



PROTECTING CONFIDENTIALITY OF PATENT INFRINGEMENT SETTLEMENTS: IS MEDIATION NECESSARY?

By James M. Amend, Esq.

Parties regularly opt to keep terms, conditions and licensing agreements confidential when settling patent infringement disputes. Often, patentees do not want the license terms to serve as precedent in other assertions of the patent(s). Defendants may also not want other potential patent plaintiffs to believe they are a “soft touch.” Whatever the reason, parties assume that the confidentiality provision will be effective against disclosure of the license terms by the other side or to third parties. The assumption may be warranted in the former, but recent cases have cast serious doubt on the latter.

The Federal Circuit, for example, has held that such confidentiality provisions may not shield the license terms or their negotiations from either disclosure or admissibility on the issue of damages in other suits brought under the same patent(s). However, it has intimated that this may not be the case if the negotiations were conducted in, and the settlement the result of, a mediation. It appears that conducting patent infringement settlement negotiations in mediation maximizes the prospects for protecting at least the confidentiality of those negotiations, if not the license itself.

To put that thesis in context, under 35 U.S.C. Sec. 284, a patentee is entitled to at least a reasonable royalty if its patent is found to have been infringed. A reasonable royalty is usually determined by an analysis of factors set forth in the *Georgia-Pacific* case that inform the hypothetical royalty rate the parties would have agreed to in negotiations conducted when the infringement began. The first *Georgia-Pacific* factor—and the one most important here—is the royalties received by the patentee from existing licenses of the patent(s) in suit. Prior to 2010, there was a question concerning whether existing licenses that were the result of litigation settlement were proper references, because they were not purely commercial but could be skewed by litigation considerations such as expense savings, risks of invalidity, etc. That question was put to rest in *ResQNet.com v. Lansa, Inc.* (Fed.Cir. 2010), which held that of many licenses entered

into by the patentee, “the most reliable license in this record arose out of litigation.” Confidentiality of this license or its negotiation history was not at issue, but it became of heightened importance to patentees that did not want their litigation settlements to cap their damages in future litigation. And, as will be seen below, it incentivized efforts by later defendants accused of infringing the same patents to discover not only the terms, but also the negotiation history of earlier licenses resulting from litigation settlements.

Efforts to shield settlement licenses and license negotiations were dealt a blow by the Federal Circuit in *In re MSTG, Inc.*, where the patentee had sued many defendants in addition to AT&T and all the others had settled, with six taking licenses. The patentee disclosed these licenses in response to discovery requests, but AT&T’s further request for documents relating to their negotiation was initially denied by the district court for lack of a showing of relevance. However, when the patentee subsequently submitted an expert report in which the expert opined that these license agreements did not cap or even inform the reasonable royalty analysis because they were “litigation-induced compromises,” AT&T renewed its discovery motion for their negotiation histories, and its motion was granted. The patentee petitioned the Federal Circuit for a writ of mandamus to vacate the district court’s order of production.

The Federal Circuit upheld the discovery order on the following bases: (1) There was no settlement negotiation privilege under federal law, and it saw no need to create one; (2) “although parties to settlement may agree to keep settlement agreements confidential, MSTG does not contend that the settlement agreements themselves would be covered by the proposed settlement privilege”; (3) in adopting Federal Rule of Evidence 408, Congress did not create a settlement agreement privilege; and (4) the Rule specifically permits use of settlement agreements or negotiations for purposes other than those specifically prohibited in it, and advisory

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committee notes say that one exception is when a party to the present litigation has compromised with a third person (e.g., licensee-defendants in earlier settlements).

Of particular interest here are the Federal Circuit's comments on the relevance of mediation to its ruling. It said:

“Here, however, there is no state consensus as to a settlement negotiation privilege. Although all states have apparently enacted a statutory mediation privilege, [citing] the negotiations in this case did not result from mediation but from settlement negotiations between two sides without the assistance of a third-party mediator. We are not aware of any state that recognizes a settlement privilege outside the context of mediation. Thus, failure to recognize a federal settlement privilege will not ‘frustrate the purposes’ of any state legislation....”

While this is *dicta*, it appears that the Federal Circuit probably will recognize a privilege for patent settlement negotiations conducted in a mediation, at least to the extent that they are protected under state law.

This conclusion is reinforced by several other considerations. First, the Federal Circuit itself recognizes a privilege for negotiations conducted under its own mediation program. Second, two cases subsequent to *ResQNet* also appear to support the conclusion. In *Avocent v. Raritan* (SDNY 2011), the district court, citing *ResQNet*, ruled that mediated settlement negotiations in an earlier case brought by the same plaintiff, conducted under confidentiality rules similar to the Federal Circuit's own, regarding a patent license agreement entered into per settlement, were immune from discovery. Third, the Federal Circuit's ruling in *Kimberly-Clark v. First Quality* (Fed.Cir. 2011) again recognized a “mediation privilege.” Thus, although the question of a mediation privilege appears to still be open at the Federal Circuit, all signs point to its existence.

Given the policy of the courts, including the Federal Circuit, to foster the settlement of cases, it does not appear clear why a distinction should be made between confidentiality of settlement negotiations in mediated versus unmediated settlements. Nevertheless, the distinction seems to exist, and mediation appears to offer the best chance for confidentiality of patent settlements. ■

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