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In re MSTG and the Shifting Role of Litigation-Related Patent Licenses in Reasonable Royalty Rate Determinations

IN 2010, THE COURT OF APPEALS FOR THE FEDERAL CIRCUIT in *ResQNet.com v. Lansa, Inc.*¹ opened the door to the discoverability of settlement negotiations of third-party patent-in-suit licenses and their eventual use in reasonable royalty calculations.² With its recent decision, *In re MSTG*,³ the Federal Circuit confirms such use of settlement negotiations in patent infringement cases by declining to extend an evidentiary privilege.⁴ While on its face, this decision seems to raise confidentiality concerns; the decision reaffirms the role of the court in tracing the bounds of discovery and aligns itself with recent trends in the federal system.⁵ What remains is a new, reality-based ground for consideration in the reasonable royalty hypothetical⁶ and a set of tools for both sides to structure and approach litigation.⁷

This note will present an overview of patent litigation and an overview of discovery to better illustrate the legal intersection the Federal Circuit analyzed to reach its decision to reject a settlement negotiation privilege. Then, this note will review the Federal Circuit's analysis in *In re MSTG* before looking forward to its implications in patent litigation. Ultimately, allowing prior settlement negotiations to factor into the reasonable royalty rate is a positive advancement for patent litigation, regardless of lost privacy concerns. Settlement negotiations will help ground the reasonable royalty rate in reality and reflect the market value of patent infringement.

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1. 594 F.3d 860 (Fed. Cir. 2010).
2. See *infra* Part II-B.
3. 675 F.3d 1337 (Fed. Cir. 2012).
4. See *infra* Part III.
5. See *infra* Part IV-C.
6. See *infra* Part IV-A.
7. See *infra* Part IV-B.

I. THE CASE

In 2009, MSTG, Inc., a South Korean corporation, filed suit against Research in Motion, Apple Inc., U.S. Cellular, Verizon Wireless, and AT&T Mobility for patent infringement.⁸ MSTG alleged infringement of patents No. 5,920,551,⁹ No. 6,198,936,¹⁰ and No. 6,438,113¹¹ by RIM and Apple's creation of 3G phones and U.S. Cellular, Verizon, and AT&T's distribution of these phones.¹² MSTG acquired the patents-in-suit from the original developers, Electronics and Telecommunications Research Institute (ETRI).¹³ In an amended complaint, MSTG specifically targeted AT&T for marketing, distributing, and testing 3G phones, as well as providing access to the 3G network for users with infringing devices.¹⁴ MSTG requested monetary damages with prejudgment interest, attorney's fees, and a permanent injunction as remedies.¹⁵ MSTG settled with all defendants except AT&T.¹⁶ AT&T denied all allegations, asserted non-infringement and invalidity defenses, and counterclaimed for declaratory judgment and an award of attorneys' fees.¹⁷

During discovery, AT&T motioned to compel discovery for license agreements and all related communications and negotiations related to the three patents at issue between MSTG and third parties.¹⁸ Three agreements were submitted for review: (1) an April 28, 2009 agreement with Nokia Corp., (2) a July 9, 2010 agreement with RPX Corp., and (3) an April 15, 2010 agreement with Motorola Corp.¹⁹ AT&T claimed the documents in question were relevant to calculating the value of a reasonable royalty.²⁰ The Court denied AT&T's discovery request, stating that AT&T failed to meet its burden of showing why the "settlement negotiations

8. First Amended Complaint at 1, *MSTG Inc. v. Research in Motion et al*, No. 08 CV 7411 (N.D. Ill. 2009) [hereinafter "First Amended Complaint"].

9. U.S. Patent No. 5,920,551 (filed Apr. 26, 1996) is a utility patent that channels and re-directs mobile device signals to a base station within a CDMA (code division multiple access) system.

10. U.S. Patent No. 6,198,936 (filed Aug. 28, 1998) is a utility patent that allows for transmission of user information between a mobile device and base station, using a two-step process.

11. U.S. Patent No. 6,438,113 (filed Aug. 28, 1998) is a utility patent for managing signals between mobile devices and central towers and allows for multiple users to request service simultaneously through the tower.

12. First Amended Complaint, *supra* note 8, §§ 5–9.

13. *MSTG, Inc. v. AT&T Mobility LLC*, No. 08 C 7411, 2011 WL 221771 at *1 (N.D. Ill. 2011).

14. Second Amended Complaint at 16–17, *MSTG Inc. v. Research in Motion et al*, No. 08 CV 7411 (N.D. Ill. 2009).

15. *Id.* at 19. See also 35 U.S.C. §§ 284–85 (2006) (listing remedies available for patent infringement).

16. *In re MSTG*, 675 F.3d 1337, 1339 (Fed. Cir. 2012).

17. Answer to Second Amended Complaint and Counterclaims at 5–9, *MSTG Inc. v. Research in Motion et al*, No. 08 CV 7411 (N.D. Ill. 2009).

18. *MSTG, Inc.*, 2011 WL 221771 at *2.

19. *Id.*

20. *Id.*

are relevant and discoverable²¹ under Rule 26 of the Federal Rules of Civil Procedure.²²

AT&T moved for reconsideration of the order denying discovery of the licenses and attendant communications after the production of a report by MSTG's damages expert, which actively considered license agreements involving the patents-in-suit.²³ In addition to the three licenses mentioned, the report also included: (1) a January 26, 2010 agreement with Sanyo Electric Co.; (2) an August 30, 2010 agreement with U.S. Cellular Corp; and, (3) a November 10, 2009 agreement with Apple, Inc.²⁴ The Court reversed its prior decision, granting discovery of the licensing agreements because it may provide grounds for "deciding if MSTG's prior licenses are . . . sufficiently comparable to the patents-in-suit to be used in calculating a reasonable royalty."²⁵

MSTG appealed the reconsideration through a writ of mandamus to the United States Court of Appeals for the Federal Circuit.²⁶ The review of mandamus was approved on grounds that the settlement negotiations may be privileged, and that such determination was a matter of first impression where district courts have split.²⁷

II. LEGAL BACKGROUND

In order to more clearly understand the Federal Circuit's holding and its potential effect on future litigation, it is best not to approach in a manner of "to build a house you start with the roof."²⁸ The conclusion reached by the Federal Circuit is grounded in patent law, specifically using reasonable royalty rates to determine damages, the mechanics of discovery, and the history of privileges in the federal courts. First, this part lays the groundwork of patent law and litigation.²⁹ Then, this part highlights the importance of the reasonable royalty rate in determining damages in patent suits.³⁰ Finally, this part outlines the scope and limits of attorney-

21. *Id.* at *14.

22. FED R. CIV P. 26(b)(1) states that a party may "obtain discovery regarding any nonprivileged matter that is relevant to any party's claim or defense. . . . For good cause, the court may order discovery of any matter relevant to the subject matter involved in the action. Relevant information need not be admissible at the trial if the discovery appears reasonably calculated to lead to the discovery of admissible evidence."

23. MSTG, Inc., 2011 WL 841437 at *1.

24. *Id.*

25. *Id.* at *3.

26. *In re MSTG*, 675 F.3d 1337, 1341 (Fed. Cir. 2012).

27. *Id.* at 1342.

28. The title of a Franz West retrospective at the Baltimore Museum of Art (October 12, 2008 – January 4, 2009).

29. *See supra* Part II.A.

30. *See supra* Part II.B.

client and work-product privileges in discovery.³¹ Each of these elements – the nature of patent litigation, the reasonable royalty rate, and the scope of privilege during discovery – intersect to create the issue the court addressed: Are settlement negotiations relevant for discovery and, if so, is their use barred by a judicial privilege?³²

A. Brief Overview of Patent Litigation

Patent litigation is strongly similar to typical civil litigation – except that instead of showing the elements of negligence or proof of breach, a plaintiff’s attorney in patent law strives to show claim construction, infringement, and damages.³³ First, the court undergoes a process of claim construction.³⁴ In each patent, there is a claim, which goes to the “heart of an invention.”³⁵ As such, before a finder of fact can determine whether the defendant infringed the plaintiff’s patent, the judge, as a matter of law, must determine the scope of the patent by reviewing evidence submitted by both parties. During claim construction, the patent is presumed to be valid, “given that there is a presumption of agency correctness.”³⁶ The intent of this crucial process³⁷ is to separate the wheat from the chaff, and establish the scope and subject matter of the invention and is therefore under protection of the patent.³⁸

In the second part of patent litigation, the finder of fact – either judge or jury – compares the claim after claim construction to the allegedly infringing device or

31. See *supra* Part II.C.

32. In re MSTG, 675 F.3d at 1339.

33. N. Am. Container, Inc. v. Plastipak Packaging, Inc., 415 F.3d 1335, 1344 (Fed. Cir. 2005) (“Infringement analysis is a two step process: ‘First, the court determines the scope and meaning of the patent claims asserted . . . [and secondly,] the properly construed claims are compared to the allegedly infringing device.’”) (alterations in original) (citations omitted).

34. Markman v. Westview Instruments, Inc., 517 U.S. 370, 373–74 (1996) (“[A] patent includes one or more ‘claims,’ which ‘particularly poin[t] out and distinctly clai[m] the subject matter which the applicant regards as his invention.’ . . . The claim ‘define[s] the scope of a patent grant’ and functions to forbid not only exact copies of an invention, but products that go to ‘the heart of an invention . . .’ [Patent lawsuits] rest on allegations that the defendant ‘without authority ma[de], use[d] or [sold the] patented invention . . .’ Victory in an infringement suit requires a finding that the patent claim ‘covers the alleged infringer’s product or process,’ which in turn necessitates a determination of ‘what the words in the claim mean.’”) (some alterations in original) (citations omitted).

35. *Id.* at 373.

36. Claire Rollor, Comment, *Logic, Not Evidence, Supports a Change in Expert Testimony Standards: Why Evidentiary Standards Promulgated by the Supreme Court for Scientific Expert Testimony are Inappropriate and Inefficient When Applied in Patent Infringement Suits*, 8 J. BUS. TECH. L. 313, 320 (2013).

37. Pauline Pelletier, *The Impact of Local Patent Rules on Rate and Timing of Case Resolution Relative to Claim Construction: An Empirical Study of the Past Decade*, 8 J. BUS. TECH. L. 451, 455–56 (2013) (“Claim construction is the single most important event in the course of a patent litigation. It defines the scope of the property right being enforced, and is often the difference between infringement and non-infringement, or validity and invalidity.”) (quoting *Retractable Techs. v. Becton, Dickinson & Co.*, 659 F.3d 1369, 1370 (Fed. Cir. 2011) (en banc) (Moore, J., dissenting)).

38. *Markman*, 517 U.S. at 373.

process.³⁹ The finder of fact will find that an infringement occurred if the “alleged infringer’s product or process” falls within the scope of the plaintiff’s patent claim.⁴⁰ However, the defendant’s device is covered by the patent claim only if the “device embodies every limitation of the claim.”⁴¹ In order to determine whether the allegedly infringing product or process falls within the plaintiff’s claim, the finder of fact essentially uses the patent like a checklist. And if the finder of fact determines that the device checks all the boxes, then the device has infringed on the patent holder’s exclusive right to use the checklist. Without this satisfaction, achieved literally or through the doctrine of equivalents,⁴² there is no infringement.⁴³

Once infringement has been established, remedy can be given to the plaintiff through the statutory means of injunctive relief, damages, and attorney fees and costs.⁴⁴ Damages may be calculated based on lost profits,⁴⁵ reasonable royalties,⁴⁶ and interest.⁴⁷ In cases of willful infringement, where defendants relied on opinions of counsel, or litigation misconduct, enhanced damages may be awarded.⁴⁸

B. The Role of the Reasonable Royalty Rate

Reasonable royalties have a significant bearing on determining patent damages.⁴⁹ The reasonable royalty serves as the floor of an award granted to a plaintiff for

39. *Absolute Software, Inc. v. Stealth Signal, Inc.*, 569 F.3d 1121, 1129 (Fed. Cir. 2011).

40. *Markman*, 517 U.S. at 374.

41. *Carroll Touch, Inc. v. Electro Mech. Sys., Inc.*, 15 F.3d 1573, 1576 (Fed. Cir. 1993) (citing *Read Corp. v. Portec, Inc.*, 970 F.2d 816, 822 (Fed. Cir. 1992)).

42. *Warner-Jenkinson Co. v. Hilton Davis Chem. Co.*, 520 U.S. 17, 21 (1997) (Under the doctrine of equivalents, “a product or process that does not literally infringe upon the express terms of a patent claim may nonetheless be found to infringe if there is ‘equivalence’ between the elements of the accused product or process and the claimed elements of the patented invention.”). *See also* *Machine Co. v. Murphy*, 97 U.S. 120, 125 (1877) (stating that if two devices “perform[] substantially the same function in substantially the same way to obtain the same result,” the doctrine of equivalents is met).

43. *Monsanto Co. v. Scruggs*, 459 F.3d 1328, 1334 (Fed. Cir. 2006).

44. 35 U.S.C. §§ 283–85 (2006).

45. *See, e.g., Hebert v. Lisle Corp.*, 99 F.3d 1109, 1119 (Fed. Cir. 1996) (stating that lost profits include diverted sales, price erosion, and increased expenditures caused by infringement).

46. 35 U.S.C. § 284 (stating that damages will be no “less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court”). *See also* *Rite Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1554 (Fed. Cir. 1995) (“A patentee is entitled to no less than a reasonable royalty on an infringer’s sales for which the patentee has not established entitlement to lost profits.”).

47. *See, e.g., Transmatic v. Gulton Indus.*, 180 F.3d 1343, 1347–48 (Fed. Cir. 1999) (stating that prejudgment interest is “part of a successful plaintiff’s complete compensation”).

48. *See, e.g., Wedgetail Ltd. v. Huddleston Deluxe, Inc.*, 576 F.3d 1302, 1305 (Fed. Cir. 2009) (“[O]nly a limited universe of circumstances warrant a finding of exceptionality in a patent case: ‘inequitable conduct before the PTO; litigation misconduct; vexatious, unjustified, and otherwise bad faith litigation; a frivolous suit or willful infringement.’”) (citations omitted).

49. *In re MSTG*, 675 F.3d 1337, 1341 (Fed. Cir. 2012).

infringement.⁵⁰ There are 15 factors used by parties and the finder of fact in establishing a reasonable royalty, known as the *Georgia-Pacific* factors.⁵¹ One factor – the amount the licensor and licensee would have agreed on had they entered into a negotiation – has developed into a method the Court applies by replicating a negotiation between the parties.⁵² An established royalty is the preferred measure of a reasonable royalty because it removes most of the guesswork of engaging in a hypothetical negotiation.⁵³

If no established royalty rate is available, the court often turns to the hypothetical negotiation – known as the “willing licensor-willing licensee”⁵⁴ method to establish the floor of damages.⁵⁵ There are various approaches to creating a reasonable rate from this method, including a 25% rule⁵⁶ or relying on expert opinions.⁵⁷ However, upon review of prior patent-in-suit (settlement) cases, granting licenses to the licensee is becoming a more common practice.⁵⁸ Alternatively, the court can look to internal profit and cost projections, rather than mount a theoretical negotiation, in order to determine a reasonable royalty rate.⁵⁹

In 2010, *ResQNet.com v. Lansa*⁶⁰ opened the door to discoverability of license negotiations and litigation-related licenses, along with the possibility of using such findings in the calculation of the reasonable royalty. *ResQNet* was a patent infringement case in which the reasonable royalty calculation was reviewable on appeal. In its opinion, the court acknowledged that the “most reliable license” for

50. 35 U.S.C. § 284 (2006) (“Upon finding for the claimant, the court shall award . . . damages adequate to compensate . . . but in no event less than a reasonable royalty for the use made of the invention by the infringer.”).

51. *Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970) (outlining fifteen non-exclusive factors to be taken into account in calculating a reasonable royalty: the actual royalties received for the patent-in-suit; rates paid by the licensee for the use of other comparable patents; nature and scope of the license; licensor’s practice in maintaining patent monopoly; commercial relationship between licensor and licensee; value of patent in generating sales of non-patented items; duration of patent and term of license; profitability of the product; utility and advantages of the patent; nature of the invention; extent of infringing use; customary portion of profit in allowing use; portion of profit to be credited to the invention; opinion testimony of qualified experts; and amount the licensor and licensee would have agreed on had they entered into a negotiation) (award modified, 446 F.2d 295 (2d Cir. 1971)).

52. *Hanson v. Alpine Ski Area, Inc.*, 718 F.2d 1075, 1077 (Fed. Cir. 1983) (defining the “willing licensee-willing licensor” rule as the question “[A]t what royalty rate would a licensee accept a license and a licensor grant a license if both parties genuinely wish to execute a license in an arm’s length transaction[?]”).

53. LAWRENCE M. SUNG & JEFF E. SCHWARTZ, *PATENT LAW HANDBOOK*, 7:11 Damages – reasonable royalty (2012).

54. *Lucent Tech., Inc. v. Gateway, Inc.*, 580 F.3d 1301, 1324 (Fed. Cir. 2009).

55. 35 U.S.C. § 284.

56. *See, e.g., Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292, 1311 (2011) (stating that the 25% rule divides profits such that 25% goes to the licensor and 75% goes to the licensee).

57. Jane Lehman et al., *Expert Testimony*, 60 AM. JUR. 2D *Patents* § 909 (2012).

58. *See supra* Part III.

59. *TWM Mfg. Co. v. Dura Corp.* 789 F.2d 895, 900 (Fed. Cir. 1986).

60. 594 F.3d 860 (Fed. Cir. 2010).

the purpose of the royalty rate came from litigation⁶¹ and found that the district court's calculation of the reasonable royalty was in error.⁶² The court also included a note that, on remand, the court could “also consider the panoply of ‘events and facts that . . . could not have been known to or predicted by the hypothesized negotiators.’”⁶³ While this direction was dicta that seemingly contradicts the *Georgia-Pacific*⁶⁴ factors' emphasis on placing the hypothetical negotiators at the time of infringement,⁶⁵ its importance grew in subsequent patent cases. The Federal Circuit's dicta regarding litigation licenses and facts not known to a negotiator created confusion about what new types of information could be introduced when assessing patent infringement damages.⁶⁶

The calculation of the reasonable royalty rate is crucial for both plaintiffs and defendants. Since it establishes the floor of what the plaintiff can receive as compensation, the most accurate and reliable method of calculating a reasonable royalty is often hotly contested in litigation.⁶⁷ The Federal Circuit's adoption of the *Georgia-Pacific* factors gave litigants a clear framework in which to operate when arguing for a particular reasonable royalty. However, when *ResQNet* suggested that litigation licenses and events not known by hypothetical negotiators could be used in reasonable royalty determinations, this framework was placed out-of-joint.

C. The Scope and Limits of Privileges in Discovery

Although parties to litigation are barred from discovering privileged information,⁶⁸ what constitutes privileged information can vary from circuit to circuit.⁶⁹ Federal Rule of Evidence 501 gives federal courts the ability to define new privileges by interpreting “the common law . . . in the light of reason and experience.”⁷⁰ “The common-law principles underlying the recognition of testimonial privileges can be

61. *Id.* at 872.

62. *Id.* at 873.

63. *Id.* at 872 (quoting *Fromson v. Western Litho Plate and Supply Co.*, 853 F.2d 1568, 1575 (Fed. Cir. 1988)).

64. *Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970) (showing that the fifteen factors outlined by the court all imply that the hypothetical negotiation between the two parties take place before litigation occurs.).

65. SUNG AND SCHWARTZ, *supra* note 53, § 7:11.

66. Parker Kuhl, *Rescue Me!: The Attack on Settlement Negotiations After ResQNet v. Lansa*, 26 BERKELEY TECH. L.J. 269, 269–70 (2011).

67. Merritt J. Hasbrouck, *Protecting the Gates of Reasonable Royalty: A Damages Framework for Patent Infringement Cases*, 11 J. MARSHALL REV. INTELL. PROP. L. 192, 197 (2011) (“[T]he reasonable royalty calculation is the predominant methodology for calculating damages amount in patent infringement cases.”).

68. FED. R. CIV. PR. 26 (“Parties may obtain discovery regarding any *nonprivileged* matter that is relevant. . . .”) (emphasis added).

69. See *supra* notes 77–96 and accompanying text.

70. FED. R. EVID. 501 (stating that the Constitution, federal statute, or federal rules of civil procedure may also provide privileges).

stated simply[:] . . . ‘the public . . . has a right to every man’s evidence’⁷¹ and that the powers of Rule 501 striking information from public review are to be construed narrowly.⁷² The Supreme Court cautioned that privileges are often “in derogation of the search for truth.”⁷³ In reviewing the potential privilege, the policy of the States,⁷⁴ the intent of Congress in passing the Rules of Evidence,⁷⁵ the advice of the Advisory Committee of the Judicial Conference,⁷⁶ and the public good are all brought to bear.⁷⁷

The U.S. Court of Appeals for the Sixth Circuit in *Goodyear Tire & Rubber Co. v. Chiles Power Supply*⁷⁸ applied the foregoing to establish a settlement privilege. Believing that the confidentiality of settlement served a “sufficiently important public interest,”⁷⁹ the court cited two factors as persuasive in finding for a new privilege: (1) that there is an interest in “favor of secrecy of matters discussed by parties during settlement negotiations”⁸⁰ and (2) that “confidential settlement communications are a tradition in this country.”⁸¹ It also relied on Rule 408’s qualified prohibitions of using negotiations at trial⁸² as support for restricting its discoverability.

Within patent law, there is an exception to the general rule of precedent. If the issue at bar (procedural or substantive) raises questions involving substantive patent law, the Federal Circuit’s precedent applies and not the regional circuit’s

71. *Jaffee v. Redmond*, 518 U.S. 1, 9 (1996).

72. *Univ. of Pa. v. EEOC*, 493 U.S. 182, 189 (1990).

73. *United States v. Nixon*, 418 U.S. 683, 710 (1974).

74. *Jaffee*, 518 U.S. at 12–13.

75. *Univ. of Pa.*, 493 U.S. at 189.

76. *Jaffee*, 518 U.S. at 13–14.

77. *In re Sealed Case*, 148 F.3d 1073, 1076 (D.C. Cir. 1998) (citing *United States v. Gillock*, 445 U.S. 360, 375 (1980)).

78. 332 F.3d 976 (2003).

79. *Id.* at 980.

80. *Id.*

81. *Id.*

82. FED. R. EVID. 408 (stating “evidence of [valuable consideration in compromising or attempting to compromise] is not admissible . . . either to prove or disprove the validity or amount of a disputed claim or to impeach”). *But see* *Computer Assoc. Int’l, Inc. v. Am. Fundware, Inc* 831 F. Supp. 1516, 1531 (D. Colo. 1993) (highlighting that Rule 408 does not “require exclusion of any evidence otherwise discoverable merely because it is presented in the course of compromise negotiations”), *NAACP Legal Def. and Educ. Fund v. Dept. of Justice*, 612 F. Supp. 1143, 1146 (D.D.C. 1985) (declining to find a settlement negotiation privilege in Rule 408).

precedent.⁸³ The Federal Circuit has adapted and circumscribed the privileges related to attorney-client privilege⁸⁴ and work-product immunity⁸⁵ separate from any regional circuit. Settlement negotiations, however, were a matter of first impression for the Federal Circuit.⁸⁶ Although, cases prior to *ResQNet* have suggested that settlement negotiations were discoverable,⁸⁷ indicating that the Federal Circuit would side on the circuit split in favor of more liberal discovery standards.⁸⁸

The “most reliable license”⁸⁹ and “panoply of events and facts”⁹⁰ discussions in *ResQNet* produced a disjointed settlement negotiation privilege among district courts. Over the next two years, the circuits split (sometimes among district courts) in interpreting whether or not the Federal Circuit’s direction on remand allowed courts to use all settlement materials.⁹¹

Over time, the circuits have trended consistently towards allowing discovery into negotiations.⁹² Even despite the Sixth Circuit’s adoption of a settlement privilege in *Goodyear*, other circuits have declined to extend the settlement negotiation

83. *In re Spalding Sports Worldwide, Inc.*, 203 F.3d 800, 803–04, 53 U.S.P.Q.2d 1747 (Fed. Cir. 2000) (stating that “[i]n reviewing district court judgments, we apply the law of the circuit in which the district court sits with respect to nonpatent issues, but we apply our own law to issues of substantive patent law. . . . [A] procedural issue that is not itself a substantive patent law issue is nonetheless governed by Federal Circuit law if the issue pertains to patent law, if it bears an essential relationship to matters committed to our exclusive [jurisdiction] by statute, or if it clearly implicates the jurisprudential of this court in a field within its exclusive jurisdiction.”) (citation omitted).

84. *See, e.g., Brigham and Women’s Hosp. Inc. v. Teva Pharm. USA, Inc.*, 707 F. Supp. 2d 463, 470–71 (D. Del. 2010) (holding that the attorney-client privilege no longer applies when advice-of-counsel is used as a defense against a claim of inequitable conduct).

85. *See, e.g., In re EchoStar Commc’ns Corp.*, 448 F.3d 1294, 1298–99 (Fed. Cir. 2006) (allowing discovery of work-product and usually privileged information in cases where an advice-of-counsel defense is asserted against a claim of willful infringement).

86. *In re MSTG*, 675 F.3d 1337, 1339 (Fed. Cir. 2012).

87. *In re Subpoena Issued to Commodity Futures Trading Comm’n*, 370 F. Supp. 2d 201, 209–10 (D.D.C. 2005) (“Whatever else might be said about this legal landscape, it does not reflect a consensus of support for a settlement privilege in federal court.”).

88. *See supra* notes 78–88 and accompanying text.

89. *ResQNet.com v. Lansa*, 594 F.3d 860, 872 (Fed. Cir. 2010).

90. *Id.*

91. Kuhl, *supra* note 66, at 282 (“[District courts] have reached varying and conflicting interpretations of the opinion. Some hold that *ResQNet* altered the admissibility of settlement licenses, while others claim that nothing has changed.”).

92. Wayne D. Brazil, *Protecting the Confidentiality of Settlement Negotiations*, 39 HASTINGS L.J. 955, 956 (“[T]he weight of authority suggests that there is no generalized ‘privilege’ for settlement communications.”).

privilege.⁹³ Over the years, different courts have ruled that negotiations are discoverable in order to review the fairness of settlement,⁹⁴ to gather evidence of pre-existing knowledge of prior art,⁹⁵ to show manipulation of energy prices,⁹⁶ and to use third-party settlements in current suit.⁹⁷ Each of these aforementioned cases reflects the court's concern for disclosure when a negotiated settlement plays a large role in the course of a trial.⁹⁸ Some courts have taken a middle-route, requiring a "particularized showing" that the requested evidence is likely to lead to admissible evidence.⁹⁹

The Eastern District of Texas, an incubator for patent procedure and litigation,¹⁰⁰ waived back and forth between protecting settlement negotiations and allowing

93. For the few cases that have held for a settlement privilege, see *Olin Corp. v. Ins. Co. of N. Am.*, 603 F. Supp. 445, 450 (S.D.N.Y. 1985) ("These discussions were more than mere business communications . . . [they] constituted settlement negotiations to avoid the litigation of a potentially costly and complex suit."); *Allen Cnty. v. Reilly Indus.*, 197 F.R.D. 352, 354 (N.D. Oh. 2000) (denying motion to compel to prove bias); *Cook v. Yellow Freight Sys.*, 132 F.R.D. 548, 554 (E.D. Ca. 1990) ("Indeed, there is a well established privilege relating to settlement discussions.").

94. *In re General Motors Corp. Engine Interchange Litig.*, 594 F.2d 1106, 1124 n. 20 (7th Cir. 1979) (stating "[We] find no convincing basis for [settlement negotiation privilege] here. . . . [Rule 408] is grounded on the policy of encouraging settlement of disputed claims without litigation. . . . [But parties] should be aware that the court will inquire into the conduct of negotiations.").

95. *Matsushita Elec. Indus. Co. v. Mediatek Inc.*, No. C-05-3148, 2007 WL 963975, at *5 (N.D. Cal. Mar. 30, 2007) (disagreeing with *Goodyear*) (rejecting plaintiff's argument that there is a "federal settlement privilege" that "shields from discovery any communication created in the context of settlement negotiations").

96. *In re Subpoena Issued to Commodity Futures Trading Comm'n*, 370 F. Supp. 2d 201, 209–10 (D.D.C. 2005) (finding consensus for settlement negotiation privilege in neither federal nor state law).

97. *California v. Kinder Morgan Energy Partners, L.P.*, No. 07-1883, 2010 WL 3988448, at *4 (S.D. Cal. Oct. 12, 2010).

98. *In re EchoStar Comm'ns Corp.*, 448 F.3d 1294, 1298 (Fed. Cir. 2006).

99. See, e.g., *Bottaro v. Hatton Assoc.*, 96 F.R.D. 158, 160 (E.D.N.Y. 1982) ("Given the strong public policy of favoring settlements and the congressional intent to further that policy by insulating the bargaining table from unnecessary intrusions, we think the better rule is to require some particularized showing of a likelihood that admissible evidence will be generated by the dissemination of the terms of a settlement agreement."); *Butta-Brinkman v. FCA Int'l, Ltd.*, 164 F.R.D. 475, 477 (N.D. Ill. 1995) (requiring heightened showing requirements on public policy grounds).

100. The Eastern District of Texas is one of fourteen federal district courts across the country that is part of a federally mandated pilot program that seeks to increase expertise, efficiency, and consistency in patent cases. Pub. L. No. 11-349, "Pilot Program in Certain District Courts," January 4, 2011 ("An Act to establish a pilot program in certain United States district courts to encourage enhancement of expertise in patent cases among district judges."). See also "District Courts Selected for Patent Pilot Program," United States Courts, available at http://www.uscourts.gov/news/newsview/11-06-07/District_Courts_Selected_for_Patent_Pilot_Program.aspx (Last accessed February 25, 2014) ("Fourteen federal district courts have been selected to participate in a 10-year pilot project designated to enhance expertise in patent cases among U.S. district judges.").

discovery.¹⁰¹ Eventually, the court consistently found that there was no special privilege in settlement negotiations, especially as they related to licensing issues.¹⁰² As a bell-weather for patent litigation,¹⁰³ the Eastern District represented the larger trend among federal courts to allow discovery in negotiations.

III. THE COURT'S REASONING

In *In re MSTG*, the Court of Appeals for the Federal Circuit denied¹⁰⁴ MSTG's writ of mandamus on two grounds: (1) that recognition of settlement negotiations privilege is not warranted¹⁰⁵ and (2) the district court did not abuse its discretion in granting discovery of the settlement negotiations under review.¹⁰⁶

Before addressing the substantive issues, the Court established the acceptability of hearing mandamus in this case.¹⁰⁷ It began by establishing jurisdiction,¹⁰⁸ stating that determining whether information related to reasonable royalties can be disclosed "implicates the jurisprudential responsibilities of this court within its exclusive system."¹⁰⁹ It then stated that mandamus is available "only in extraordinary situations"¹¹⁰ where the petitioner "lacks adequate alternative means,"¹¹¹ where there is a "novel and important question . . . [that] reflects substantial uncertainty or confusion in the district courts,"¹¹² or where the

101. See, e.g., *Software Tree, LLC v. Red Hat, Inc.* 2010 WL 2788202, at *4 (E.D. Tex. June 24, 2010) (refusing to compel discovery of settlement agreements, stating "the Court declines to upset its traditional approach to this issue absent clear precedent compelling a new tack"); *Tyco Healthcare Group LP v. E-Z-EM, Inc.*, 2010 WL 774878, at *2 (E.D. Tex. March 2, 2010) (allowing discovery of underlying negotiations, stating "a prior, related settlement agreement, where it exists, may be central to the fact-finder's determination of damages").

102. See, e.g., *Charles E. Hill & Assocs., Inc. v. ABT Elec., Inc.*, 854 F. Supp. 2d 427, 428 (E.D. Tex. 2012) ("Before the Federal Circuit's *ResQNet* decision in 2010, courts within this District generally applied the rule set forth in *Goodyear*, providing that settlement negotiations are privileged while the resulting license agreement itself is discoverable. The *ResQNet* decision has caused some shift away from *Goodyear*'s bright-line rule and toward the discoverability of settlement negotiations."); *Datatrans Corp. v. Wells Fargo & Co.*, No. 2:06-CV-72, 2010 WL 903259, at *2 (E.D. Tex. March 4, 2010) (stating that "[d]efendants' concerns about the reliability of litigation-related licenses are better directed to weight, not admissibility").

103. Julie Creswell, *So Small a Town, So Many Patent Suits*, N.Y. TIMES, September 4, 2004 ("What sets Marshall apart from its neighbors is a red-hot patent docket.")

104. *In re MSTG*, 675 F.3d at 1348.

105. *Id.*

106. *Id.*

107. *Id.* at 1341–42.

108. *Id.* at 1341 (citing *Advanced Cardiovascular Sys., Inc. v. Medtronic, Inc.*, 265 F.3d 1294, 1307 (Fed. Cir. 2001)) ("Federal Circuit law applies when deciding whether particular written or other materials are discoverable in a patent case.")

109. *Id.* (citing *Advanced Cardiovascular Sys.*, 265 F.3d at 1303).

110. *Id.*

111. *Id.* (citing *In Re Spalding Sports Worldwide*, 203 F.3d 800, 804 (Fed. Cir. 2000)).

112. *Id.* (citing CHARLES ALAN WRIGHT, ARTHUR R. MILLER & EDWARD H. COOPER, FEDERAL PRACTICE AND PROCEDURE: JURISDICTION AND RELATED MATTERS § 3935.3 (2d ed. 1996)).

documents are “claimed to be protected by privilege or other interests in confidentiality.”¹¹³ The Court determined that the facts at hand fell under the final two categories, as the issue of whether settlement negotiations are privileged is one of first impression in the Federal Circuit.¹¹⁴ In addition, if the Court declined to hear MSTG’s case but a privilege should have existed, the confidentiality of the negotiations would be lost if review was denied until final judgment.¹¹⁵

Having established the appropriateness of taking up MSTG’s mandamus petition, the Court then determined that there is no privilege in settlement negotiations.¹¹⁶ In order to recognize a privilege in settlement negotiations, the Court would have to invoke Rule 501 of the Federal Rules of Evidence, which authorizes the Court to “define new privileges by interpreting ‘the common law . . . in the light of reason and experience.’”¹¹⁷ It determined four factors identified by the Supreme Court that should be considered in “assessing the propriety”¹¹⁸ of defining a new privilege: (1) whether the policy decisions of the States suggest the recognition of a new privilege;¹¹⁹ (2) whether Congress has considered the privilege or related questions;¹²⁰ (3) whether the list of evidentiary privileges recommended by the Advisory Committee of the Judicial Conference in its proposed Federal Rules of Evidence mentions the relevant privilege;¹²¹ and (4) whether the proposed privilege will “effectively advance a public good.”¹²²

The Court did not find any support for establishing a settlement negotiation privilege, citing examples from various levels of government. The Court first cites the lack of consensus among the states in a settlement negotiation privilege, contrasting it with the statutory mediation privilege passed by all 50 states.¹²³ Then, it reviews the process by which Congress passed Rule 408,¹²⁴ finding that Congress had an opportunity to protect settlement negotiations, but failed to do so. Thus, finding a settlement privilege “would require [the Court] to go further than Congress thought necessary to promote the public good of settlement.”¹²⁵ Next, the

113. *Id.* (citing *Bogosian v. Gulf Oil Corp.*, 738 F.2d 587, 591 (3d Cir. 1984)).

114. *Id.* at 1342.

115. *Id.*

116. *Id.* at 1348.

117. *Id.* at 1342–3 (citing FED. R. EVID. 501).

118. *Id.* at 1343.

119. *Id.* (citing *Jaffee*, 518 U.S. at 12–13).

120. *Id.* (citing *Univ. of Pa.*, 493 U.S. at 189).

121. *Id.* at 1345 (citing *Jaffee*, 518 U.S. at 13–14).

122. *Id.* (citing *In re Sealed Case*, 148 F.3d 1073, 1076 (D.C. Cir. 1998)).

123. *Id.* at 1343 (citing Jay M. Zitter, *Construction and Application of State Mediation Privilege*, 32 A.L.R. 6th 285, § 2 (2008)) (distinguishing this case by noting that the negotiations under review did not result from mediation but from negotiations between two sides without the assistance of a third-party mediator).

124. FED. R. EVID. 408.

125. *In re MSTG*, 675 F.3d at 1344.

Court points out that the negotiation privilege was not included in the nine specific privileges recommended by the Advisory Committee.¹²⁶ Lastly, the Court rejects MSTG's argument that the privilege is needed to foster trust and confidence on grounds that the Supreme Court has declined to create new privileges for those reasons, and points to the success of settlements and compromises without a privilege in discovery.¹²⁷

The Court then outlined two policy reasons for not establishing a settlement negotiation privilege. First, there would need to be a crucial exception to the privilege issue when the settlement or its interpretation is the central issue.¹²⁸ Second, the Court identifies pre-existing mechanisms to limit the scope of discovery in order to protect the "sanctity of settlement discussions and promote the compromise and settlement of dispute,"¹²⁹ including judicially imposed limits¹³⁰ and protective orders.¹³¹

Finally, the Court turns to whether allowing the negotiations to be discovered was an abuse of discretion by the District Court Judge.¹³² It determines that "as a matter of fairness MSTG cannot at one and the same time have its expert rely on information about the settlement negotiations and deny discovery as to those same negotiations,"¹³³ and that MSTG made no reference to overly broad discovery. As such, the District Court did not abuse its discretion.¹³⁴

IV. ANALYSIS

Allowing prior settlement negotiations to factor into the reasonable royalty rate is a positive advancement for patent litigation, regardless of lost privacy concerns. Discovery of settlement negotiations will help ground the reasonable royalty rate in reality and reflect the market value of patent infringement.¹³⁵ Business transactions and negotiations have remained robust, despite earlier intrusions into lawyer-client

126. *Id.*

127. *Id.*

128. *Id.* at 1345 (citing the fact pattern in *Portugues-Santana v. Rekomdiv Int'l*, 657 F.3d 56, 63–4 (1st Cir. 2011)).

129. *Id.* at 1346.

130. FED. R. CIV. P. 26(b)(2)(C) ("[T]he court must limit the frequency or extent of discovery . . . if it determines that the discovery sought is unreasonably cumulative or duplicative . . . the party seeking discovery has had ample opportunity to obtain the information . . . or the burden or expense . . . outweighs its likely benefit.").

131. *Id.* at 26(c) (stating that "a party or any person from whom discovery is sought may move for a protective order . . . The court may, for good cause, issue an order to protect a party or person from annoyance, embarrassment, oppression, or undue burden or expense").

132. *In re MSTG*, 675 F.3d at 1348.

133. *Id.* (referencing *In re Pioneer Hi-Bred Int'l, Inc.*, 238 F.3d 1370, 1374–76 (Fed. Cir. 2001)).

134. *Id.*

135. *See supra* Part IV-A.

privilege and there is no evidence that this decision will change the disposition of business.¹³⁶ Finally, *In re MSTG* clarified prior confusion while re-emphasizing the pre-existing mechanisms for protecting truly sensitive information during discovery.¹³⁷

A. For Non-Practicing Entities, Settlements are the Market in which their Patents Gain Value, and the Discussions in Establishing that Market Should Be Discoverable.

In the news and among legal commentators, there is a rising concern over non-practicing entities (“NPEs”) or so-called “patent trolls.”¹³⁸ NPEs exploit the value of their patent through enforcement rather than bringing the device or process to the market.¹³⁹ A common practice is for the patent holder to send letters to potential infringers notifying them of the infringement, requesting payment for a continuing license, and threatening litigation.¹⁴⁰ These letters are sent with the goal of receiving payments from the potential infringers in order to avoid litigation.¹⁴¹ In this way, the NPE, in essence, creates its own marketplace.¹⁴²

136. See *supra* Part IV-B.

137. See *supra* Part IV-C.

138. Holly Forsberg, *Diminishing the Attractiveness of Trolling: the Impacts of Recent Judicial Activity on Non-Practicing Entities*, 12 U. PITT. J. TECH. L. & POL’Y 1, 5–6 (2011) (“[P]atent trolls are generally viewed as entities that force other innovative, enterprising companies into hostage-like situations resulting in the unsavory choice between expensive litigation, costly settlement, and potentially disproportionate licensing fees.”). However, commentators also point out the potentially inflammatory term “patent troll” and that not all Non-Practice Entities seek to aggressively stifle innovation to make money. In addition, it has been suggested that the term “Patent Monetization Entities” is a more accurate description of NPEs, on the grounds that it puts focus on the goals of the patent holders in owning the patent. Sara Jeruss, Robin Feldman, and Joshua Walker, *The America Invents Act 500: Effects of Patent Monetization Entities on Litigation*, 11 DUKE L. TECH REV. 357, 366–68 (2012).

139. Walter O. Alomar-Jimenez, *Harmonizing Ebay*, 1 U. PUERTO RICO BUS. L.J. 17, 23 (2010) (An NPE does “not manufacture products, but instead hold[s] patents, which they license and enforce against alleged infringers.”); Tejas N. Narechania & Jackson Taylor Kirklin, *An Unsettling Development: The Use of Settlement-Related Evidence for Damages Determinations in Patent Litigation*, 2012 U. ILL. J.L. TECH. & POL’Y 1, 37 (2012) (NPEs are “‘companies in the business of buying up and enforcing patents.’ NPEs profit by purchasing patent rights and threatening alleged infringers with litigation over these patents”) (citation omitted); Colleen V. Chien, *Of Trolls, Davids, Goliaths, and Kings: Narratives and Evidence in the Litigation of High-Tech Patents*, 87 N.C.L. REV. 1571, 1578 (2009) (defining an NPE as a “corporate patent enforcement entity that neither practices nor seeks to develop its inventions”).

140. Victoria E. Luxardo, *Towards a Solution to the Problem of Illegitimate Patent Enforcement Practices in the United States: An Equitable Affirmative Defense of “Fair Use” in Patent*, 20 EMORY INT’L L. REV. 791, 794 (2006) (stating that the “first state [of enforcement] consists of aggressive licensing fee extraction, typically coupled with an explicit threat of litigation if the fee is not paid”).

141. Alex S. Li, *Accidentally on Target: The MSTG Effects on Non-Practicing Entities Litigation and Settlement Strategies*, 28 BERKELEY TECH. L.J. 483, 511 (2013) (“If the parties reach an agreement, the NPE would receive some payoff amount, and the alleged infringer could continue to practice the patent without having to worry about potential litigation costs.”).

142. *Id.* at 489 (2013) (Noting that there are five different types of NPEs who use “litigation as a business model: . . . (1) small portfolio patent holders, (2) massive patent aggregators, (3) practicing entities with non-practiced patents, (4) private research and development companies, and (5) offensive patent funds”).

When a patent's only demonstrated market is prior litigation settlement licenses,¹⁴³ the only evidence to support the existence of that market are the discussions and steps that determined the prior royalty price. This assists the fact-finder in meeting the standards of reasonableness required. By putting in actual pre-existing negotiations involving the patent, the reasonable royalty hypothetical negotiation loses some of its guesswork and becomes more grounded in reality.

The reasonable royalty rate, while expected to approximate reality, will never be reality. Indeed, litigants, juries, and judges' ability to determine a reasonable royalty is frustrated further by the fact that a patent's value is only determined over time in the market.¹⁴⁴ Negotiated licenses often represent the thought and consideration market-representatives have put into the value of a given invention,¹⁴⁵ and the underlying negotiations reflect the motivations and requirements of patent owners and their potential competitors.¹⁴⁶ Most of the *Georgia-Pacific* factors are grounded in fact-based analysis of market conditions and relationships.¹⁴⁷ The hypothetical-negotiation is the furthest removed from such fact-intensive inquiry, and allowing actual negotiations to come into play brings the hypothetical more traditionally in-line with the goals of *Georgia-Pacific*.¹⁴⁸

The importance of settlement negotiations in determining reasonable royalties is embedded in the very facts of *In re MSTG*. The reason the question of discoverability of settlement negotiations arose was because MSTG's expert used those negotiations in determining his suggested reasonable royalty rate.¹⁴⁹ By using the negotiations as a basis for his recommendation, the expert revealed the necessity of past business activity in determining reasonableness in damages. The issue

143. *ResQNet*, 594 F.3d at 872.

144. Jeffrey A. Maine, Xuan-Thao Nguyen, *INTELLECTUAL PROPERTY TAXATION*, 56 (2004).

145. *ResQNet*, 594 F.3d at 872.

146. Layne S. Keele, *Res"Q"ing Patent Infringement Damages After ResQNet: The Dangers of Litigation Licenses as Evidence of a Reasonable Royalty*, 20 *TEX. INTELL. PROP. L.J.* 181, 205 (2012) (stating that "[b]ecause the patent's value represents a necessary consideration in reaching a litigation license, the cost of a litigation license can provide information about the patent's non-litigation value to the parties of the license.").

147. However, some factors do trend towards the subjective, such as the relationship between the parties or policies the patentee had against licensing. *See, e.g.* Bo Zeng, *Lucent v. Gateway: Putting the 'Reasonable' Back into Reasonable Royalties*, 26 *BERKELEY TECH. L.J.* 329, 333 (2011).

148. *See, e.g. Panduit Corp. v. Stahl Bros. Fibre Works, Inc.*, 575 F.2d 1152, 1159 (6th Cir. 1978) ("Determination of a 'reasonable royalty' after infringement, like many devices in the law, rests on a legal fiction. . . . [T]he 'reasonable royalty' device conjures a 'willing' licensor and licensee, who like Ghosts of Christmas Past, are dimly seen as 'negotiating' a 'license.'"); *Fromson v. Western Litho Plate and Supply Co.*, 853 F.2d 1568, 1575 (Fed. Cir. 1988) (The reasonable royalty methodology "encompasses fantasy and flexibility; fantasy because it requires a court to imagine what warring parties would have agreed to as willing negotiators; flexibility because it speaks of negotiations as of the time infringement began, yet permits and often requires a court to look to events and facts that occurred thereafter and that could not have been known to or predicted by the hypothesized negotiators").

149. *In Re MSTG*, 675 F.3d 1337 at 1340.

highlights the reality that, when a patent is yet to be proven on the market, past valuations at trial become an essential part of the value inquiry.

B. In re MSTG Aligns Itself with the Goals of the Federal Rules of Evidence and the Trends of other Circuits while Connecting with Common-Law Standards of Reasonable Royalty.

By incorporating settlement negotiations into the determination of reasonable royalties—especially in suits involving NPEs whose marketplace is essentially the courtroom and negotiating table—the *Georgia-Pacific* factors become tied to historical jurisprudence.¹⁵⁰ Before the 1970s, the analysis of a reasonable royalty was broad and could include “any evidence” or market-based value.¹⁵¹ The *Georgia-Pacific* test was created from modern case law, not grounded in the market-based reasonableness standard that was created from the common law.¹⁵² Looking to the reality of the marketplace, even one wholly defined through prior settlement negotiations, builds a bridge between common law jurisprudence and the tests and standards created since 1970s case law.¹⁵³

Allowing discovery of settlement negotiations promotes the goals of the Federal Rules of Evidence. The Rules promote a “broad and liberal policy of discovery for the parties to obtain the fullest possible knowledge of the issues and facts before trial.”¹⁵⁴ In fact, Congress rejected creating explicit privilege categories in codifying the FRE, instead implementing Rule 501.¹⁵⁵ Even then, a privilege towards settlement negotiations was not included.¹⁵⁶ The legislative history implies that a settlement privilege either was not on the minds of legislators, was considered inessential to the concept of protection and privilege, or was counter to the goal of

150. E. Danielle Thompson Williams and Leslie T. Grab, *Contemporary Issues in Patent Royalty Damages; TMI: How Much Settlement Information is Too Much Settlement Information?*, PRACTICING LAW INSTITUTE (Oct. 13, 2010) available at <http://patentlawcenter.pli.edu/2010/10/13/contemporary-issues-in-patent-royalty-damages>.

151. Zeng, *supra* note 147 at 332.

152. *Id.* at 332–333.

153. Daralyn J. Durie & Mark A. Lemley, *Intellectual Property Remedies: A Structured Approach to Calculating Reasonable Royalties*, 14 LEWIS & CLARK L. REV. 627, 628 (2010) (stating that the current fifteen-factor test overloads the jury with factors that may be irrelevant and that “[w]ith fifteen factors, lawyers can make an argument that some combination of factors will support virtually any number an expert (or a jury) might come up with”).

154. *In re MSTG*, 675 F.3d at 1346.

155. Brazil, *supra* note 92, at 991.

156. *Id.*

having parties gain full knowledge of the facts.¹⁵⁷ Whether any of these reasons are true, the absence of a settlement privilege militates against a finding that such privilege is consistent with the Rules of Evidence.¹⁵⁸

ResQNet formally declared what individual circuits were already claiming: that a robust set of facts is essential to the determination of a matter and should not be occluded by novel constructions of privilege. The issue of settlement negotiation privilege has been percolating since the 1970s in suits where negotiations play a crucial role in the disposition of the issue.¹⁵⁹ With the increase in patent litigation, the determination of value and worth is centering more and more on trial settlements.¹⁶⁰ With this development, patent infringement cases have joined the rank of suits, such as class actions, in nearly depending on the role of the negotiator to settle disputes.¹⁶¹ *In re MSTG* brought settlement negotiations into their proper function in the determination of damages.

Given that the reasonable royalty is the standard of patent damages, it becomes crucially important that the outcomes involving the same patent are the same from year to year. Reasonable royalties are the predominant measure of patent damages awards, representing more than 80% of awards over the last six years.¹⁶² One of the overarching goals of our judicial system is to produce determinations that are “predictable, replicable, vertically . . . and horizontally coherent.”¹⁶³ Part of promoting coherence is assuring that similar issues—in this case reasonable royalties for a particular patent-in-suit—are treated with consistency. While each litigant may have different priorities from case to case, the enforceability of the patent theoretically remains the same, and a patentee places a certain base value to it. Providing evidence of previous negotiations and settlement licenses will establish

157. S. Rep. No. 93-1277, at 7052–54 (1974) (stating that in enacting 501, “it was clear that the content of the proposed privilege provisions was extremely controversial.” The privileges that were debated included state and official information privileges, the husband-wife privilege, doctor-patient privilege, attorney-client privilege, newsman’s privilege, and the application of state law privileges. The settlement privilege is not mentioned in the Senate Report).

158. *In re MSTG*, 675 F.3d 1337 at 1343–44.

159. *In re General Motors Corp.*, 594 F.2d at 1124 n. 20.

160. Price Waterhouse Cooper, 2012 Patent Litigation Study at 11, available at <http://patentlyo.com/media/docs/2013/03/2012-patent-litigation-study.pdf> [hereinafter “Litigation Study”].

161. Jeruss, Feldman, and Walker, *supra* note 138 at 385 (noting that “the vast majority of [patent] cases settle.” In the groups study, “more than three-fifths of all cases . . . appear to have settled” with that number perhaps underreporting the number of settlements).

162. *Litigation Study*, *supra* note 160, at 11.

163. Karen M. Gebbia-Pinetti, *Statutory Interpretation, Democratic Legitimacy and Legal-System Values*, 21 SETON HALL LEGIS. J. 233, 242 (1997).

more consistency from determination to determination when the same patents are involved.¹⁶⁴

C. The Benefits of Incorporating Settlement Negotiations for Businesses Outweigh Potential Losses of Privacy within Negotiations.

In the Sixth Circuit's *Goodyear* decision, the court voiced a concern raised by many courts that allowing the discoverability of settlement discussions would have a potential chilling effect on the parties' willingness to enter into negotiations.¹⁶⁵ However, there can be benefits to both plaintiff and defendant in using negotiations during litigation. For defendant, settlement negotiations can prove the theoretical warranty, as well as provide evidence that plaintiff has fully recovered damages.

Settlement negotiations may also provide a shield for defendants against litigious plaintiffs. In a suit involving a NPE plaintiff, who does not directly compete with the alleged infringer in the marketplace, it becomes difficult to evaluate a theoretical royalty. Settlement negotiations could also be used to the benefit of defendants in order to prevent double recovery.¹⁶⁶

The patent owner may also use the negotiation materials to prove that a suggested royalty rate is lower than acceptable. If a plaintiff appeals on damages grounds, he must prove that the royalty rate was unconscionably low.¹⁶⁷ If past settlement licenses are part of the royalty rate, the patent owner could use the settlement negotiations as proof that the licenses were offered as a result of threatened ongoing litigation¹⁶⁸ or that evidence "clearly shows that widespread infringement made the established royalty artificially low."¹⁶⁹

Allowing settlement negotiations to factor into reasonable royalty rates provides businesses a way to continue using patented material in an economically-feasible way. In his analysis of the prior settlement agreements, MSTG's expert noted that the settlement rate had been steeply discounted because litigation had not reached

164. Li, *supra* note 141 at 518 (Litigation as Business Strategy NPEs "would worry less about the discoverability of [] settlement-related documents in the future as they would be targeting large-scale alleged infringers that are of similar stature, making all of the settlement data rather similar and creating a relatively consistent reasonable royalty calculation").

165. *Goodyear Tires*, 332 F.3d at 980 ("Parties are unlikely to propose the types of compromises that most effectively lead to settlement unless they are confident that their proposed solutions cannot be used on cross examination, under the ruse of 'impeachment evidence,' by some future third party. Parties must be able to abandon their adversarial tendencies to some degree.").

166. See, e.g., *Portugues-Santana*, 657 F.3d at 63 (stating that the purpose of litigation is to make the injured party whole, but no more).

167. *Rite-Hite*, 56 F.3d at 1554.

168. John M.S. Kenyon, Christopher S. Marchese, John Land. PATENT DAMAGES LAW AND PRACTICE. 1:15 Reasonable Royalty.

169. See, e.g., *Nickson Indus., Inc. v. Rol Mfg. Co.*, 847 F.2d 795, 798 (Fed. Cir. 1988).

any substantive rulings –no fault had been determined.¹⁷⁰ Knowing whether such a discount is available at certain stages of litigation can influence whether the parties should continue litigation or settle.¹⁷¹ Evidence of prior practice in litigation on the part of the plaintiff will also help the defendant determine if they can negotiate a continuing royalty for the use of the potentially infringing technology.¹⁷² Expanding options of negotiation approaches can potentially facilitate economic viability of defendants who are innocent infringers with the ability to continue participating in the marketplace post-litigation.¹⁷³

In addition, the discoverability of prior negotiations provides a new strategic perspective to patent holders in the practice of peppering small or competing business with threats of litigation. Often, a patent holder will send a flurry of letters to potential infringers threatening to sue and offering immediate settlement, even if the potential to recover seems slight.¹⁷⁴ Because the patent holder engages several potential defendants for infringing a particular patent, litigation with each defendant could have an effect on the others. So, “even if the expected value of the litigation at hand is negative, if the current litigation can make future litigations more profitable”¹⁷⁵ through the interplay of other negotiations settlements, the patent holder can form a more complex, and potentially profitable, litigation strategy. However, with the knowledge that prior negotiations and settlements could be discoverable, a patent owner who wants to disguise his pattern or practice may hesitate knowing that his recipients have a mechanism for revealing the amounts of prior settlements.¹⁷⁶

170. In re MSTG, 1339 F.3d at 1348.

171. Li, *supra* note 141 at 513 (“The more pre-litigation licensing agreements that the patent holder has on the patent-in-suit, the more likely the patent holder will settle the case.”). For the plaintiff with multiple prior settlements, further litigation resulting in invalidity “will destroy the entire income stream flowing from the patent.” Rochelle Cooper Dreyfuss & Lawrence S. Pope, *Dethroning Lear? Incentives to Innovate After Medimmune*, 24 BERKELEY TECH. L.J. 971, 982 (2009).

172. The extra assistance is essential in litigation with a non practicing entity. “For NPEs, the most important measure of damage is reasonable royalty because, by definition, they do not practice the patent and, therefore, have no lost profits; also, NPEs rarely can prove established royalty as they usually do not seek pre-litigation licenses.” Li, *supra* note 141 at 493–94.

173. Known as “nuisance fee” economics, defendants will pay “not because of the economic value of the patent but in order to avoid the cost of determining liability and resolving a patent demand.” *Id.* at 514 (quoting Colleen V. Chien, *Startups and Patent Trolls*, at 6 (September 2012) (Santa Clara Univ. Legal Studies Research Paper No. 09-12), available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2146251).

174. See, e.g., This American Life, *When Patents Attack . . . Part Two!*, original air date May 31, 2013, <http://www.thisamericanlife.org/radio-archives/episode/496/when-patents-attack-part-two> (recounting the business practice of Personal Audio, which sends letters to podcasters claiming the patent of podcasting and asking for a license for use).

175. Li, *supra* note 141, at 513.

176. *Id.* at 517 (“NPEs are likely to become more selective in their litigation strategies, possibly foregoing lawsuits against small-scale alleged infringers.”).

D. Concern over Loss of Privacy within Settlement Negotiations is Tempered by the Reality of Federal Circuit Trends and Continuing Application of Traditional Discovery Protections.

Concerns that the discoverability of settlement negotiation threaten the privacy and usefulness of said negotiations are dispelled by the court's continuing application of traditional procedural protections and the fact that negotiations and settlements still occur in a world where the Federal Circuit had already curtailed traditional discovery privileges.¹⁷⁷ *ResQNet* had opened the door to a formal rule of permitting discovery of negotiations discovery¹⁷⁸ and precedent was trending to establish a middle-ground rule that some negotiations are discoverable.¹⁷⁹ This is not to say, that the court system is uninterested in providing coverage to litigating parties to negotiate in privacy and with discretion. There are mechanisms for lawyers to use to the advantage of their clients, including the Federal Rules of Evidence, private caucuses, and mediation. And then there are judicial mechanisms within judicial discretion to maintain the incentives to negotiate settlement, including limiting discovery and issuing protective orders.¹⁸⁰

Shrewd application of the rules of evidence can prevent prior settlement negotiations from public exposure, if not from the opposing party.¹⁸¹ Congress, in enacting Rule 408, adopted the Advisory Committee's goal to protect settlement negotiations by limiting admissibility,¹⁸² thus protecting sensitive information from the public record. Rule 408 protects negotiations only related to disputed issues.¹⁸³ Lawyers on both sides of the courtroom can use Rule 408 to their advantage by focusing on disputed issues in negotiation, activating the interest in Rule 408 to promote out-of-court discussions and agreements over contentious issues. With this interest at play, lawyers can argue for the inadmissibility of any related negotiation communication, protect their client's litigation policies and practices, and keep future opposing parties from knowing the discussions that produced the relevant litigation license.

177. See *supra* Part II-B.

178. 594 F.3d at 872–73.

179. See *supra* Part II-B.

180. *In re MSTG*, 675 F.3d at 1346 (“The Supreme Court has instructed us that the federal courts ‘should not hesitate to exercise appropriate control over the discovery process’ to ‘prevent abuse.’”) (quoting *Herbert v. Lando*, 441 U.S. 143, 177 (1979)).

181. Although *In re MSTG* has held that negotiations are discoverable, the Court failed to address whether such negotiations were admissible. So far, district courts have held that Rule 408 governs the admissibility of negotiations, and guides the court to disallowing settlement negotiations on policy and reliability grounds. See, e.g. *Narechania & Kirklin*, *supra* note 139 at 22–24 (discussing courts’ analysis of settlement negotiation admissibility).

182. *Id.* at 11.

183. F.R.E. § 408. For example, if an amount of lost revenue is already agreed on, and the parties are seeking to minimize it in order to end trial, such discussions will not be protected from later litigation.

In addition, lawyers may be wise to engage in private caucus settlement conferences for the protections of oral communications between parties.¹⁸⁴ Private settlement caucuses are hosted by a judge or magistrate, who hears each side's willingness to compromise and limits to settlement and then makes a suggested settlement between the two parties.¹⁸⁵ By keeping the communications between parties at a minimum and funneling them through the court, each party remains in the dark about more sensitive matters, thus protecting them from adversarial inquiry and presentation at trial.¹⁸⁶

Finally, parties can turn to mediation to engage in litigation-ending negotiations and then take advantage of privacy guarantees within this particular process.¹⁸⁷ Private mediation sessions are often covered by state statute, which require confidentiality of all communications made within the course of mediation.¹⁸⁸ In order to activate this protection, both parties usually need to agree in advance to keep communications private.¹⁸⁹ Such an agreement would be drafted to include all relevant state provisions and expressly dictate the scope of confidentiality for all parties involved.¹⁹⁰ Making a conscious decision to declare intent provides notice to all parties of the standards going forward in the mediation process, as well as provides support for future determinations of admissibility, especially in jurisdictions that require a heightened standard for discovery requests. However, prior settlement negotiations can also be used to benefit subsequent mediation,¹⁹¹ so the use of mediation to jealously guard royalty negotiations requires practitioners to project out, to anticipate whether or not negotiations could be an aid in future litigation.

There are still mechanisms available to protect these negotiations when necessary. The district court retains its discretion to limit discovery if the negotiations themselves are inadmissible, would not lead to admissible evidence, and were unused by the opposing party.¹⁹² Protective orders are available when there is adequate proof that active third-party settlements may be marred by discovery.¹⁹³

184. See, e.g., Stephen E. Moss, *Confidentiality in Mediation*, 43-Oct. MD. B.J. 55, 56 (“[W]hat occurs from the inception to the conclusion of the mediation process is potentially confidential.”).

185. Brazil, *supra* note 92, at 1025–26.

186. *Id.*

187. Moss, *supra* note 184 at 56 (“If the matter is being litigated, a mediation communication may not be disclosed and disclosure may not be compelled ‘in any judicial, administrative, or other proceeding.’”) (citing Md. Rule 17-109(a)).

188. See, e.g., MD. CODE ANN. CTS. AND JUDICIAL PROCEEDINGS §§ 3-1801–1806 (also known as the Maryland Mediation Confidentiality Act).

189. Brazil, *supra* note 92, at 1024.

190. *Id.*

191. *United Pet Group, Inc. v. MiracleCorp Products*, 2012 WL 5392551, *1 (E.D. Mo. Nov. 5, 2012).

192. *In Re MSTG*, 675 F.3d at 1347.

193. *Id.*

These protections, of course, are pre-existing safeguards that apply to all potentially discoverable material, but have been proven adequate in the face of frequent use of settlement and negotiated agreements to end disputes.¹⁹⁴ While shelving specific limits to settlement negotiation discovery for another day, the court did hint at requiring a “heightened”¹⁹⁵ standard, which could be an additional tool for plaintiffs.

V. CONCLUSION

By declining to extend an evidentiary privilege to negotiations in patent-in-suit settlement licenses, the Court of Appeals for the Federal Circuit in *In Re MSTG* cured a circuit split in relation to patent cases and codified an overall trend towards allowing negotiations into the discovery process first mentioned in *ResQNet*.¹⁹⁶ With settlement negotiations available for discovery, the hypothetical reasonable royalty rate becomes more grounded in reality when an established royalty is unavailable¹⁹⁷ and provides extra incentives and benefits to business owners on both sides of suit.¹⁹⁸

194. *Id.*

195. *See supra* note 99 and accompanying text.

196. *See supra* Part II.

197. *See supra* Part IV-A.

198. *See supra* Part IV-B & C.