprise

In patent cases, the patentee often "satisfies" its Rule 26 damages disclosure obligation and answers interrogatories on the bases for its damages claim by deferring to its damages expert and his or her report. By virtue of having to start over after exclusion, the patent damages expert's new opinion will not have been disclosed previously, satisfying the basic predicate for a Rule 37(c)(1) sanction.<sup>47</sup> And the other party undoubtedly will suffer "surprise," at least at the contents of the new opinion, as well as any newly cited underlying facts and evidence.<sup>48</sup>

To avoid falling prey to exclusion, patentees should consider disclosing their damages theory, identifying witnesses and producing documents to support their damages case, both as part of their Rule 26 disclosure and in response to document requests and any damages contention interrogatory.<sup>49</sup> Likewise, accused infringers should answer interrogatories and respond to document requests with robust disclosures. For both alternate or "backup" damages theories, witnesses and evidence may prove invaluable.<sup>50</sup>

<sup>46</sup> No. 1:20-cv-610, ECF No. 294, at 1-2 (D. Del. Mar. 29, 2013). Because the patentee had "no evidence with which to prove damages, and does not seek other relief," Judge Andrews granted the accused infringer summary judgment of no damages and entered judgment for the accused infringer. *Id.* at 3.

<sup>47</sup> See, e.g., *ePlus*, 700 F.3d at 523 ("The district court was also concerned that by changing the damages calculation methodology on the eve of trial, ePlus would expose Lawson to an unjustified risk of prejudice."); *AVM v. Intel*, 927 F. Supp. 2d at 146 (inventor's proposed damages testimony excluded on the grounds including that it "was not properly disclosed; 'AVM never identified [the inventor] as having knowledge of damages'; *Apple v. Samsung*, No. 11-CV-01846, Dkt. No. 2719, at 2, 5 (N.D. Cal. Nov. 12, 2013) (noting that "Apple has for the first time declared, less than 48 hours before the retrial on damages is set to begin, that it intends to argue for lost profits damages" and cross-referencing Rule 37(c) in addressing prejudice).

<sup>48</sup> See *Golden Bridge*, No. 5:12-cv-04882, Dkt. No. 494, at 3 ("With the jury picked and trial underway, Apple would suffer undue prejudice if GBT were to offer a new damages expert with yet a third theory, to which it would have no meaningful time to respond."); *Galaxy Ventures, LLC v. Rosenblum*, No. 03-cv-01236 JH/LFG, Dkt. No. 241, at 8-9, 2005 BL 30379, at \*5-6 (D.N.M. July 21, 2005) (addressing the prejudice inherent in allowing an expert to supplement a report after he has already been deposed and the other party has selected its own experts based on the original report).

<sup>49</sup> See *Graham*, *supra* note 1 (noting Magistrate Judge Grewal's comments "that litigants and their counsel could avoid such disruptions by bringing their damages contentions earlier in litigation, rather than waiting until motions in limine").

<sup>50</sup> See *Network Protection Sciences*, No. 12-cv-01106, Dkt. No. 334, at 13-14 (excluding expert damages opinion, denying do-over, and explaining that plaintiff would have to "cobble to-

### Ability to Cure the Prejudice

Where a defendant will be prejudiced by an untimely disclosure, as will often be the case given the typical timing for damages discovery and *Daubert* motions in patent cases, courts must consider the defendant's ability to cure the prejudice. The ability to cure wanes the later in the process the do-over is sought.<sup>51</sup> Where the prejudice to a defendant posed by admitting a new damages theory at a late date is too "severe," courts have broad discretion to exclude.<sup>52</sup>

Even if the court provides the patentee an opportunity to rehabilitate a flawed expert opinion in an attempt to cure the prejudice to defendant, however, the window to offer further explanation is likely to be narrow, and the court's tolerance limited.<sup>53</sup> Thus, any opportunity offered by the court should be met with the utmost diligence, as the court is likely to take into account the advantages the patentee has obtained from the delay in analyzing the sufficiency of the patentee's supplemental showing.<sup>54</sup>

### Disruption of Orderly and Efficient Trial

The extent of disruption to trial is also an important factor, particularly considering the policy balance struck by Fed. R. Civ. P. 1, which dictates that the rules "be construed and administered to secure the just, speedy, and inexpensive determination of every action and proceeding." As the Federal Circuit has explained, a trial court may be "reasonably concerned that any last-minute addition to the record would disrupt the proceedings and cause unacceptable delay."<sup>55</sup>

Notably, the trial court's schedule may be of as much concern as the parties' schedules.<sup>56</sup> A patentee may make every accommodation to alleviate the prejudice to a defendant, but if it cannot repair its report and allow

gether a royalty case based on other disclosed witnesses and evidence").

<sup>51</sup> See, e.g., *AVM v. Intel*, 927 F. Supp. 2d at 147 (even if otherwise admissible, inventor's proposed expert and hypothetical testimony regarding damages was disclosed "far too late, on the eve of trial").

<sup>52</sup> *Apple v. Samsung*, No. 11-cv-01846, Dkt. No. 2719, at 5.

<sup>53</sup> See, e.g., *NetAirus*, No. 10-cv-03257 JAK (Ex), Dkt. No. 533, at 10 (C.D. Cal. Oct. 23, 2013) (providing plaintiff two days to offer a 10-page explanation of how expert's report and supplement "contain an affirmative damages theory in light of this Order"); *NetAirus Techns., LLC v. Apple, Inc.*, No. 10-cv-03257 JAK (Ex), Dkt. 615, at 4 (C.D. Cal. Nov. 8, 2013) (excluding expert opinion because plaintiff failed sufficiently to explain the admissibility of the late-filed opinion).

<sup>54</sup> See *NetAirus*, No. 10-cv-03257 JAK (Ex), Dkt. No. 533, at 9 ("Given the late substitution, and the benefit NetAirus has had of observing the developments in the damages jurisprudence prior to Gemini's August 5, 2013 report, it was incumbent on NetAirus to ensure that Gemini's damages theories were properly supported.").

<sup>55</sup> *ePlus*, 700 F.3d at 523.

<sup>56</sup> In *Oracle America Inc. v. Google Inc.*, No. 3:10-cv-03561, Dkt. No. 702, at 1 (N.D. Cal. Jan. 20, 2013), Judge Alsup rejected the "piecemeal approach suggested by Oracle as a trial alternative," noting that "[t]he docket simply does not permit that luxury." Judge Alsup noted that the court had "a backlog of trial-ready cases waiting their turn," specifically, "28 cases already set for trial" in the next five months, "including two patent cases (other than this one) and five other criminal cases, not counting trials set thereafter." *Id.* Whether a party is "unfortunate" in drawing a busy trial judge is irrelevant where the party fails to comply with its Rule 26 obligations.

the defendant adequate time to challenge the new report within the short time frame demanded by a busy trial judge, the court is justified in leaving the patentee to the evidence in the record at the time of trial.<sup>57</sup> As with the ability to cure, the nearer the trial, the less likely the court is to accommodate disruption that would be caused by a new or amended damages theory.<sup>58</sup>

### Bad Faith or Willfulness

Courts may also consider whether the flaws in the expert's testimony were the result of over-reaching or other gamesmanship, which are relevant to bad faith or willfulness.<sup>59</sup> This is particularly relevant in the context of patent infringement reasonable royalty damages. The Federal Circuit went through a period in which it strove to increase the level of rigor applied to expert testimony on reasonable royalty damages.<sup>60</sup> During that period, damages experts perhaps were justified in having to revise opinions to account for changes in the law; but that period has ended and the law is relatively well settled.<sup>61</sup> Where damages experts have their opinions excluded for failure to account for legal rules that have long been settled, however, they have little basis to

<sup>57</sup> See, e.g., *Network Protection Sciences*, No. 12-cv-01106, Dkt. No. 334, at 14 (noting the “disrupt[ion to] the Court’s calendar, which is burdened with other trial set far into the future” in rejecting do-over request).

<sup>58</sup> See *Apple v. Samsung*, No. 11-cv-01846, Dkt. No. 2719, at 7 (patentee’s “failure to disclose this new theory of lost profits damages that is not based on its own damages experts at any point prior to the weekend before the retrial warrants exclusion of this new lost profits theory”).

<sup>59</sup> See, e.g., *NetAirus*, No. 10-cv-03257 JAK (Ex), Dkt. No. 533, at 9 (noting that the expert “had the benefit of having his opinions rejected in a number of published opinions at the trial and appellate level” and thus “the applicable framework was clear”); *Network Protection Sciences*, No. 12-cv-01106, Dkt. No. 334, at 14 (plaintiff-patentee’s potential inability to prove damages following the exclusion of its expert’s damages opinion “is a problem clearly of plaintiff’s own overreaching”).

<sup>60</sup> See, e.g., *Riles v. Shell Exploration & Prod. Co.*, 298 F.3d 1302, 1313, 63 U.S.P.Q.2d 1819 (Fed. Cir. 2002) (64 PTCJ 350, 8/9/02) (vacating damages award where expert ignored established licensing practice and did not follow reasonable-royalty criteria); *Integra Lifesciences I, Ltd. v. Merck KGaA*, 331 F.3d 860, 870-72, 66 U.S.P.Q.2d 1865 (Fed. Cir. 2003) (66 PTCJ 200, 6/13/03) (reversing damages award where expert relied on the wrong hypothetical negotiation date and failed to take into account numerous factors that would reduce the value of a hypothetical license); *Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.3d 1301, 1336-39, 92 U.S.P.Q.2d 1555 (Fed. Cir. 2009) (78 PTCJ 583, 9/18/09) (tightening standard for the entire market value rule); *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292, 1318, 1321, 2011 BL 1830, 98 U.S.P.Q.2d 1203 (Fed. Cir. 2011) (81 PTCJ 275, 1/7/11) (rejecting the 25 percent rule of thumb and criticizing application of the entire market value rule); *Laser-Dynamics, Inc. v. Quanta Computer, Inc.*, 694 F.3d 51, 70-71, 2012 BL 222195, 104 U.S.P.Q.2d 1573 (Fed. Cir. 2012) (84 PTCJ 809, 9/14/12) (affirming grant of new trial on damages where patentee’s expert misapplied the entire market value rule).

<sup>61</sup> See Gooding, *supra* note 27, at 4 (“Where there has been a dramatic shift in the law governing damages that occurred after the expert damages reports were exchanged and affected the damages analyses, it is fair and reasonable to give the parties an opportunity to revise their damages analyses for trial.”).

seek a do-over.<sup>62</sup> They swung for the fence, and having struck out, they should not be surprised to be told to sit down.<sup>63</sup>

### Alternatives to Exclusion

Finally, Rule 37 gives the trial court broad discretion to grant sanctions. Thus, where a court elects to permit a party to “re-do” its expert’s damages analysis after applying Rule 37, it should consider requiring that party to pay for any additional costs the opposing party incurs as a result of the new damages report or theory, for example, the expert fees incurred to obtain a new rebuttal expert report, the costs associated with re-deposing the expert on the new damages analysis, and the cost of a second deposition of the rebuttal expert.<sup>64</sup>

*Oracle v. Google* illustrates the broad scope of the court’s discretion. There, without even relying on Rule 37, the court required the plaintiff to pay not only all “reasonable costs incurred by [the court-appointed expert] in responding to the revisions by” plaintiff’s expert to his report, but “[a]ll attorney’s fees, expert fees, and other expenses reasonably incurred by Google as a result of allowing a third damages study by Oracle.”<sup>65</sup> By grounding its actions in Rule 37, courts provide still greater protection for their rulings on appeal.<sup>66</sup>

### Conclusion

Judicial reluctance to grant damages do-overs is consistent with Fed. R. Civ. P. 1 and 37(c)(1). As courts increasingly rely on those rules, parties should become familiar with the regional test and case law in their jurisdiction at the outset of their cases in order to avoid the negative consequences of the rules as a disclosing party, or be prepared to capitalize on the rules as the party challenging disclosure.

<sup>62</sup> See, e.g., *Oracle America Inc. v. Google Inc.*, No. 3:10-cv-03561, Dkt. No. 702, at 4 (N.D. Cal. Jan. 20, 2013) (“Oracle has already had two full and fair opportunities and has overreached on both. Oracle has behaved unreasonably and should bear the burden of the consequences.”); see also Gooding, *supra* note 27, at 5 (“Certainly where the lack of proper damages proof stems from a strategic election by the patentee—e.g., a patentee’s (or expert’s) insistence on using unsupportable methodology that flies in the face of Federal Circuit precedent or ignores the trial court’s admonitions—it is fair to hold the patentee to its choice and to exclude the improper damages evidence, even if it means the plaintiff is left without expert damages evidence and may struggle to prove its damages at trial.”).

<sup>63</sup> See *Barlow v. General Motors Corp.*, 595 F. Supp. 2d 929, 934, 2009 BL 218059 (S.D. Ind. 2009) (excluding plaintiff’s testimony based on its “absurdly ambitious damages theories,” and pointedly explaining that “Plaintiffs and their attorneys had chosen to ‘swing for the fences’ by seeking an eight- or nine-figure compensatory damage award based on untenable theories rather than focusing on more supportable but more modest theories”).

<sup>64</sup> See Gooding, *supra* note 27, at 5.

<sup>65</sup> See *Oracle America Inc. v. Google Inc.*, No. 3:10-cv-03561, Dkt. No. 702, at 3 (N.D. Cal. Jan. 20, 2013).

<sup>66</sup> See *Paladin Assocs. v. Montana Power Co.*, 328 F.3d 1145, 1164-65 (9th Cir. 2003) (affirming sanctions imposed without a hearing for submission of affidavits containing new expert opinions in violation of Rule 26).