

Nos. 2020-1413

IN THE
**United States Court of Appeals
for the Federal Circuit**

MLC INTELLECTUAL PROPERTY, LLC,
Plaintiff-Appellant,

v.

MICRON TECHNOLOGY, INC.,
Defendant-Appellee.

Appeal from the United States District Court for the
Northern District of California in No. 3:14-cv-03657-SI, Judge Susan Illston

**BRIEF OF ENGINE ADVOCACY AND THE R STREET INSTITUTE
AS AMICI CURIAE
IN SUPPORT OF APPELLEE**

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FORM 9. Certificate of Interest

Form 9
Rev. 10/17

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

MLC INTELLECTUAL PROPERTY, LLC, v. MICRON TECHNOLOGY, INC.

Case No. 2020-1413

CERTIFICATE OF INTEREST

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certifies the following (use "None" if applicable; use extra sheets if necessary):

1. Full Name of Party Represented by me	2. Name of Real Party in interest (Please only include any real party in interest NOT identified in Question 3) represented by me is:	3. Parent corporations and publicly held companies that own 10% or more of stock in the party
Engine Advocacy	N/A	None
The R Street Institute	N/A	None

4. The names of all law firms and the partners or associates that appeared for the party or amicus now represented by me in the trial court or agency or are expected to appear in this court **(and who have not or will not enter an appearance in this case)** are:

Engine Advocacy, Abigail A. Rives

Charles Duan, The R Street Institute

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5. The title and number of any case known to counsel to be pending in this or any other court or agency that will directly affect or be directly affected by this court's decision in the pending appeal. *See* Fed. Cir. R. 47. 4(a)(5) and 47.5(b). (The parties should attach continuation pages as necessary).

The best information available to amici is, per Micron's response brief, is:

MLC Intellectual Prop., LLC v. Micron Tech., Inc., No. 3:14-cv-03657 (N.D. Cal.); MLC Intellectual Prop., LLC v. Micron Tech., Inc., No. 3:19-cv-03345 (N.D. Cal.); ex parte Reexamination Application No. 90/014,245 (U.S.P.T.O.); ex parte Reexamination Application No. 90/014,421 (U.S.P.T.O.).

June 2, 2020

Date

/s/ Phillip R. Malone

Signature of counsel

Phillip R. Malone

Printed name of counsel

Please Note: All questions must be answered

cc: Abigail A. Rives, Charles Duan

Reset Fields

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INTEREST OF AMICI¹

Amicus Engine Advocacy is a technology policy, research, and advocacy organization that bridges the gap between policymakers and startups, working with government and a community of high-technology, growth-oriented startups across the nation to support the development of technology entrepreneurship. Engine Advocacy has worked with the White House, Congress, federal agencies, and state and local governments to discuss policy issues, write legislation, and introduce the tech community to Washington insiders.

Amicus the R Street Institute is a nonprofit, nonpartisan public policy research organization. R Street's mission is to engage in policy research and educational outreach that promotes free markets as well as limited yet effective government, including properly calibrated legal and regulatory frameworks that support economic growth and individual liberty.

Amici believe that innovators and innovation are safeguarded by the essential gatekeeping function that district court judges play in ensuring that parties timely disclose reliable damages theories in litigation. Amici are concerned with the harmful impact that abusive litigation tactics such as untimely and inaccurate

¹ No party or party's counsel authored any part of this brief or contributed money towards its preparation or submission. No one, other than amici and their counsel, contributed money towards the preparation or submission of this brief. This brief is being tendered with a motion for leave to file. Micron has consented to the filing of this brief; MLC has declined to consent to the filing.

disclosures of damages theories and evidence can have on startups and patent litigation generally. Amici believe it is essential for district courts to remain empowered to exercise their appropriate judicial gatekeeping function.²

SUMMARY OF ARGUMENT

The district court was correct to refuse a last-minute mulligan on a plainly erroneous expert report that was rooted in facts and theories not properly disclosed during discovery. To prevent district courts from doing so would impose considerable costs, uncertainty, delay, and unfairness on future patent litigants.

Parties in patent litigation are required to disclose their damages theories and supporting evidence at multiple, early stages of a case. Failing to hold litigants to their obligations to do so enables them to present excessive and unsupported damage calculations late in a case, thereby depriving opposing parties of a fair opportunity for discovery, rebuttal, and realistic assessment of settlement options. Failing to require fulsome damages disclosures also enables litigants to submit overly ambitious and unsupported expert damages reports on the chance they will not be excluded, while simultaneously preparing to submit a second (or third) set of more reliable reports if they are excluded (sometimes called a “*Daubert* do-over”).

² *Amici* wish to thank Stanford Juelsgaard Clinic certified law students Juan Pablo González and Jonathan Hurowitz for their substantial assistance in drafting this brief.

These abusive disclosure tactics (which prolong litigation, increase uncertainty, and artificially inflate the potential damages exposure of a case) force higher settlement amounts and allow litigants to present spurious and excessive damages theories and estimates to juries. But district courts have ample and appropriate gatekeeping discretion to deny disclosure gamesmanship and do-overs, and the cost, delay, inefficiency, and unfairness they can cause. That is precisely what Judge Illston did in the decision below by excluding MLC's unreliable expert report and denying its request for a do-over. This Court should uphold that valid exercise of discretion to ensure that district court judges retain the gatekeeping tools needed to limit abusive litigation strategies.

Affirming the district court's power to enforce early disclosure obligations will help safeguard innovators and innovation against the costs and burdens of abusive litigation. Startups and small entrepreneurs, collectively the nation's greatest job creators, are particularly poorly equipped to absorb the risks and costs of artificially high settlement demands and prolonged and unpredictable litigation. But those risks and costs would likely increase if this Court limits the discretion of district courts to require timely and fulsome damages disclosures as part of their essential gatekeeping function over the expert disclosure and discovery process.

The judgment of the district court should therefore be affirmed.

ARGUMENT

I. **Early Disclosure of Reliable Damages Theories and Evidence is Critical to Ensure Efficient Patent Litigation and Curb Abuse**

Well-established rules govern the disclosure of damages theories and of supporting evidence, and district courts must be allowed to continue to exercise their discretion to enforce those rules. Indeed, when courts do enforce them, it promotes fairness and efficiency and prevents litigation misconduct.

Increased use of *Daubert* motions has been one of the most dramatic changes in patent litigation over the past decade. Only ten years ago, *Daubert* challenges to expert damages reports were exceedingly rare, as the 94 federal district courts collectively averaged 5.4 such *Daubert* opinions per year. *See* Daralyn Durie & Mark Lemley, *A Structured Approach to Calculating Reasonable Royalties*, 14 Lewis & Clark L. Rev. 627, 635 (2010). Nowadays, “every patent trial lawyer worth her salt brings a challenge to the damages opinions offered by her adversary.” *Dynetix Design Solutions, Inc. v. Synopsys, Inc.*, No. C 11–05973 PSG, 2013 WL 4538210, at *1 (N.D. Cal. Aug. 22, 2013).

The growing prevalence of *Daubert* challenges signals (at least) two things: (1) parties are increasingly stretching the bounds of what counts as a reliable patent damages expert report and (2) parties are being forced to expend more resources on motions practice and iterative damages reports. Frequent, protracted battles over expert damage testimony on the eve of trial are becoming more common. To avoid

this inefficient result, it is increasingly important that courts properly exercise their discretion to hold litigants to their pre-existing disclosure obligations to disclose reliable damages theories early and appropriately under the Federal Rules of Civil Procedure and the Federal Rules of Evidence.

Judge Illston did precisely that in this case. Affirming her decision below will preserve the “abuse of discretion” standard for courts exercising appropriate gatekeeping oversight of flawed expert damages testimony. And it will preserve the ability of and incentive for judges to hold parties to their disclosure obligations in future cases. Maintaining courts’ gatekeeping discretion will provide a vital check on abuse of the litigation process and prevent parties from finding excuses to increasingly hide and delay their damages.

A. Early Damages Disclosures Promote Judicial Economy, Economic Efficiency, and Fairness

There are numerous reasons for judges to encourage early damages disclosures and information sharing between parties. And there are multiple tools in the Federal Rules of Civil Procedure, the Federal Rules of Evidence, and traditional case management practices that district courts rightfully deploy to manage a case. These rules also allow the courts and parties “to evaluate the monetary value of patent cases earlier, rather than later.” Fed. Jud. Ctr. (FJC), *Compensatory Damages Issues in Patent Infringement Cases* 44 (2d ed. 2017), <https://bit.ly/2U5Bv7r>.

Early disclosure of damages theories in patent litigation is crucial to promoting judicial and economic efficiency. When the parties in an infringement case can consider realistic, thorough damages contentions at the outset of litigation (or with supplementation as the case unfolds), they can approach the case in an economically rational way and accurately assess the risk of litigation and projected legal fees. This knowledge equips the parties with the tools necessary to consider early, fair settlement tied to the actual value of the case. Because roughly 90% of patent cases are abandoned or settled, David Pridham, *The Patent Litigation Lie*, FORBES (Apr. 13, 2017, 12:24 PM EDT), <https://perma.cc/EJB3-3TZP>, it is critical for the smooth operation of our judicial system to enable parties to settle as early and as fairly as they can.

Even if early settlement does not occur, early damages disclosures improve judicial efficiency. Indeed, if the damages theories for one party are deficient, early disclosures can eliminate the need for some discovery altogether. Sedona Conf., *Commentary on Case Management of Patent Damages and Remedies Issues: Proposed Model Local Rule for Damages Contentions 2* (June 2017), <https://bit.ly/3doF4gw>. Moreover, the early focus on damages issues often makes it easier for district courts to manage cases and streamline them for trial. FJC, *Compensatory Patent Damages*, at 44.

However, parties regularly fall short of their disclosure obligations, with the result that their opponents (and the court) are forced to proceed through a case without “any firm sense of whether [theirs] is a \$1 case or a case worth billions.” *Corning Optical Commc’ns Wireless Ltd. v. Solid, Inc.*, 306 F.R.D. 276, 277 (N.D. Cal. 2015). As one judge noted, a normal patent litigation strategy is “to bludgeon first and value second.” *Id.* Likewise, the failure to provide reliable and timely damages contentions can doom settlement negotiations and unnecessarily waste money and judicial resources on cases that are ultimately not worth the expense. *See* FJC, *Compensatory Patent Damages*, at 53.

Finally, early disclosure means that fundamental disputes about damages theories can be addressed throughout a case, and properly explored during discovery, instead of through last-minute motions practice, which can force a delay in trial or result in inadequate consideration of damages theories. FJC, *Compensatory Patent Damages*, at 54-55.

B. Procedural Rules Demand Early Disclosures in Patent Cases, and Litigants Are on Notice That They Should Follow These Rules

Litigants should not be allowed to wait until the eve of trial to present undisclosed damages theories and unreliable expert reports, and then expect the district court to automatically grant them permission to correct their missteps. The Supreme Court has warned parties against withholding damages theories and

evidence on which they seek to rely at trial. *See Weisgram v. Marly Co.*, 528 U.S. 440, 442 (2000).

Patent cases are (and should be) subject to the same procedural rules as all federal litigation—the same policies underlying those rules, fairness and efficiency, apply with equal if not greater force in patent litigation. There are multiple stages in a case when parties must develop and disclose the damages theories they want to present at trial. Judges should not be required to accommodate parties who fail to heed these mandates and instead wait until the eve of trial to spring an unreliable or surprising damages calculation on the court and opposing party.

In this case, MLC had every opportunity to disclose reliable damages theories throughout litigation so that it would not be left without expert damages testimony at trial; in fact, Micron “repeatedly asked” MLC for these. Appx23. And yet, “MLC consistently failed to disclose.” *Id.*³ Among its missteps, even on appeal MLC does not address (or dispute) its failure to supply information about damages in its Rule 26(a)(1) initial disclosures. *See* MLC Br. at 39-40 (no mention of Rule 26(a)(1)); Micron Br. at 48-49. MLC chose to proffer boilerplate

³ Appx23 (“Thus, the record reflects that Micron repeatedly asked MLC – through interrogatories and the Hinckley deposition – for the factual basis of its reasonable royalty claim and about its reliance on the Hynix license in particular – and MLC consistently failed to disclose its contention that the Hynix license ‘reflected’ a 0.25% royalty rate that should be applied to this case.”).

interrogatory responses. *E.g.*, Micron Br. at 18; Appx23. And MLC incorrectly suggests that it could shield relevant information from discovery because its experts would later offer a report related to that information, *e.g.*, MLC Br. at 34-44; Micron Br. at 20-21, 42-47, a position flatly contrary to basic discovery norms.

1. *Parties Must Make an Early, Initial Computation of Damages as Part of Developing and Disclosing Their Damages Case*

At the outset of discovery, patent plaintiffs are expected to disclose and specify damages computations. Indeed, at time of filing, plaintiffs “must have some basis for [their] claim for damages.” *THX, Ltd. v. Apple, Inc.*, No. 13-cv-01161-HSG (DMR), 2016 WL 2899506, at *7 (N.D. Cal. May 13, 2016) (citing Fed. R. Civ. P. 11). So it makes sense that, under Fed. R. Civ. P. 26(a)(1)(A)(iii), at the start of discovery “[a] party must, without awaiting a [] request, provide to the other parties a computation of each category of damages claimed by the disclosing party” Even at that early stage “the patent plaintiff must [] do the best it can on pain of preclusion” to disclose and specify damages at the outset, and supplement “as more information becomes available.” *Brandywine Commc’ns Techs., LLC v. Cisco Sys., Inc.*, No. C 12-01669 WHA, 2012 WL 5504036, at *1-2 (N.D. Cal. Nov. 13, 2012).⁴ While some necessary information may lie with the

⁴ Other cases recognize the same obligation. *E.g.*, *Corning Optical v. Solid*, 306 F.R.D. 276; *THX v. Apple*, 2016 WL 2899506; *Kaneka Corp. v. Zhejiang Medicine Co.*, No. CV 11-2389 SJO (SS), 2016 WL 11266869 (C.D. Cal. Oct. 18, 2016).

defendant, much of the information a plaintiff needs to support damages is in its own possession. *Id.* This early disclosure informs both parties about what discovery they need to take and prevents patent owners from shielding that information in hopes of discovering a basis for arbitrarily inflating damages later. *See id.* at *3 (explaining that a plaintiff cannot avoid early contentions “merely because it hopes it can frame more handsome contentions after discovery”).

Underscoring the value of timely, reliable disclosures, some district courts and judges have begun to adopt patent local rules and procedures that require thorough damages disclosures early in litigation. Indeed, the Northern District of California adopted one such rule in 2017.⁵ The District’s Patent Local Rule 3-8 requires parties to disclose damages contentions within fifty days of service of invalidity contentions.⁶ And courts rightfully expect a fulsome disclosure—as one judge put it, “[t]he requirements of L.R. 3-8 could not be more clear: identify the theories of recovery; identify the known facts that support the theories; do the

⁵ Some district court judges have also adopted individual procedures requiring early disclosures of damages theories. *E.g.*, Hon. Leonard P. Stark (D. Del.), Revised Procedures for Managing Patent Cases 7 (2014), <https://perma.cc/Y32S-3AMB> (requiring patent plaintiff to identify damages model as part of the scheduling order). *See also, e.g.*, Sedona Conf., *Commentary on Case Management*.

⁶ These disclosures must include: (1) each category of damages the party is seeking, (2) every damages theory and relevant factual support for the category of damages being sought, and (3) a computation of damages it seeks. Patent L.R. 3-8. And to the extent a party is unable to provide detailed disclosures, it must notify the other party of the information it requires. *Id.*

math.” *Twilio, Inc. v. Telesign Corp.*, No. 16-cv-06925-LHK (SVK), 2017 WL 5525929, at *2 (N.D. Cal. Nov. 17, 2017).

In short, the rules regarding disclosure are unambiguous from the start: parties are not permitted to waste their opponents’ and the court’s time to gain unfair litigation advantage by withholding their initial damages theories and computation. *Id.*

2. Parties Must Open Up Their Damages Theories for Discovery, Including Through Responsive Depositions and Interrogatories

Yet another mandate to disclose damages calculations early and reliably lies in rules and standards governing depositions and interrogatories. These basic discovery tools “require the patentee to identify its theories early in the case, [enabling] the accused infringer to disclose rebuttal damages theories in response to a contention interrogatory served during fact discovery, and [putting] parties in a position to challenge each other’s legal and factual bases for damages positions earlier in the case.” Peter S. Menell et al., *Patent Case Management Judicial Guide* 2-79 (3d ed. 2016), <https://bit.ly/3035Irx>. Courts routinely require parties to provide substantive written responses about damages during discovery and consistently agree that parties are not allowed to defer until expert discovery. *See, e.g., Corning Optical v. Solid*, 306 F.R.D. at 278-79; *SPH America, LLC v. Research in Motion, Ltd.*, No. 13cv2320 CAB (KSC), 2016 WL 6305414, at *4 (S.D. Cal. Aug. 16, 2016); *Dealertrack, Inc. v. Huber*, No. CV 06-2335 AG

(FMOx), 2008 WL 11336793, at *2 (C.D. Cal. Jan. 23, 2008). This not only permits fulsome discovery, but also prevents parties from sidestepping valuation of the case.

Given the cost, burden, and delay of having to revisit fact discovery to rebut novel damages theories, district courts are—and should be—empowered to exercise their discretion to deny litigants the opportunity to revise their damages report or spring novel damages arguments on the other side after discovery. *See* Fed. R. Civ. P. 37; FJC, *Compensatory Patent Damages*, at 88-89. District courts instead weigh “whether there is sufficient time before trial to reasonably accommodate a revised damages report, a revised rebuttal damages report, and a new round of expert depositions on the new reports,” and whether the “flaws in the expert’s testimony were the result of overreaching or other gamesmanship.” FJC, *Compensatory Patent Damages*, at 88-89. They can ultimately deny patent litigants the ability to disrupt court proceedings by introducing revised or novel damages calculations after discovery. *Id.*

3. Expert Reports Must Be Timely, Be Reliable, and Not Ambush the Opposing Party With Novel Theories

The final opportunity for patent litigants to disclose their damages theories is through expert reports, introduced at the final stage before trial. The Supreme Court has confirmed that this is not the time for novel or overly aggressive theories. Parties who ignore these requirements should not be rewarded with

grudging acceptance of spurious or late expert testimony (which can manipulate jury awards) or additional chances to correct their misdeeds at the expense of efficiency and fairness.

In *Weisgram*, the Supreme Court reaffirmed the need for parties to introduce admissible expert evidence on their first attempt. *See* 528 U.S. 440. In that case, the plaintiff argued that the appeals court had unfairly punished him when the court entered judgment in favor of the defendant after his first expert attempt was faulty. *Id.* at 445-46. The plaintiff noted that he could have introduced alternative evidence to support his case had he known that his expert witness would be found inadmissible. *Id.* at 455-56. The Court rejected this argument, holding that “[s]ince *Daubert* . . . parties relying on expert evidence have had notice of the exacting standards of reliability such evidence must meet.” *Id.* (citing *Daubert v. Merrell Dow Pharms., Inc.*, 509 U.S. 579 (1993); *Kumho Tire Co. v. Carmichael*, 526 U.S. 137 (1999); *General Electric Co. v. Joiner*, 522 U.S. 136 (1997)). Accordingly, the Court found it “implausible to suggest, post-*Daubert*, that parties will initially present less than their best expert evidence in the expectation of a second chance should their first try fail.” *Id.* Thus, because parties have clear notice regarding what constitutes admissible evidence, courts may freely refuse parties additional opportunities to remedy deficiencies in evidence they seek to admit.

This Court has likewise affirmed orders excluding flawed expert testimony submitted at the last minute. *E.g., ePlus, Inc. v. Lawson Software, Inc.*, 700 F.3d 509 (Fed. Cir. 2012) (affirming decision precluding plaintiff from presenting evidence of damages at trial). That decision confirms that such “[t]rial management is particularly subject to the wide latitude of the district court.” *Id.* at 523. And it correctly acknowledges that changes to damages theories on the eve of trial can cause delay, disruption, and unjustified risk of prejudice. *Id.*

C. Judicial Discretion Over the Admissibility of Evidence Is Necessary for Judges to Maintain Control Over Their Dockets

Throughout litigation, a district court must regularly exercise discretion in overseeing the parties’ disclosure and discovery of facts and evidence, including damages theories and estimates. Indeed, as Micron correctly noted in its opening brief, the discovery decisions in the present case represent a routine application of Fed. R. Civ. P. 37. Micron Br. at 45. The Ninth Circuit has affirmed that district court orders pertaining to discovery, interrogatories, depositions, and *Daubert* decisions are reviewed for abuse of discretion, a standard which emphasizes the critical gatekeeping function of district courts. *See, e.g., Carter v. Metro. Water Dist.*, 20 Fed. Appx. 751, 752 (9th Cir. 2001) (applying abuse of discretion standard when reviewing denial of plaintiff’s motion to secure supplemental answers to certain interrogatories); *U.S. v. Redlightning*, 624 F.3d 1090, 1110 (9th Cir. 2010) (applying abuse of discretion when reviewing decision to exclude expert

testimony); *Metabolife Intern., Inc. v. Wornick*, 264 F.3d 832, 839 (9th Cir. 2001) (similar). The Supreme Court has confirmed that the abuse of discretion standard applies even to decisions proving dispositive to a case's outcome. *General Elec. Co. v. Joiner*, 522 U.S. 136, 142-43 (1997) ("We likewise reject respondent's argument that because the granting of summary judgment in this case was 'outcome determinative,' it should have been subjected to a more searching standard of review [than abuse of discretion].").

District court judges are best suited to hold parties accountable to their obligations and to ensure that cases before them are litigated in an efficient and fair manner. This case exemplifies the importance of preserving district court judges' broad discretion to act as gatekeepers. No one is in a better position to make rulings on evidentiary and expert motions than a district judge who has spent years (Judge Illston had spent five by the time of her decision) understanding the facts of the case and observing the parties' litigation strategies. *See, e.g.*, Appx44 (Judge Illston noted that MLC's tactic to masquerade an improper motion for reconsideration was "emblematic of the way MLC has litigated much of this case.").

II. The Decision Below Should Be Affirmed to Empower District Courts to Prevent the Strategic, Late Disclosure of Damages Theories

This Court should uphold Judge Illston’s valid exercise of discretion to ensure that district court judges retain the gatekeeping tools needed to limit abusive litigation strategies. Abusive patent litigants often weaponize sensible and well-intentioned judicial procedures. In particular, abusive litigants may leverage any strategy that prolongs litigation, increases uncertainty, or artificially inflates the potential damages exposure of a case in order to force higher settlement amounts.

In a common pattern, some parties regularly submit overly ambitious and/or unsupported expert damages reports, while simultaneously preparing to replace them with more reliable reports in a second, unscheduled round of pre-trial disclosures if their first attempt fails. This maneuver has been described by some as the “*Daubert* do-over.” See William C. Rooklidge & Matthew J. Silveira, *Hiding in Plain Sight: Analyzing Requests for Patent Damages Do-Overs under Fed. R. Civ. P. 37(c)(1)*, 88 Bloomberg BNA’s Pat. Trademark & Copyright J. 1270, at 6 (2014); 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 Pat. Trademark & Copyright J. 675, at 5 n.29 (2012).

The possibility of a do-over on a damages theory opens the door to a party submitting an aggressive, exaggerated expert report—untethered to facts or law. In response, the opposing party is forced to expend time and money on motions to

strike, *Daubert* motions, and motions *in limine* to have the exaggerated damages calculation excluded. See Gooding, *Patent Damages Mulligans?*, at 4-5, n.26. If the abusive strategy works and the exaggerated report is not excluded, its proponent is able to bring that flawed testimony into trial, improperly inflating the possible jury award.

If, on the other hand, the initial, overly aggressive report is (properly) excluded, then the “question often arises whether the court will permit the party and its expert to ‘repair the record’ by submitting a new damages report or by offering a new damages theory or methodology.” FJC, *Compensatory Patent Damages*, at 87. Some judges may permit do-overs, even postponing trial to allow litigants a second (or third or fourth) chance to offer a damages theory and testimony which pass muster. This forces last-minute motions practices, often delays trial, and dramatically increases legal fees for both parties as the exaggerated damages calculations trend towards a realistic value. See *Lucent Techs. Inc. v. Microsoft Corp.*, No. 07-CV-2000, 2011 WL 2728317, at *7 (S.D. Cal. July 13, 2011) (inviting the patent owner to offer a fourth attempt at a valid damages theory after ruling on three sets of *Daubert* motions).

To avoid the cost, inefficiency, and unfairness that a do-over can cause, district courts have ample discretion to deny them, FJC, *Compensatory Patent Damages*, at 88-90 (citing, *e.g.*, Fed. R. Civ. P. 37, 26), even if the exclusion

leaves the proponent without any damages testimony at all. Indeed, that is exactly what happened here—when Judge Illston excluded MLC’s unreliable expert report, it sought leave to submit another; Judge Illston denied the request. Appx35.

Daubert do-overs have become a regular occurrence in the context of patent damages.⁷ The decision whether or not to grant them is an important gatekeeping function for district judges.

⁷ See, e.g., *Lucent Techs. Inc. v. Microsoft Corp.*, No. 07-CV-2000, 2011 WL 2728317, at *7 (S.D. Cal. July 13, 2011) (granting three do-overs); *Enovsys LLC v. AT&T Mobility LLC*, No. 11-5210 SS, 2015 WL 10383057, at *1 (C.D. Cal. Aug. 10, 2015) (granting two do-overs); *Oracle America, Inc. v. Google Inc.*, No. C 10–03561 WHA, 2012 WL 877125, at *1 (N.D. Cal. Mar. 15, 2012) (granting two do-overs, but requiring plaintiff to pay defendant's expenses in responding to the third expert damages report); *Comcast IP Holding I LLC v. Sprint Commc'ns Co.*, No. 12-205-RGA, 2014 WL 12775192, at *1 (D. Del. Sept. 29, 2014) (granting do-over); *Cornell University v. Hewlett-Packard Co.*, 609 F. Supp. 2d 279, 284 (N.D.N.Y. 2009) (same); *DataQuill Ltd. v. High Tech Computer Corp.*, No. 08cv543-IEG (BGS), 2012 WL 1284381, at *2 (S.D. Cal. Apr. 16, 2012) (same); *Digital Reg of Tex. v. Adobe Sys.*, No. 12-cv-01971 CW, 2014 WL 4090550, at *4 (N.D. Cal. Aug. 19, 2014) (same); *Dynetix Design Solutions, Inc. v. Synopsys, Inc.*, No. C 11–05973 PSG, 2013 WL 4538210, at *5 (N.D. Cal. Aug. 22, 2013) (same); *Fenner Invs. LTD. v. Hewlett-Packard Co.*, No. 6:08-cv-00273, 2010 WL 3911372, at *2 (E.D. Tex. Apr. 16, 2010) (same); *GoDaddy.com LLC v. RPost Commc'ns Ltd.*, Case No. CV-14-00126-PHX-JAT, 2016 WL 2643003, at *10 (D. Ariz. May 10, 2016) (same); *Golden Bridge Tech. v. Apple Inc.*, No. 5:12–cv–04882–PSG, 2014 WL 4057187, at *1 (N.D. Cal. June 1, 2014) (same); *IP Innovation L.L.C. v. Red Hat, Inc.*, 705 F. Supp. 2d 687, 691 (E.D. Tex. 2010) (same); *NetAirus Techs., LLC v. Apple Inc.*, LA CV10-03257 JAK (Ex), 2013 WL 11237200, at *1 n.2 (C.D. Cal. Oct. 23, 2013) (same); *ThinkOptics, Inc. v. Nintendo of America, Inc.*, No. 6:11-cv-455, 2014 WL 2859578, at *3 (E.D. Tex. June 21, 2014) (same); *Uniloc USA, Inc. v. Samsung Electronics America, Inc.*,

The potential availability of a *Daubert* do-over encourages parties to overreach. As one judge explained, “over the course of many years and more than a dozen patent trials, [I have] concluded that giving a second bite simply encourages overreaching on the first bite (by both sides).” *Network Protection Sci., LLC v. Fortinet, Inc.*, No. C 12–01106 WHA, 2013 WL 5402089, at *8 (N.D. Cal. Sept. 26, 2013). As such, judicial gatekeeping of late-stage, aggressive, and legally or factually unfounded damages theories is necessary to promote honest damages assessments in the first place. *See id.*

Daubert do-over abuse demonstrates the need for appropriate enforcement of discovery and evidentiary rules to deter parties from overreaching. By affirming Judge Illston’s appropriate exercise of discretion below, this Court will ensure that district court judges are able to continue exercising their critical gatekeeping role.

No. 2:17-CV-00651-JRG, 2019 WL 2267212, at *1 (E.D. Tex. May 28, 2019) (same); *Wi-Lan Inc. v. Alcatel-Lucent USA Inc.*, Nos. 6:10-cv-521, 6:13-cv-252, 2013 WL 10404065, at *4 (E.D. Tex. June 28, 2013) (same); *AVM Techs., LLC v. Intel Corp.*, No. 10–610–RGA, 2013 WL 8422202, at *1-2 (D. Del. Mar. 29, 2013) (denying do-over as a sanction under Fed. R. Civ. P. 37); *ePlus, Inc. v. Lawson Software, Inc.*, No. 3:09cv620, 2011 WL 2119410, at *4 (E.D. Va. May 23, 2011) (same); *Intellectual Ventures I LLC v. Xilinx, Inc.*, No. 10-1065-LPS, 2014 WL 1573542, at *1 (D. Del. Apr. 21, 2014) (denying do-over); *Network Protection Sci., LLC v. Fortinet, Inc.*, No. C 12–01106 WHA, 2013 WL 5402089, at *8 (N.D. Cal. Sept. 26, 2013) (same); *Syneron Med. Ltd. v. Invasix, Inc.*, No. 08:16-cv-00143-DOC-KES, 2018 WL 4696969, at *1 n.1 (C.D. Cal. Aug. 27, 2018) (same).

III. Abusive Patent Litigants Delay Damages Disclosures and Exploit *Daubert* Do-Overs to Prolong Litigation, Drive Up Legal Costs, and Inflate Settlements

Parties who intend to litigate their patent cases on the merits have little reason to unduly delay and obfuscate damages theories and evidence. The most efficient, and preferable, option for these parties is to resolve their cases early. *See* Hon. Andrew J. Guilford (C.D. Cal.), Standing Patent Rules 1, 10, <https://perma.cc/24VA-FT7Q> (archived May 31, 2020) (advising parties not to submit aggressive expert damages reports in order “reduce transaction costs and increase procedural certainty”). But abusive litigants focused on extracting inflated settlements or prolonging litigation to harm a defendant’s business will ignore the rules and hide information to optimize results.⁸

The threat of prolonged litigation is often enough to allow abusive litigants to increase the *ex ante* value of their lawsuits. *See, e.g.,* Ted Sichelman, *The Vonage Trilogy: A Case Study in “Patent Bullying,”* 90 Notre Dame L. Rev. 543, 549 (2014) (describing the problem of “patent bullies” who take advantage of the high costs of litigation and ability to delay lawsuits in the interest of anticompetitive behavior against market entrants and startups). For cases that

⁸ For example, one scholar has argued for “reduc[ing] the transaction costs, asymmetries, and uncertainty associated with patent enforcement” (including on damages and patent valuation) that feed problematic consequences of patent owner and accused infringer behaviors. Colleen Chien, *Holding Up and Holding Out*, 21 Mich. Telecomm. & Tech. L. Rev. 1, 6, 38-39 (2014).

proceed to (or near) trial, just the threat of litigating an expensive jury trial can increase the amount of money a defendant will pay to settle. Paul Gugliuzza, *Quick Decisions in Patent Cases*, 106 Geo. L. J. 619, 635 (2018).

Dragging litigation out just through discovery can cost startups well over \$750,000.⁹ Am. Intellectual Prop. Law Ass’n: Law Practice Mgmt. Comm., 2019 Report of the Economic Survey 51 (2019) [hereinafter AIPLA Survey]. A startup facing these costs will almost always try to settle, even if it would likely win at trial.¹⁰ See Evan Engstrom, *Primer: Value of Section 230*, ENGINE (Jan. 31, 2019), <https://perma.cc/95J6-ZLTY>. The fact that plaintiffs with weak infringement claims can engage in dilatory tactics involving damages disclosures is especially concerning because patent assertion entities often rely on vague patents and weak infringement claims to extract settlements from startups. See Sichelman, *Vonage Trilogy*, at 549, 575-76.

Money spent settling or defending weak or unfounded patent claims is money that would be better spent on innovation. And for startups in particular,

⁹ This figure represents the median cost to defend, up through the end of discovery, a patent infringement suit with between \$1 and \$10 million at risk from a non-practicing entity.

¹⁰ This article explains the nearly unconditional preference of startups for settlement in the context of defending litigation over Section 230 of the Communications Decency Act, concerning liability for user-generated content hosted on their websites. Because the costs to defend these suits through discovery—\$100,000 to \$500,000—are *lower* to those of patent infringement suits, the principle applies in the context of patent infringement suits as well.

these high costs are difficult to cover. *See* Colleen Chien, *Startups and Patent Trolls*, 17 Stan. Tech. L. Rev. 461, 472 (2014). The mere existence of litigation makes it difficult to attract customers and investors, and in some cases to survive. Colleen Chien, *Of Trolls, Davids, Goliaths, and Kings: Narratives and Evidence in the Litigation of High-Tech Patents*, 87 N.C. L. Rev. 1571, 1587-88 (2009) (describing strategic use of patents to prey on smaller companies). The longer the litigation lasts, the longer the plaintiff can use the ancillary harms of patent litigation to threaten the defendant to either settle or close up shop.

The mere threat of exploiting *Daubert* do-overs allows abusive litigants to increase the duration of their lawsuits. This in turn gives plaintiffs disproportionate leverage over defendants in two ways.

First, the availability of *Daubert* do-overs encourages abusive litigants to hide the ball on damages theories. *Network Protection Sci*, 2013 WL 5402089, at *8. Doing so can delay pretrial litigation and sometimes postpone trial.

Second, maximizing the damages number the plaintiff can present to the jury can increase the range and mean of the potential jury award. And higher potential verdict amounts make fighting the lawsuit all the way to final judgment riskier. Ambitious and unfounded expert damages theories can unfairly increase a jury award to far exceed the actual economic damage of infringement. For example, as this Court has acknowledged, a new trial on damages is appropriate when the use

of the entire market value of a product, instead of that value of that component's contribution, "fundamentally tainted" the jury award and "skew[ed] the damages horizon for the jury." *Uniloc USA, Inc. v. Microsoft Corp.* 632 F.3d 1292, 1295, 1320 (Fed. Cir. 2011).

But even if these exaggerated expert damages reports are properly excluded, plaintiffs may still get second bites at the apple. Plaintiffs who overreach in an initial report may submit, if permitted to do so, a second, overreaching report that simply resolves the specific problems identified in the first *Daubert* challenge. In one particularly salient example, well-known patent assertion entity Uniloc submitted inadequate expert damages testimony, but the district court granted it leave to submit an amended report and postponed the trial by three weeks. *Uniloc USA, Inc. v. Samsung Electronics America, Inc.*, No. 2:17-CV-00651-JRG, 2019 WL 2267212, at *1 (E.D. Tex. signed Apr. 17, 2019, filed May 28, 2019). Uniloc responded with completely new testimony and, in a surprising moment of candor, even admitted that it designed the new testimony not to be substantially similar to its previous report, but instead to benefit its litigating position by answering the defendant's *direct criticisms* of that previous report. *Id.* at *3, 11.¹¹ If plaintiffs are

¹¹ The parties litigated over the amended report for five weeks before the district court ultimately struck Uniloc's amended testimony and ordered the case to go to trial. *Id.* Uniloc dismissed the case with prejudice the next day. *Motion to Dismiss With Prejudice*, No. 2:17-CV-00651-JRG, Dkt. No. 214 (Apr. 18, 2019).

allowed to overshoot significantly in their first report, and then scale back slightly to resolve the most egregious criticisms, they can still take an inflated damages number to the jury.

In sum, *Daubert* do-over abuse demonstrates that not holding parties to their obligations to make timely, reliable disclosures can result in harmful overreach. Reversing Judge Illston’s careful gatekeeping actions in this case would only serve to encourage similar abusive litigation strategies and increase the leverage of and potential payoff for litigants who employ those tactics.

IV. Judicial Gatekeeping of Late-stage Damages Theories Increases Predictability, Reduces Costs, and Protects Innovation

Judicial gatekeeping plays an important role in ensuring the judicial system is fair and predictable. Reversing the decision below will make district court judges less likely to use their discretion to ensure that parties disclose timely, reliable damages theories. The nation’s startups—major drivers of innovation and job creation—will disproportionately suffer.

A. Small Businesses and Startups Are the Main Job Creators in America

Small businesses and startups are the powerhouses of economic growth, accounting for 44% of GDP and two-thirds of net new job creation.¹² *Small*

¹² Numerous sources confirm the critical role startups play in U.S. employment. The birth of new firms “contribute[s] substantially to both gross and net job

Businesses Generate 44 Percent of U.S. Economic Activity, U.S. SMALL BUS.

ADMIN. OFF. ADVOC. (Jan. 30, 2019), <https://perma.cc/PPB2-ACPW>. Moreover,

high-tech startups are especially critical for job growth. Ian Hathaway, Kauffman

Found., *Tech Starts: High-Technology Business Foundation and Job Creation in*

the United States 2 (2013), <https://perma.cc/P7GX-5Y6D>. Especially now, as the

country faces a long road of economic recovery from the global pandemic,

bolstering startups (which have been hit particularly hard by the economic

downturn) will be crucial in promoting job creation and economic growth. Dane

Stangler, *What Covid-19 Means for Startup Ecosystems—And What Can Be Done*,

FORBES (Apr. 1, 2020, 4:07 PM EDT), <https://perma.cc/6NA6-3FDA>.

creation.” John Haltiwanger et al., *Who Creates Jobs? Small Versus Large Versus Young*, 95 Rev. Econ. & Stat. 347, 347-48 (2013). Conversely, sluggish growth for startups is linked with sluggish growth for the U.S. economy. *See, e.g.*, Steve Matthews, *American Economy Hamstrung by Vanishing Startups*, *Innovation*, BLOOMBERG (June 1, 2016, 6:00 AM CDT), <https://bloom.bg/3eJzCW1>; Jeffrey Sparshott, *Sputtering Startups Weigh on U.S. Economic Growth*, *WALL STREET J.* (updated Oct. 23, 2016, 11:20 AM), <https://perma.cc/9YRL-MWZK>; *see also, e.g.*, Kathryn Kobe, U.S. Small Bus. Admin., *Small Business GDP Update 2002-2010*, at 1-3 (2012), <https://perma.cc/F2E2-EVF8>; Ryan Decker et al., *The Role of Entrepreneurship in US Job Creation and Economic Dynamism*, 28 J. Econ. Persp. 3, 4 (Summer 2014); *Entrepreneurship and the U.S. Economy*, BUREAU LAB. STAT., <https://perma.cc/WSJ8-9BRR> (last modified Apr. 28, 2016); Bay Area Econ. Council Econ. Inst., *Technology Works: High-Tech Employment and Wages in the United States* (2012), <https://perma.cc/KXJ4-RV9S>.

B. Judicial Discretion to Combat Gamesmanship Protects Those Small Businesses and Startups From Abusive Litigation and Promotes Innovation

Patent litigation is particularly treacherous for startups because abusive litigants prey on victims that are poorly equipped to afford the legal expenses necessary to defend even meritless lawsuits. In one 2012 study, startups reported spending on average \$857,000 (or 24% of their annual revenue) to defend an infringement suit. Chien, *Startups and Patent Trolls*, at 472 tbl.1. In that same study, startups reported settling cases for an average of \$340,000, or 13% of revenue. *Id.* More generally, it can cost startups nearly \$2 million to defend lawsuits against non-practicing entities. AIPLA Survey, at 51.

Direct, out-of-pocket costs are not the only harms suffered by small businesses, entrepreneurs, and startups who are hit with patent infringement suits. Forty percent of low-revenue or low-resource enterprises undergo significant operational impacts upon receiving demand letters for patent infringement. Chien, *Startups and Patent Trolls*, at 465. These impacts include “delayed hiring or achievement of another milestone, change in the product, a pivot in business strategy, a shut-down of the business line or the entire business, and/or lost valuation.” *Id.* Startups are especially vulnerable to demand letters because they often rely on third party financing, and the existence of a patent demand against a company is a notable deterrent to investors. Robin Feldman, *Patent Demands &*

Startup Companies: The View from the Venture Capital Community, 16 Yale J. Law & Tech. 236 (2014) (100% of investors surveyed indicated patent demand could be a deterrent to investment).

It is hardly surprising, then, that patent assertion entities target startups in particular. The patent assertion entity business model thrives on opportunism: they forum shop, target defendants who are tied up with simultaneous but unrelated suits, sue firms that have recently experienced an influx of cash, and engage in a variety of other calculated behaviors. *See* Lauren Cohen et al., *Patent Trolls: Evidence from Targeted Firms* 25-26 (Harv. Bus. Sch. Fin., Working Paper No. 15-002, 2018), <https://bit.ly/2MkrvCR>. The data bear out this reality. As of 2012, at least 55% of unique defendants targeted by patent assertion entities had annual revenues of \$10 million or less. Colleen Chien, *Startups and Patent Trolls*, at 464.

Patent assertion entities also tend to bring suits close to the dates of startups' initial public offerings; they take advantage of the fact that their targets are usually most vulnerable when they "have insufficient time, funds, and human capital to spend on a thoughtful examination of the claims." Robin Feldman & Evan Frondorf, *Patent Demands and Initial Public Offerings*, 19 Stan. Tech. L. Rev. 52, 88 (2015). A survey of fifty companies that issued IPOs from 2007 to 2012 showed that half received patent demands within a year following the IPO. *Id.* at 54-55.

Moreover, half (and two-thirds of surveyed information technology companies) reported spending over \$250,000 to defend against these claims. *Id.*

Just as problematic are incumbent companies that seek to put small competitors out of business and retain their market shares via patent predation directed at new market entrants. *See Chien, Of Trolls*, at 1587. While well-established companies have the war chests to engage in prolonged court battles, startups are strapped for funding and cannot afford extended litigation. *See Chien, Startups and Patent Trolls*, at 474-75 fig.1. Accordingly, targeted startups are often forced to forgo business ventures, lay off employees, and even go out of business. *Id.* This type of litigation often proves lethal to startups, and especially so for prefunded companies where patent demands are regarded as a “death knell.” *See id.* at 474.

If this Court reverses Judge Illston’s order, startups will become increasingly vulnerable to abusive litigation in multiple ways. First, reversal would reduce the ability of district courts to require timely and fulsome damages disclosures, thereby encouraging patent plaintiffs to delay disclosing damages theories. The result will be longer and costlier litigation. Second, reversal would exacerbate the amount of money patent plaintiffs can extract in settlement negotiations through the threat and abuse of *Daubert* do-overs. Finally, reversal would enable abusive litigation to continue as a viable business model, prolonging the threat to startups. On the other

hand, affirming the decision below and maintaining district courts' discretion to require parties to comply with their disclosure obligations will reduce the attractiveness, frequency, and impact of abusive litigation, especially on startups.¹³

CONCLUSION

In sum, “no issue in a patent trial requires application of the gatekeeping tools of Federal Rules of Evidence [governing expert testimony] more than damages.” Fed. Jud. Ctr., *Compensatory Patent Damages*, at 78. Appropriate deference to trial judges on how best to enforce the rules of litigation and evidence in their courts is key to ensuring that this gatekeeping role is effectively utilized. In this case, Judge Illston appropriately exercised her discretion to keep a late-stage expert damages report, based on evidence not properly disclosed earlier in litigation, out of trial. Affirmance is necessary to ensure that district courts have the tools necessary to combat abusive litigation strategies that cause delays, increase costs, undermine judicial efficiency, and threaten vigorous innovation and job creation.

For the foregoing reasons, amici respectfully request that the decision below be affirmed.

¹³ See Engine Advocacy, *Protecting Big Ideas - Mapbox*, YOUTUBE (Nov. 9, 2018), <https://bit.ly/3cjniKw>.

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CERTIFICATE OF COMPLIANCE

This brief complies with the type-volume limitation of Federal Rule of Appellate Procedure 29(a)(5) and Federal Circuit Rule 32(a). The brief contains 6,999 words, excluding the parts of the brief exempted by Federal Rule of Appellate Procedure 32(f) and Federal Circuit Rule 32(b).

This brief complies with the typeface requirements of Federal Rule of Appellate Procedure 32(a)(5)(A) and the type styles requirements of Federal Rule of Appellate Procedure 32(a)(6). The brief has been prepared in a proportionally spaced typeface using Microsoft Word, in 14-point Times New Roman font.

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CERTIFICATE OF SERVICE

I hereby certify that on June 2, 2020, I electronically filed the foregoing Brief of Engine Advocacy and The R Street Institute as Amici Curiae in Support of Appellee with the Clerk of the Court for the United States Court of Appeals for the Federal Circuit by using the appellate CM/ECF system.

I certify that all participants in the case are registered CM/ECF users and that service will be accomplished by the appellate CM/ECF system.

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