

## Working Group 10 Commentary on Patent Litigation Best Practices & Working Group 9 Commentary on Patent Damages and Remedies EXECUTIVE SUMMARY

The Sedona Conference's Working Group 10 on Patent Litigation Best Practices (WG10) and Working Group 9 on Patent Damages and Remedies (WG9) have published seven consensus, non-partisan documents since June 2014, collectively designed to move the law and practice of patent litigation forward in a reasoned and just way, consisting of:

- I. *WG10 Commentary on Patent Litigation Best Practices*
  - A. *WG10 Introductory Chapter* (July 2015 Edition)
  - B. *WG10 Case Management Issues from the Judicial Perspective Chapter* (Dec. 2015 Edition)
  - C. *WG10 Parallel USPTO Proceedings Chapter* (Oct. 2014 public comment version)
  - D. *WG10 Discovery Chapter* (Dec. 2015 Edition)
  - E. *WG10 Summary Judgment Chapter* (Oct. 2015 Edition)
  - F. *WG10 Use of Experts, Daubert, and Motions in Limine Chapter* (Dec. 2015 Edition)
- II. *WG9 Commentary on Patent Damages and Remedies* (June 2014 public comment version)

The patent system was established in accordance with our Constitution to promote science and the useful arts, which should support investment in developing new technologies. At the same time, however, there is a perception among a number of people that there has been an increase in the occurrence of patent cases considered to be “abusive,” and that this has *deterred* the advancement of science. While this perception that “abusive” litigation is stifling the growth of innovation may or may not reflect reality, there is little if any dispute, that patent litigation has become extremely expensive, and that procedures need to be developed to simplify the process and control costs.

Each publication is produced from the collective wisdom and experience of members of all stakeholders in the patent litigation system, including the judiciary, the plaintiffs and defense bars, patent prosecutors, and in-house counsel representing various types of industries. The Sedona Conference's Working Group Series output is first published in draft form and widely distributed for review, critique, and comment, including in-depth analysis at Sedona-sponsored conferences. Following this period of peer review, the draft publication is reviewed and revised by the Working Group taking into consideration what is learned during the public comment period.

Since the publication for public comment of the first Chapters of WG10's Commentary on Patent Litigation Best Practices, WG10 has received a remarkable amount of interest in its efforts, and an increase in the number of judges, in-house lawyers, and lawyers from firms requesting to join and participate in the Working Group. Our Working Group now includes around 200 attorneys, with litigators from both the plaintiff side and defense side and in-house counsel, and over 20 federal judges.

In 2015, The Sedona Conference has been working with several groups to provide presentations relating to WG10's efforts, including at the Third Circuit Judicial Conference, the Ninth Circuit Judicial Conference, the Federal Circuit Bar Association Bench & Bar Conference, the American Intellectual Property Law Association Annual Meeting, and the Intellectual Property Owners Association Annual Meeting.

.Pdf versions of each of the WG10 publications are attached to the .pdf file of this Executive Summary. For a zipped folder with Word and .pdf versions, please [\[click here to download\]](#).

Please send comments to [comments@sedonaconference.org](mailto:comments@sedonaconference.org), or fax them to 602-258-2499. Thank you for contributing to this essential step in our ongoing efforts to move the patent law forward.

I. *WG10 Commentary on Patent Litigation Best Practices*

The Sedona Conference decided to undertake the formation of Working Group 10 (WG10) on Patent Litigation Best Practices in 2013 because it believes that the system can be significantly improved and abuses minimized by the development and utilization of procedures enhancing the efficient and cost-effective management of patent litigation.

In the process, we formed various teams, each with representation from all stakeholders in the patent litigation system, to draft Chapters for WG10's ongoing Commentary proposing best practice recommendations on a number of topics, consisting to date of:

A. *WG10 Introductory Chapter (July 2015 Edition)*

The WG10 Introductory Chapter provides the framework for the entire WG10 Commentary, with its primary goal of developing best practices and recommendations to improve the patent litigation system and to minimize abuses for the benefit of all stakeholders in the system. The July 2015 Edition of the Introductory Chapter has now been fully updated to incorporate all of the comments received in response to the August 2014 public comment version and to track the latest legislative patent reform proposals to date.

The overarching Principle of the WG10 Commentary on Patent Litigation Best Practices is:

WG10 is developing these Best Practices to improve the system for resolving patent disputes and make it more fair and efficient. These Best Practices are to apply to and benefit all stakeholders in patent litigation, both bench and bar, and to and for all types of patent holders and accused infringers. These Best Practices should further the goals of Federal Rule of Civil Procedure 1 and “should be construed and administered to secure the just, speedy, and inexpensive determination of every action and proceeding,” all to help ensure a non-frivolous patent litigation system.

The Chapter describes the factors giving rise to the high costs of patent litigation, and the recent efforts directed toward addressing this issue, including the various proposals directed at patent reform by members of the legislature and the establishment of the new post-grant proceedings at the U.S. Patent and Trademark Office by the Leahy-Smith America Invents Act in 2011.

WG10's consensus view is that the judicial branch, not the legislative branch, is best positioned to address many of the current problems with U.S. patent litigation by providing case-by-case fixes, not broad sweeping rules and regulations. The courts should be allowed a reasonable degree of latitude and discretion for managing their cases. The best avenue for addressing the concerns about the high costs of patent litigation is through initiatives such as the Patent Pilot

Program, enacted in 2011 (with the goals of developing patent expertise within a select group of volunteering judges and increasing the efficiency and predictability for patent cases), and the consensus, non-partisan development of best practice recommendations such as those presented by The Sedona Conference.

B. *WG10 Case Management Issues from the Judicial Perspective Chapter (Dec. 2015 Edition)*

The WG10 Chapter on Case Management Issues from the Judicial Perspective provides best practice recommendations to help the courts manage patent cases. The December 2015 Edition of the Chapter has now been fully updated to incorporate all of the comments received in response to the February 2015 public comment version. The Chapter dovetails with and builds upon the best practices in the other Chapters of the *Commentary on Patent Litigation Best Practices*. The recommendations reflect that it is incumbent on the court—as well as attorneys and parties—to work toward a fair, cost-effective, non-burdensome, and non-frivolous patent litigation system.

This Chapter was developed from the viewpoint of what actions would help the courts in managing the patent litigations before them. Key recommendations include:

- case management strategies for resolving disputes earlier and more efficiently;
- streamlined claim construction processes, so the courts and the parties focus on the most relevant disputes in the case;
- procedures for early exchanges of infringement and invalidity contentions and responsive contentions on each of these;
- procedures for narrowing the issues to be tried by selecting representative claims, representative products, and representative prior art;
- procedures for maximizing juror comprehension; and
- preparation of verdict forms to avoid juror confusion and inconsistent verdicts.

The other WG10 Commentary Chapters are primarily directed to the activities of litigants and what the courts should consider requiring of litigants.

The Principles that guided the development of many of the best practice recommendations of this Chapter focus on cooperatively narrowing the issues in dispute, complying with and attempting to enforce discovery obligations, and keeping the court timely informed of developments in the case that significantly impact the case management schedule.<sup>1</sup>

Several supplemental WG10 drafting team projects were initiated in early 2015 consisting of: Heightened Pleading Standards; *Alice*/Section 101 Patentability; and Exceptional Case Determinations. It is anticipated that once finalized and adopted, these sections will be published for

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<sup>1</sup> For the full text of the six Principles that guided the development of the best practice recommendations in the Case Management Issues from the Judicial Perspective Chapter, *see* Appendix A.

public comment and eventually will be added to the next iteration of this Case Management Chapter.

C. *WG10 Parallel USPTO Proceedings Chapter (Oct. 2014 public comment version)*

The WG10 Chapter on Parallel USPTO Proceedings provides best practice recommendations for navigating the issues that have arisen from the establishment of the new post-grant proceedings for patent invalidity determinations at the U.S. Patent and Trademark Office by the Leahy-Smith America Invents Act in 2011. It is not at all uncommon for a USPTO Patent Trial and Appeal Board (PTAB) proceeding to run concurrently with a district court litigation or a U.S. International Trade Commission (USITC) section 337 unfair trade practice proceeding involving the same patent(s), and as such there is the risk of conflicting outcomes between such parallel proceedings. A number of issues have also arisen largely from the different standards that the various forums use when construing the claims and also the different scope of discovery that each forum permits to occur. As a consequence, a number of courts have struggled with deciding various issues, e.g., of stay and subsequent estoppels.

This Chapter's proposals were developed primarily from the perspective of district court litigation, both for practitioners and the district courts. The next stage of this WG10 project is to expand its scope and develop recommendations directed toward improving proceedings before the PTAB and the collaborative resolution of patent disputes through both the federal courts and the PTAB working in concert, as opposed to in conflict. A new drafting team was formed in early 2015 to address these issues, and the new sections will be published for public comment for public comment in early 2016.

Also, as the PTAB has been developing its procedures, a number of issues have been in flux. For example, how will the PTAB decide what claims it will actually consider in the proceeding and what scope of discovery it will permit? As time and experience progress, there may well be changes to a number of aspects of the proceedings. Such changes will necessitate the WG10 drafting team to revisit this Chapter on a regular basis.

The Principles that guided the development of many of the best practice recommendations of this Chapter focus on the harmonization of parallel proceedings between the PTAB, ITC, and district courts and the opportunity to present evidence before the PTAB.<sup>2</sup>

D. *WG10 Discovery Chapter (Dec. 2015 Edition)*

The WG10 Chapter on Discovery sets forth principles and best practices to minimize discovery abuses in patent litigation by streamlining the discovery process, requiring earlier disclosure of the most relevant materials, and requiring full disclosure of both sides' contentions at a relatively early stage in the process, all to encourage meaningful and timely settlement discussions and to minimize surprise at trial.

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<sup>2</sup> For the full text of the two Principles that guided the development of the best practice recommendations in the Parallel USPTO Proceedings Chapter, *see* Appendix A.

The Principles that guided the development of the best practice recommendations in this Chapter focus on proportionality, cooperation, expeditious resolution of disputes, and appropriate remedies for abuse.<sup>3</sup>

The December 2015 Edition of the Chapter has now been fully updated to incorporate all of the comments received in response to the October 2014 public comment version.

E. *WG10 Summary Judgment Chapter (Oct. 2015 Edition)*

The WG10 Chapter on Summary Judgment calls for a fundamental re-evaluation of the proper role of summary judgment motions in patent litigation. Motions for summary judgment or partial summary judgment can be useful case management tools, i.e, they can be helpful in eliminating or narrowing issues for trial where the truly relevant material facts are not in dispute. However, that utility is often lost due to the volume and the poor quality of some summary judgment motions filed today. For example, there have been a large number of cases where parties have filed numerous motions with declarations by experts for the purpose of creating a “battle of experts” on both sides; these motions are often completely inappropriate to the purpose or spirit of summary judgment motions. Parties at times have also indicated that they filed the motions to “educate” the judge or as a discovery tool to “better understand” the opposing side’s positions. Such motions are a significant burden on the courts and opposing counsel and result in a frustration and natural skepticism toward meritorious summary judgment motions.

This Chapter provides an overarching principle<sup>4</sup> and best practice recommendations encouraging courts to assume a greater gatekeeping role at an earlier stage of the case, and prevailing upon all counsel to give more consideration to merits and timing before filing any summary judgment motion. They include proposed best practices for cases with earlier claim construction scheduled for before the close of fact discovery, and best practices for cases with claim construction scheduled later in the proceedings, after the close of fact discovery.

The October 2015 Edition of the Chapter has now been fully updated to incorporate all of the comments received in response to the August 2014 public comment version.

F. *WG10 Use of Experts, Daubert, and Motions in Limine Chapter (Dec. 2015 Edition)*

The WG10 Chapter on Use of Experts, *Daubert*, and Motions *in Limine* provides a set of recommended principles and best practices to both guide and advance the ways in which experts may be fairly deployed in a manner that is the most helpful to the trier-of-fact. Perceptions and practices among district courts and the patent bar as to the most fair and effective use of experts in patent litigation continue to evolve. As many practitioners have experienced, courts vary in their treatment of expert evidence, both with respect to the timing of motions to exclude expert testimony and the way in which they permit expert testimony to be used. This Chapter identifies

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<sup>3</sup> For the full text of the six Principles that guided the development of the best practice recommendations in the Discovery Chapter, *see* Appendix A.

<sup>4</sup> For the full text of the Principle that guided the development of the best practice recommendations in the Summary Judgment Chapter, *see* Appendix A.

areas where there are apparent distinctions between or experimentation by the courts with respect to the use of experts, and offers best practices where appropriate.

The Principles that guided the development of many of the best practice recommendations of this Chapter focus on fairly limiting the scope of expert testimony to that disclosed in the expert's Rule 26 report to encourage the full and fair disclosure of all legal positions in expert reports and to minimize surprises at trial.<sup>5</sup>

The December 2015 Edition of the Chapter has now been fully updated to incorporate all of the comments received in response to the October 2014 public comment version.

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<sup>5</sup> For the full text of the two Principles that guided the development of many of the best practice recommendations in the Use of Experts, *Daubert*, and Motions *in Limine* Chapter, see Appendix A.

## II. WG9 Commentary on Patent Damages and Remedies (forthcoming in 2016)

The WG9 Commentary on Patent Damages and Remedies will propose principles and best practices in an effort to add clarity and predictability to this hotly-contested area.

WG9 has revisited the *Georgia-Pacific* framework for calculating damages, recommending in its June 2014 public comment version of the Commentary a departure from the *Georgia-Pacific* framework of establishing a hypothetical negotiation at the time of first infringement, in favor of a “retrospective” approach to the hypothetical negotiation in which the hypothetical negotiation takes place at the time of trial and allows for consideration of all relevant facts and circumstances occurring up to the time of trial. After reviewing and considering comments received during the public comment process, however, it became clear that there is not WG9-wide consensus behind this approach. Although no consensus was reached, the dialogue was nevertheless beneficial for its illumination of the advantages and disadvantages of different approaches, which will be set forth in the next publication of this Commentary. The Working Group is hopeful that the dialogue about alternative frameworks for the hypothetical negotiation will continue.

WG9 also will provide guidelines and best practices regarding several *Georgia-Pacific* factors, and deals with critical issues including: apportionment; the entire market value rule; whether settlement agreements should be considered in the hypothetical negotiation framework; and the appropriate post-verdict legal and equitable remedies available to patent holders.

Furthermore, WG9 will provide best practices for substantive and procedural damages issues regularly arising before, during, and after trial, including a recommendation that the parties exchange a set of damages contentions in advance of both the close of fact discovery and of the filing of damages expert reports. Such damages contentions would provide greater clarity on damages theories and potential disputes earlier than tends to occur presently, and thus allow for the consideration of motions related to the admissibility of damages theories and evidence during the pretrial period, rather than on the eve of trial. In 2016, WG9 will publish for public comment a proposed set of local patent damages rules that courts could adopt in whole or in part to implement such a damages contentions requirement.

The WG9 Commentary on Patent Damages and Remedies is in the process of revision to incorporate the comments received during the public comment process, and will be published in its “final” / “post-public comment” form in 2016.

## Appendix A: WG10 Commentary on Patent Litigation Best Practices—Principles

The Principles that guided the development of the best practice recommendations in the *WG10 Case Management Issues from the Judicial Perspective Chapter* are:

Principle No. 1 – WG10 is developing these Best Practices to improve the system for resolving patent disputes and make it more fair and efficient. These Best Practices are to apply to and benefit all stakeholders in patent litigation, both bench and bar, and to and for all types of patent holders and accused infringers. These Best Practices should further the goals of Federal Rule of Civil Procedure 1 and “should be construed and administered to secure the just, speedy, and inexpensive determination of every action and proceeding,” all to help ensure a non-frivolous patent litigation system.

Principle No. 2 – The parties should advise the court as soon as practicable, during case management conferences and on an ongoing basis, whether motions in this proceeding, or filings or petitions in parallel proceedings, are likely to be filed that may substantially affect the management of the case. The court’s case management schedule should require the filing of all such motions early enough to allow the parties a full and fair opportunity to address the matters raised and to facilitate a timely ruling by the court so that discovery, motion practice, and trial preparation can be streamlined.

Principle No. 3 – The parties should actively and cooperatively work to narrow the set of asserted claims, representative products, and prior art references in a good faith and efficient manner. [*see also* Discovery Principle No. 3]

Principle No. 4 – The parties should disclose, formally or informally, the basis for their positions and requests, to help the court and the parties understand the significance to the case of each and to mitigate against the presentation and litigation of issues that ultimately prove to be of little significance.

Principle No. 5 – Litigants should be encouraged to only file meritorious motions that will help resolve actual significant disputes in the litigation, and facilitate the expeditious presentation and resolution of such motions. The same concept should apply when oppositions to such motions are filed. Where litigants fail in this regard, whether initiated by motion or by the court *sua sponte*, the court should take appropriate action to remedy the party’s abuses, such as awarding fees or granting other relief.

Principle No. 6 – Lead counsel of both parties should directly manage their respective litigation strategies and procedures from the start of the case, and ensure there is a close coordination between the issues the party is going to try and the preparations leading up to them.

The Principles that guided the development of the best practice recommendations in the *WG10 Parallel USPTO Proceedings Chapter* are:

Principle No. 1 – The PTAB, ITC, and district courts should take steps to harmonize parallel proceedings and exercise their discretion, when possible, to reduce abusive litigation and foster just, speedy, and inexpensive determinations.

Principle No. 2 – Parties to PTAB proceedings should be afforded a fair opportunity to present appropriate evidence and argument both before and after institution.

The Principles that guided the development of the best practice recommendations in the *WG10 Discovery Chapter* are:

Principle No. 1 – Discovery should be proportionate with the overall nature of the dispute, including factors such as the number of patents or patent families asserted, complexity of the technology involved, the number of accused products involved, the past damages or future value (either monetary or injunctive) of a specific patent litigation, and the importance of the discovery sought to the resolution of the issues.

Principle No. 2 – The parties should meet and confer before the first scheduling conference about: the substantive basis for their allegations; the specific identification of the claims being asserted and products alleged to infringe, damages theories, and known prior art; the scope of discovery needed by each party; and confidentiality issues. The parties should continue to meet and confer about the above throughout the case and, to the extent possible, to resolve any disputes expeditiously and independent of court intervention.

Principle No. 3 – Each party should be required to disclose primary relevant documents and contentions early in the discovery process and have an ongoing duty to disclose any additional such documents once it learns of their existence or relevancy; the court should consider not allowing untimely produced documents or contentions to be admitted at trial.

Principle No. 4 – Where appropriate and necessary, the court should seek to resolve discovery disputes expeditiously and should use some form of gating function to determine which disputes truly require formal motion practice.

Principle No. 5 – Discovery sanctions should not be routinely requested and should not be pursued by a party in a manner that overshadows the substantive issues in the case. Routinely seeking discovery sanctions, or conducting discovery in a manner primarily aimed at “catching” your opponent in a discovery error is not a proper function of the provisions providing for sanctions or an efficient use of client or judicial resources.

Principle No. 6 – If a party’s or attorney’s conduct during discovery warrants fee shifting or sanctions, the court should consider appropriate monetary or evidentiary sanctions against the party or counsel to remedy, deter, or punish such conduct.

The Principle that guided the development of the best practice recommendations in the *WG10 Summary Judgment Chapter* is:

Principle – Summary judgment motions should be filed solely for the purpose of eliminating trial or issues where there are no reasonably disputed facts, and never as a discovery tool or to “educate” the court. Decisions to file summary judgment motions should be directly managed by the lead counsel with these precepts in mind.

The Principles that guided the development of the best practice recommendations in the *WG10 Use of Experts, Daubert, and Motions in Limine Chapter* are:

Principle No. 1 – An expert’s testimony should be fairly limited to the opinions and bases for those opinions disclosed in the expert’s Rule 26 report, and a party presenting expert testimony should seek permission to serve a supplemental report as soon as an evidentiary issue with a previously served expert report is identified. An expert should not be permitted to supplement a Rule 26 report through deposition or declaration beyond what was fairly set forth in the report.

Principle No. 2 – A court should exclude expert testimony that is not supported by the expert’s Rule 26 report. Strict adherence to the view that parties must “show their cards” as to their final legal positions during expert discovery will discourage “sandbagging” and result in a fairer process that minimizes surprises at trial.