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4   UNITED STATES DISTRICT COURT

5   NORTHERN DISTRICT OF CALIFORNIA

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7   TWILIO, INC.,   Case No.16-cv-06925-LHK   (SVK)

                   Plaintiff,
8
                                                 ORDER GRANTING IN PART
9   v.   **TELESIGN'S MOTION TO COMPEL**
                                                 AMENDED DAMAGES CONTENTIONS
10   TELESIGN CORPORATION,
                                                 Re: Dkt. No. 121
                   Defendant.
11

12   **I.   Introduction**

13   Plaintiff Twilio, Inc. ("Twilio") initiated this action in December 2016. The parties filed

14   their joint case management statement on February 22, 2017. ECF 45. In accordance with the

15   schedule set forth in the Patent Local Rules, Twilio served its damages contentions on June 20,

16   2017; Defendant Telesign Corporation ("Telesign") served its responsive damages contentions on

17   July 20, 2017. The parties have engaged in meet and confer efforts, to varying degrees of success.

18   On September 21, 2017, Telesign filed this motion to compel Twilio's compliance with Patent

19   Local Rule 3-8. The parties have been ordered to an early mediation (ECF 74, 130), which is

20   scheduled for December 4, 2017.

21   Following this Court's assessment of the requirements of the Patent Local Rules, the

22   arguments presented in the parties' briefs and at the hearing held on November 14, 2017,

23   Telesign's motion to compel is granted in part. Twilio will supplement its damages contentions

24   with a computation of damages, as detailed below, no later than November 29, 2017. In addition,

25   the parties will continue rigorous meet and confer efforts and produce additional documents as

26   directed at the hearing and reflected in the record.

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United States District Court
Northern District of California

II.   The Patent Local Rules Require a Computation of Damages

The Patent Local Rules[1] were amended as of January 2017, to address disclosure of damages information, and challenges in this District to L.R. 3-8 are still relatively few. This case, where Twilio has not provided either the reasonable estimate addressed in L.R. 2(b)(5) or a computation as contemplated in L.R. 3-8, presents an opportunity to address the Local Rule requirements to provide clarity to the parties, particularly in light of the impending mediation on December 4, 2107.

A.   The Rules

To orient itself and the parties to the disclosure obligations set forth in the Local Rules, the Court finds it helpful to begin with a relevant definition:

noun: **disclosure**

1.   the action of **making** new or secret **information known**.

"A judge ordered the disclosure of the government documents."

Disclosure, Oxford English Dictionary (3rd Ed. 2010) (Emphasis added).

The first instance under the Local Rules where parties are to make known damages calculations is the initial case management conference. Local Rule 2(b)(5), in requiring a good faith estimate at the initial case management conference, provides:

> 2. GENERAL PROVISIONS
> . . .
> (b) Initial Case Management Conference. When the parties confer pursuant to Fed. R. Civ. P. 26(f), in addition to the matters covered by Fed. R. Civ. P. 26, the parties shall discuss and address in the Case Management Statement filed pursuant to Fed. R. Civ. P. 26(f) and Civil L.R. 16-9, the following topics:
> . . .
> (5) The parties shall provide the court with a **non-binding, good-faith estimate of the damages range expected for the case along with an explanation for the estimates**. If either party is unable to provide such information, that party shall explain why it cannot and what specific information is needed before it can do so. Such party shall also state the time by which it should be in a position to provide that estimate and explanation.   (Emphasis added.)

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[1] All references to the Local Rules are references to the Norther District of California Patent Local

Ninety days later, L.R. 3-8 requires a computation of damages, specifically:

> 3. PATENT DISCLOSURES
> . . .
> **3-8.** Damages Contentions
> Not later than 50 days after service of the Invalidity Contentions, each party asserting infringement shall:
> (a) Identify each of the category(-ies) of damages it is seeking for the asserted infringement, as well as its **theories of recovery**, **factual support** for those theories, and **computations of damages** within each category, including:
> 1. lost profits;
> 2. price erosion;
> 3. convoyed or collateral sales;
> 4. reasonable royalty; and
> 5. any other form of damages.
> (b) To the extent a party contends it is unable to provide a fulsome response to the disclosures required by this rule, it shall identify the information it requires. (Emphasis added.)

Similarly, the defendant has an obligation to make known, with specificity, its defenses to the damages claimed:

> **3-9.** Responsive Damages Contentions
> Not later than 30 days after service of the Damages Contentions served pursuant to Patent L.R. 3-8, each party denying infringement shall identify specifically how and why it disagrees with those contentions. This should include the party's affirmative position on each issue. To the extent a party contends it is unable to provide a fulsome response to the disclosures required by this rule, it shall identify the information it requires.

B.   Applying the Local Rules in Litigation

The 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 math. A plaintiff's persistent deference to a future expert report, as well as a defendant's insistence on a final expert opinion, is misplaced. Local Rule 3-8 does not require certainty, and it is not fairly interpreted as replacing the robust analysis of a patent damages expert report. It is worth noting that unlike the more rigorous disclosure requirements for infringement and invalidity contentions (*see* L.R. 3-1, L.R. 3-3), there is no "good cause" threshold for amendment of damages contentions, nor is there even a requirement to amend the contentions. *See* L.R. 3-6. There is ample room between the initial "non-binding, good faith *estimate* of the damages *range*" contemplated by L.R. 2(b)(5) and a damages expert's report pursuant to Federal Rule of Civil Procedure 26 for meaningful disclosure,

1   including a computation, under L.R. 3-8.

2   The timing as to when a plaintiff must provide a computation of damages is not arbitrary.

3   The computation follows the disclosure of infringement and invalidity contentions to allow for

4   focus on the actual accused instrumentalities. The Sedona Conference *Commentary on Case*

5   *Management of Patent Damages and Remedies Issues: Proposed Model Local Rule for Damages*

6   *Contentions*, at p. 4 (April 2016, public comment version).[2] Yet the damages computation is

7   provided early enough in the course of fact discovery to inform the parties and the court on issues

8   of relevance and proportionality. *Id*. Finally, the reveal of the computation of damages in the time

9   frame set forth in L.R. 3-8 creates a potential opportunity for meaningful settlement discussions.

10 *Id*.

11   The expectation built into L.R. 3-8, as well as L.R. 3-9, that there is discovery—perhaps

12 significant discovery—still to be conducted at the time of computation is not properly construed as

13 an opportunity to ignore the disclosure obligations all together. Contending one is unable to

14 provide a damages calculation should be considered the exception, not the default, as each party

15 exercises its best, good faith efforts to comply with this Court's Local Rules. Where the exception

16 lies, and a party feels compelled to state that it has no alternative but to identify additional

17 information it must acquire before it can comply with a particular component of its disclosure

18 obligations, such identification must be specific: 1. Which outstanding discovery request is

19 directed to the particular missing fact? 2. What is the status of meet and confer efforts between

20 the parties to facilitate a timely response? 3. When is a response due and, once received, on what

21 date will the party comply with its disclosure obligation? A party's failure to provide this

22 information with a high degree of specificity undermines an argument that the information is

23 necessary for a computation of damages.

24   The Court notes that L.R. 3-8 and L.R. 3-9 do not directly address apportionment. The

25 Federal Circuit requires that a damages opinion provide an evidentiary basis for the apportionment

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    [2] *Available at* https://thesedonaconference.org/publication/The%20Sedona%20Conference%
    20Commentary%20on%20Case%20Management%20of%20Patent%20Damages%20and%20Rem
    edies%20Issues%3A%20Proposed%20Model%20Local%20Rule%20for%20Damages%20Conten

1   of damages between the patented feature and the unpatented features. *See Uniloc USA, Inc. v.*

2   *Microsoft Corp.*, 632 F.3d 1292, 1318 (Fed. Cir. 2011). Apportionment is an extremely fact-

3   intensive exercise requiring more discovery and analysis than is likely to be completed at the

4   juncture of the damages computation required by L.R. 3-8. Nevertheless, the apportionment

5   requirement does not obviate the need to compute damages under L.R. 3-8. A plaintiff should, at

6   a minimum, identify the likely factors that will be considered in its apportionment calculation,

7   quantify those factors to the extent possible, and identify the outstanding discovery directed to

8   quantifying these factors with the particularity outlined above.

9   Notwithstanding the challenges of determining a viable computation of damages prior to

10   the close of fact discovery, in cases such as the present one it simply is not credible that a full year

11   after the filing of the complaint, which certainly followed a diligent investigation, a plaintiff is

12   unable to quantify, with reasonableness if not certainty, the damages it will seek at trial. Nor is it

13   credible that a plaintiff cannot break that quantification into elements of a computation: a royalty

14   base, a royalty rate, and other potential factors that will compose its alleged damages. Indeed,

15   when a party fails to provide even a non-binding estimated range of damages as required by

16   L.R. 2(b)(5), its failure to comply with L.R. 3-8 further reflects an unwillingness, rather than an

17   inability, to provide a computation of damages. With the foregoing guidelines in mind, the Court

18   turns to the contentions at issue.

19   **C. Damages Contentions in the Present Case**

20   **i. Twilio's Damages Contentions**

21   In its opening, Twilio's damages contentions present a number of arguments generously

22   construed to relate to its obligations under L.R. 3-8. Twilio then addresses each of the *Georgia-*

23   *Pacific* factors, primarily, but not exclusively, identifying broad categories of documents it

24   contends are necessary for its calculations. The Court does not find it productive at this juncture to

25   review Twilio's approach in detail but provides direction as to the form and substance of damages

26   contentions under L.R. 3-8 and L.R. 3-9 by addressing a few general points.

27   • Briefing in the disclosure statement on the legal parameters for treble damages is

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