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Client Alert **Intellectual Property**

The Federal Circuit Will Decide if a Damages Trial or Decision on Willfulness Is Required Before a Judgment of Patent Infringement Can Be Appealed

Appellate review typically follows a judgment of a district court that resolves all disputes between the litigants, and the Federal Circuit has exclusive jurisdiction over an appeal from a judgment that is "**final except for an accounting.**" 28 U.S.C. § 1295(c)(2). This raises the question whether, under Section 1295(c)(2), a trial on damages or a decision on willful infringement is simply an "accounting," or a necessary predicate for an appealable final judgment?

On August 7, 2012 the Federal Circuit, in a *sua sponte* order, indicated that the full Court will decide if a patent infringement liability judgment is "final" for purposes of appeal when (1) the damages trial has not yet occurred, or (2) the district court has not yet decided the question of willful infringement. The Federal Circuit's decision on this jurisdictional question has the potential of significantly impacting how patent infringement litigations are structured in the future.

Robert Bosch v. Pylon Manufacturing Corp.

In 2008, Robert Bosch LLC commenced a patent infringement action against Pylon Manufacturing in the Delaware District Court. Granting Pylon's motion to bifurcate, the district court ruled that for purposes of both discovery and trial, "bifurcation [of damages and willfulness] is appropriate, if not necessary, in all but exceptional patent cases." The district court granted partial summary judgment of infringement, and the jury returned a verdict that other patent claims were valid and infringed. After the

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district court disposed of the parties' respective post-trial motions, Pylon filed a notice of appeal even though a trial on damages had not taken place and the question of willful infringement was not resolved.

Bosch moved to dismiss the appeal, arguing that the district court could not enter a judgment that was "final except for an accounting" because the issues of damages and willfulness remained undecided. Bosch argued that the district court's failure to decide these issues divested the Federal Circuit of jurisdiction over Pylon's appeal. Circuit Judge Prost disagreed, and issued an order denying Bosch's motion to dismiss for lack of jurisdiction. Bosch then sought panel review and reconsideration but Circuit Judge Prost again denied Bosch's attempt to dismiss the appeal.

The parties did not address the jurisdictional question in their respective appellate briefs, other than to acknowledge that there was a dispute regarding the Federal Circuit's jurisdiction and reference Bosch's rejected motion to dismiss. During oral argument, however, the three-member panel of Chief Judge Rader, and Circuit Judges O'Malley and Reyna questioned counsel for both parties extensively about the jurisdictional posture of the appeal before turning to the merits of the case.

On August 7, 2012, almost one month after oral argument, the Federal Circuit *sua sponte* issued an order requesting additional briefing so that the Court can address, *en banc*, whether Section 1292(c)(2) provides a jurisdictional basis to hear an appeal of a patent infringement liability determination when the district court has not yet conducted a trial on damages or resolved the question of willful infringement.

Bifurcation in Patent Infringement Litigation

Over the last several years, the quantum of damages sought and awarded in patent infringement cases has grown dramatically, resulting in a corresponding increase in the complexity of the theories used to advance and rebut the parties' respective damage theories. Additionally, because of the size of a patentee's potential recovery and the accused infringer's financial exposure, damages discovery has become increasingly more contentious, spawning extensive discovery battles and motion practice. Further, motions in limine and *Daubert* motions that seek to exclude damages evidence and attack the theories and economic models relied upon by the parties' respective experts have now become a fixture in most patent litigations. Consequently, the damages phase of many of patent litigations has become more time consuming for the district court to supervise and mediate, and more expensive for the parties to take from discovery through trial.

For these reasons some argue that before the district court devotes its limited resources or the parties incur significant expense, it would be more prudent and efficient to wait until the Federal Circuit reviews a district court's claim construction ruling and issues a decision on validity and infringement, before turning to the various issues and disputes raised by the damages phase of a patent infringement litigation. For example, since claim construction is subject to *de novo* review and is often dispositive of many, if not all, of the validity and infringement issues in dispute, some district court judges believe there is a benefit if the parties have the Federal Circuit's guidance on these issues, before devoting significant resources to the issue of damages. As a result, bifurcation of damages and willfulness has recently gained favor with an increasing number of district court judges. In fact, the standing Scheduling Order of District Judge Robinson of the Delaware District Court provides that absent "good cause," damages and willfulness shall be bifurcated for both discovery and trial.

Possible Future Implications

The *sua sponte* decision to address the scope of its jurisdiction reflects a concern with the growing trend of bifurcation. If the Federal Circuit rules that a patent infringement liability judgment can be appealed before completion of a trial on damages, it is likely that more district court judges will utilize bifurcation as an additional procedural device to help manage their docket with greater frequency.

It cannot be disputed that permitting appeals of patent liability determinations, before the damages phase of a patent infringement case commences, would help conserve the district court's limited resources, as well as those of the parties. For example, postponing the damages phase until the Federal Circuit's decision on claim construction, validity and/or infringement could very well eliminate the need for any damages discovery or trial. In particular, if the Federal Circuit decides there is no liability, either by providing claim construction that effectively decides the issues of invalidity or non-infringement, or expressly holds the asserted patent is not valid and/or not infringed, the need to proceed with the damages phase of the litigation would be obviated.

Alternatively, if infringement liability is affirmed by the Federal Circuit, the patentee and the adjudged infringer would have an incentive to enter into reasonable settlement negotiations to avoid incurring the expense and time associated with the long and arduous road of damages discovery and trail. In fact, even if settlement is not reached, the parties may decide that traditional damages discovery and trial are too expensive and time consuming, and choose to have damages quantified through arbitration or mediation.

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Congressional attempts to create a right to an interlocutory appeal of claim construction rulings with a mandatory stay of the district court proceeding pending the Federal Circuit's decision have been unsuccessful, and it remains unlikely that the Federal Circuit's *sua sponte* order to address this jurisdictional issue signals a relaxation of the Court's almost steadfast reluctance to entertain direct appeals of claim construction rulings. Although interlocutory appeals of claim construction rulings would be extremely attractive to most patentees, accused infringers and district courts, it would be largely unworkable on the appellate level. Since claim construction is often dispositive of the issues of validity and infringement, many litigants would forgo serious settlement discussions and instead request an early, and perhaps premature, Markman hearing as a way of gauging the strength of the patentee's infringement claims and accused infringer's defenses before incurring significant expenses associated with full scale litigation. This would cause the number of appeals flooding the Federal Circuit to grow exponentially, and clog the Court's already crowded docket.

Based upon the briefing schedule accompanying the Court's Order, the Federal Circuit's *en banc* decision on this important jurisdictional issue can be expected in the spring of 2013.

For additional information concerning this latest development, please feel free to contact our Intellectual Property Group.

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