

**AN UNSETTLING DEVELOPMENT: THE USE OF SETTLEMENT-RELATED EVIDENCE FOR DAMAGES DETERMINATIONS IN PATENT LITIGATION**

**JACKSON TAYLOR KIRKLIN & TEJAS N. NARECHANIA**

INTRODUCTION .....	1
I. PATENT DAMAGES AND SETTLEMENT-RELATED EVIDENCE .....	3
A. Calculating Patent Damages: The Reasonable Royalty .....	3
B. Settlement-Related Evidence.....	6
1. <i>Discoverability of Settlement-Related Evidence</i> .....	6
2. <i>Admissibility of Settlement-Related Evidence</i> .....	9
II. <i>RESQNET</i> AND THE NEW RULES FOR SETTLEMENT-RELATED EVIDENCE FOR PATENT DAMAGES .....	16
A. <i>ResQNet.com, Inc. v. Lansa, Inc.</i> .....	16
B. Using Settlement-Related Evidence to Determine Patent Damages after <i>ResQNet</i> .....	18
1. <i>Discovery of Settlement-Related Evidence to Determine Patent Damages after ResQNet</i> .....	18
2. <i>Admission of Settlement-Related Evidence to Determine Patent Damages after ResQNet</i> .....	22
III. PATENT DAMAGES AND SETTLEMENT-RELATED EVIDENCE: A FRESH LOOK AT THE LAW.....	25
A. Discovery of Settlement-Related Evidence to Determine Patent Damages Under Current Law .....	26
1. <i>Settlement Privilege</i> .....	26
2. <i>Reasonably Calculated to Lead to Admissible Evidence</i> .....	28
B. Admitting Settlement-Related Evidence to Determine Patent Damages Under Current Law .....	30
1. <i>Relevance of Settlement-Related Evidence</i> .....	31
2. <i>Rule 408 Restrictions on Admissibility</i> .....	32
IV. THE FUTURE OF SETTLEMENT-RELATED EVIDENCE IN DETERMINING PATENT DAMAGES .....	36
A. The Growth of Non-Practicing Entities.....	37
B. The Increasing Importance of Expert Testimony.....	38
C. Bench Trials vs. Jury Trials .....	40
CONCLUSION.....	42

**AN UNSETTLING DEVELOPMENT: THE USE OF SETTLEMENT-RELATED EVIDENCE FOR DAMAGES DETERMINATIONS IN PATENT LITIGATION**

**TEJAS N. NARECHANIA & JACKSON TAYLOR KIRKLIN\***

*The federal courts have long struggled to define the role of prior third-party settlements in the determination of damages in patent infringement lawsuits. Although the use of such evidence is governed by the Federal Rules of Evidence, district and appellate courts have failed to reach consensus regarding the appropriate application of these rules. Most recently, in ResQNet v. Lansa, the Federal Circuit noted that the most reliable evidence of damages for infringement may be a license that emerges from a previous settlement. This decision prompted a flurry of new rulings by district courts regarding the admissibility and discoverability of evidence of previous third-party settlements. These rulings have made matters worse: Although these decisions reflect an admirable attempt at clarifying the scope of Rule 408, they have wrought confusion on patent practitioners as new splits across the federal districts — and even within single districts, including the Eastern District of Texas — have emerged.*

*This confusion suggests that we need to take a fresh look at the relevant governing evidentiary principles. Our examination reveals that Federal Rule of Evidence 408 precludes the admission of any settlement-related evidence for the determination of damages. However, such evidence is nevertheless discoverable. This disconnect between the discoverability and admissibility of settlement-related evidence leaves something to be desired — especially when considered together with several features unique to patent litigation. In particular, the rise of nonpracticing entities (or “patent trolls”), an increased reliance on expert testimony, and new studies on bench and jury trials undermine the traditional policy rationales that underlie Rule 408. Although prevailing law suggests that settlement-related evidence should play only a limited role in patent damages calculations, this examination of Rule 408’s underlying policies suggests that the Advisory Committee to the Judicial Conference and Congress ought to reconsider the continued viability of the Rule.*

**INTRODUCTION**

In recent years, the Court of Appeals for the Federal Circuit has scrutinized damages awards in patent infringement cases with a renewed vigor.<sup>1</sup> In so doing, it has issued

---

\* Both authors are 2011 graduates of Columbia Law School. The authors would like to thank Anne Champion, Professor C. Scott Hemphill and Professor Bert I. Huang for their support and for their immensely valuable comments on earlier drafts. We would also like to thank Neta Levanon, Brette Tannenbaum, and Joanna Wright. Any errors that remain are our own.

decisions that have raised significant evidentiary issues.<sup>2</sup> Among these is *ResQNet.com, Inc. v. Lansa, Inc.*, which considered the types of evidence a court may consider in the calculation of damages for patent infringement. In *ResQNet*, the Federal Circuit stated that the “most reliable” evidence of such damages may be a license that emerges from the final settlement of other litigation.<sup>3</sup> In the short time since this decision, district courts across the country have struggled to define the role that settlements of other litigation ought to play in the calculation of damages for patent infringement.

Relying on *ResQNet*, patent practitioners have sought to discover and admit evidence pertaining to a patent holder’s previous settlement of an infringement claim. The results have been mixed. Some judges have ruled that *ResQNet* forces a “shift i[n] approach toward the discoverability of settlement negotiations,”<sup>4</sup> while others argue that “*ResQNet* has not upset . . . case law regarding discoverability of settlement negotiations.”<sup>5</sup> With respect to admissibility, some courts have found that “*ResQNet* does not stand for the proposition that licenses are always admissible,”<sup>6</sup> while others have stated that “[i]n light of *ResQNet*, litigation-related licenses should not be excluded.”<sup>7</sup> Altogether, the district courts, informed by inconsistent circuit precedent, have reached conflicting conclusions.<sup>8</sup>

This Article explores this confusion in two steps. First, we attempt to make sense of prevailing law. We find that Federal Rule of Evidence 408 codifies the sentiments

---

<sup>1</sup> See, e.g., *Lucent Technologies, Inc. v. Gateway Inc.*, 580 F.3d 1301, 1323-24 (2009) (“[T]h[e] damages] award is not supported by substantial evidence and is against the clear weight of the evidence.”); see also *ResQNet.com, Inc. v. Lansa, Inc.*, 594 F.3d 860, 868 (Fed. Cir. 2010) (vacating damages award for “reli[ance] on speculative and unreliable evidence”); *Wordtech Systems, Inc. v. Integrated Network Solutions, Inc.*, 609 F.3d 1308, 1322 (Fed. Cir. 2010) (vacating damages award “clearly not supported by the evidence and based only on speculation or guesswork” (internal quotation marks omitted)); *i4i Ltd. v. Microsoft Corp.*, 598 F.3d 831, 856-58 (Fed. Cir. 2010) (upholding damages award, but indicating the court might have overturned award under less deferential standard of review), *aff’d* 131 S. Ct. 2238 (2011).

Judge Rader of the Federal Circuit has also applied a rigorous approach to patent damages trials while sitting by designation on various district courts. See *IP Innovation, LLC v. Red Hat, Inc.*, 2010 WL 986620 (E.D. Tex. Mar. 2, 2010) (Rader, J., sitting by designation) (excluding expert testimony for patent damages determinations); *Cornell Univ. v. Hewlett-Packard Corp.*, 609 F. Supp. 2d 279 (N.D.N.Y. 2009) (Rader, J., sitting by designation) (granting judgment as a matter of law to reduce damages award).

<sup>2</sup> The Supreme Court recently issued a decision in a case presenting a novel evidentiary issue in the patent context. See *Microsoft Corp. v. I4i Ltd.*, 131 S. Ct. 2238, 2242 (2011) (affirming Federal Circuit’s application of the clear and convincing evidentiary standard to the invalidity defense”).

<sup>3</sup> *ResQNet.com, Inc. v. Lansa, Inc.*, 594 F.3d 860, 872 (2010) (finding that “the most reliable license in this record arose out of litigation”).

<sup>4</sup> *Tyco Healthcare Grp. v. E-Z-EM, Inc.*, No. 2:07-CV-262 (TJW), 2010 WL 774878, at \*1 (E.D. Tex. Mar. 2, 2010).

<sup>5</sup> *Software Tree, LLC v. Red Hat, Inc.*, No. 6:09-CV-097, 2010 WL 2788202, at \*13 (E.D. Tex. June 25, 2010).

<sup>6</sup> *Phillip M. Adams & Assocs. v. Asustek Computer, Inc.*, No. 1:05-CV-64 TS, 2010 U.S. Dist. LEXIS 78857, at \*14 n.12 (D. Utah Aug. 4, 2010)

<sup>7</sup> *Datatransury Corp. v. Wells Fargo & Co.*, No. 2:06-CV-72 DF, 2010 WL 903259, at \*16 (E.D. Tex. Mar. 4, 2010).

<sup>8</sup> See *infra* Part II.B.

expressed by the Supreme Court and Federal Circuit, which have repeatedly held that third-party patent settlements are rarely probative of infringement damages: “[A] payment of any sum in settlement of a claim for an alleged infringement cannot be taken as a standard to measure . . . the damages sustained by the owners of the patent . . . .”<sup>9</sup> That is, although such materials may be discoverable, Rule 408 precludes the admission at trial of settlement negotiation-related evidence and the final settlement agreement itself.<sup>10</sup> Next, having determined what we believe the law to be, we move on to an initial exploration of what the law *ought* to be. Despite our interpretation of the prevailing standard, a closer examination of recent changes to the character of patent litigation reveals several defects in the operation of the Rule. Although several courts seem to be misapplying Rule 408, strong policy rationales suggest that these (mis)applications are preferable to the plain meaning of the Rule. Thus, we advocate for a change to Rule 408 that grants trial judges the discretion to admit settlement-related evidence where its probative value exceeds its prejudicial value.

Part I begins this Article with a brief overview of patent damages and the evidentiary law regarding settlement-related evidence. Part II then discusses the ruling in *ResQNet*, and the confusion that has ensued in various districts across the United States. In Part III, we advance our best interpretation of the law governing discovery and admission of settlement-related evidence, in an effort to determine which of the many standards currently applied by the courts most closely conforms to the prevailing rules. Finally, Part IV discusses several important factors unique to patent litigation that challenge the continued viability of Rule 408, suggesting that the rule ought to be reformed.

## I. PATENT DAMAGES AND SETTLEMENT-RELATED EVIDENCE

The Federal Circuit’s recent decision in *ResQNet.com, Inc. v. Lansa, Inc.*<sup>11</sup> has ignited a debate across the district courts regarding the appropriate role of settlement-related evidence for the calculation of patent infringement damages. Before turning to *ResQNet*, Part I briefly outlines the relevant background law. Part I.A describes how patent law calculates damages for infringement. Part I.B then examines the rules underlying the use of settlement-related evidence. Finally, Part I.C describes how settlement-related evidence has been used to calculate patent infringement damages.

### A. Calculating Patent Damages: The Reasonable Royalty

The Patent Act provides a cause of action for patent holders against anyone “who[] without authority makes, uses, offers to sell, or sells any patented invention.”<sup>12</sup> Upon a finding of such infringement, the Patent Act directs that “the court shall award . . . damages

---

<sup>9</sup> *Rude v. Westcott*, 130 U.S. 152 (1889).

<sup>10</sup> This Article will use the term “settlement negotiation-related evidence” to refer to offers, proposals, communications, and other pre-agreement evidence, and will use “final settlement agreement” to refer to the terms of a completed settlement. When referring to both collectively, this Article will use “settlement-related evidence.”

<sup>11</sup> 594 F.3d 860 (Fed. Cir. 2010).

<sup>12</sup> 35 U.S.C. § 271(a) (2006). This section was not amended by the Leahy-Smith America Invents Act.

adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer.”<sup>13</sup> Thus, in the event of infringement, the Patent Act guarantees a patent holder compensatory damages,<sup>14</sup> but sets the floor for such damages at “a reasonable royalty for the use made of the invention.”<sup>15</sup> Put differently, the Patent Act ensures that a patent holder’s minimum damages award will be no less than a reasonable royalty for the patent.

The leading case on the determination of a reasonable royalty is *Georgia-Pacific Corp. v. U.S. Plywood Corp.*<sup>16</sup> In *Georgia-Pacific*, which the Federal Circuit has repeatedly endorsed,<sup>17</sup> the Southern District of New York outlined fifteen factors to guide courts in the determination of a reasonable royalty.<sup>18</sup> This extensive list of factors is intended to

---

<sup>13</sup> 35 U.S.C. § 284 (2006). This section was not amended by the Leahy-Smith America Invents Act.

<sup>14</sup> The court may also award enhanced or punitive damages by “up to three times the amount found or assessed.” 35 U.S.C. 284 (2006). However, in order to receive enhanced damages, the patentee must show “willful infringement . . . by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent.” *In re Seagate Tech., LLC*, 497 F.3d 1360, 1371 (Fed. Cir. 2007) (*en banc*).

<sup>15</sup> 35 U.S.C. § 284 (2006); *see also* *Defending the Software Infringement Case*, 54 AM. JUR. TRIALS 261 § 39 DAMAGES (Apr. 2010) (“A reasonable royalty is the most common form of damages award for patent infringement, since it is easiest to prove.”). Besides the reasonable royalty, a patent holder may seek two alternate forms of compensatory damages. First, a patent holder may seek lost profits instead of a reasonable royalty. To be awarded lost profits, the patent holder “must show a reasonable probability that, ‘but for’ the infringement, [the patent holder] would have made the sales that were made by the infringer . . . .” *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1545 (Fed. Cir. 1995). Alternately, a patent holder may seek damages equal to an established royalty. “When a patentee has consistently licensed others to engage in conduct comparable to the defendant’s at a uniform royalty, that royalty is taken as established,” and damages equal to that established royalty may be awarded. *Monsanto Co. v. McFarling*, 488 F.3d 973, 978 (Fed. Cir. 2007).

<sup>16</sup> *Georgia-Pac. Corp. v. U.S. Plywood Corp.*, 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970), *modified sub nom.* *Georgia-Pac. Corp. v. U.S. Plywood-Champion Papers Inc.*, 446 F.2d 295 (2d Cir. 1971) (outlining fifteen factors relevant “to the determination of the amount of a reasonable royalty for a patent license”).

<sup>17</sup> *E.g.*, *Hanson v. Alpine Valley Ski Area*, 718 F.2d 1075, 1077 (Fed. Cir. 1983) (upholding decision based on application of the factors set forth in *Georgia-Pacific*); *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1555 (Fed. Cir. 1995) (citing approvingly to *Georgia-Pacific*); *see also* D. Christopher Holly, *The Book of Wisdom: How to Bring a Metaphorical Flourish into the Realm of an Economic Reality by Adopting a Market Reconstruction Requirement in the Calculation of a Reasonable Royalty*, 92 J. PAT. & TRADEMARK OFF. SOC’Y 156 (2010) (“The Federal Circuit has repeatedly confirmed the use of the 15 Georgia-Pacific factors as a methodology of exploring what royalty would have been agreed upon at the hypothetical negotiation”).

<sup>18</sup> *Georgia-Pacific*, 318 F. Supp. at 1120. The full list of factors is as follows:

1. The royalties received by the patentee for the licensing of the patent in suit, proving or tending to prove an established royalty.
2. The rates paid by the licensee for the use of other patents comparable to the patent in suit.
3. The nature and scope of the license, as exclusive or non-exclusive; or as restricted or non-restricted in terms of territory or with respect to whom the manufactured product may be sold.
4. The licensor’s established policy and marketing program to maintain his patent monopoly by not licensing others to use the invention or by granting licenses under special conditions designed to preserve that monopoly.
5. The commercial

simulate the negotiation that would have occurred between the plaintiff and defendant but for the infringement.<sup>19</sup> The reasonable royalty is calculated by estimating the result of a hypothetical negotiation between the patent holder and the infringer, just prior to the onset of the infringement.

In advocating for a particular outcome of this hypothetical negotiation, patent practitioners frequently have sought to introduce evidence related to other similar negotiations, including, most notably, settlement-related evidence. For example, practitioners have attempted to introduce final settlement agreements as evidence of the first factor — royalties that the patent holder has received for the patent — and the twelfth factor — the portion of profit or price that is customary for similar patent licenses.<sup>20</sup> The

---

relationship between the licensor and licensee, such as, whether they are competitors in the same territory in the same line of business; or whether they are inventor and promotor. 6. The effect of selling the patented specialty in promoting sales of other products of the licensee; the existing value of the invention to the licensor as a generator of sales of his non-patented items; and the extent of such derivative or convoyed sales. 7. The duration of the patent and the term of the license. 8. The established profitability of the product made under the patent; its commercial success; and its current popularity. 9. The utility and advantages of the patent property over the old modes or devices, if any, that had been used for working out similar results. 10. The nature of the patented invention; the character of the commercial embodiment of it as owned and produced by the licensor; and the benefits to those who have used the invention. 11. The extent to which the infringer has made use of the invention; and any evidence probative of the value of that use. 12. The portion of the profit or of the selling price that may be customary in the particular business or in comparable businesses to allow for the use of the invention or analogous inventions. 13. The portion of the realizable profit that should be credited to the invention as distinguished from non-patented elements, the manufacturing process, business risks, or significant features or improvements added by the infringer. 14. The opinion testimony of qualified experts. 15. The amount that a licensor (such as the patentee) and a licensee (such as the infringer) would have agreed upon (at the time the infringement began) if both had been reasonably and voluntarily trying to reach an agreement; that is, the amount which a prudent licensee -- who desired, as a business proposition, to obtain a license to manufacture and sell a particular article embodying the patented invention -- would have been willing to pay as a royalty and yet be able to make a reasonable profit and which amount would have been acceptable by a prudent patentee who was willing to grant a license.

*Id.*

<sup>19</sup> *Id.* at 1121; see also Michael R. O'Neill, *Lucent v. Gateway: Federal Circuit Provides Guidance on Patent Damages Issues*, 22 NO. 2 INTELL. PROP. & TECH. L.J. 1, 1 (2010) ("The Georgia-Pacific factors are geared toward ascertaining the amount of the royalty the parties would have agreed to in a so-called hypothetical negotiation just before the alleged infringement began"); Charles A. Eldering & Malcolm T. Meeks, *Patent Valuation: Aren't We Forgetting Something?: Making the Case for Claims Analysis in Patent Valuation by Proposing a Patent Valuation Method and a Patent-Specific Discount Rate Using the CAPM*, 9 NW. J. TECH. & INTELL. PROP. 194 (2010) ("[T]he Georgia-Pacific factors provide a theoretical framework for determining a reasonable royalty rate via the hypothetical negotiation approach").

<sup>20</sup> See *supra* note 18 for a description of the *Georgia-Pacific* factors.

discoverability and admissibility of such settlement-related evidence, however, are governed by separate principles which have developed through both the common law and under the Federal Rules of Evidence. As discussed below, the disconnect between the rules governing discoverability and admissibility of this settlement-related evidence can produce complicated and confusing results.

## B. Settlement-Related Evidence

This section examines how the evidentiary principles governing settlement-related evidence have been applied in patent litigation. Part I.B.1 begins with an analysis of the discoverability of two types of settlement-related evidence: settlement negotiation-related evidence (including settlement offers, proposals, communications and other pre-agreement evidence) and final settlement agreements.<sup>21</sup> Then, Part I.B.2 examines the rules that govern the admissibility of both types of settlement-related evidence.

### 1. Discoverability of Settlement-Related Evidence

Generally, Federal Rule of Civil Procedure 26 permits the discovery of “any nonprivileged matter that is relevant to any party's claim or defense.”<sup>22</sup> Thus, the discoverability of information may turn on whether such information is privileged. Privilege, in turn, is governed by Federal Rule of Evidence 501, which provides that evidentiary privileges are to be recognized in accordance with “the principles of the common law.”<sup>23</sup> The Supreme Court has understood this broad language to “manifest[] an affirmative intention . . . to provide the courts with the flexibility to develop the rules of privilege on a case-by-case basis.”<sup>24</sup> Accordingly, the federal courts have occasionally — and inconsistently — recognized new privileges that bar the discovery of certain types of evidence.<sup>25</sup>

In 2003, the Sixth Circuit recognized such a common law privilege under Rule 501. Its decision in *Goodyear Tire & Rubber Co. v. Chiles Power Supply* articulated a privilege for settlement negotiation-related evidence.<sup>26</sup> Although the court's ruling did not extend to final settlement agreements, the court specifically held that “statements made in furtherance of settlement are privileged and protected from third-party discovery.”<sup>27</sup> In the *Goodyear* decision, the Sixth Circuit noted the “strong public interest in favor of secrecy

---

<sup>21</sup> For a clarification on this terminology, see *supra* note 10.

<sup>22</sup> FED. R. CIV. PROC. 26.

<sup>23</sup> FED. R. EVID. 501.

<sup>24</sup> *Trammel v. United States*, 440 U.S. 40, 47 (1980).

<sup>25</sup> *E.g.*, *Jaffee v. Redmond*, 518 U.S. 1, 15 (“[C]onfidential communications between a licensed psychotherapist and her patients in the course of diagnosis or treatment are protected from compelled disclosure under Rule 501 of the Federal Rules of Evidence.”); see also *infra* notes 26 - 31 and accompanying text (discussing Sixth Circuit's recognition of privilege over settlement negotiation-related evidence).

<sup>26</sup> *Goodyear Tire & Rubber Co. v. Chiles Power Supp., Inc.*, 332 F.3d 976, 979 (6th Cir. 2003).

<sup>27</sup> *Id.* (emphasis added).

of matters discussed by parties during settlement negotiations.”<sup>28</sup> “In order for settlement talks to be effective, parties must feel uninhibited in their communications. . . . They must be able to make hypothetical concessions, offer creative *quid pro quos*, and generally make statements that would otherwise belie their litigation efforts.”<sup>29</sup> The court felt that these realities indicate that statements made during settlement negotiations are inherently unreliable indicators of the underlying value of the claim, because they may reflect a desire to avoid litigation and may be influenced by the “puffing and posturing” of adversarial litigation.<sup>30</sup> Accordingly, the court concluded “that a settlement privilege should exist” in light of “[t]he public policy favoring secret negotiations, combined with the inherent questionability of the truthfulness of any statements made therein.”<sup>31</sup>

The Sixth Circuit, however, stands alone among the federal courts of appeals in recognizing such a settlement privilege. Indeed, several district courts in other circuits have explicitly repudiated the *Goodyear* holding.<sup>32</sup> For example, the District Court for the District of Columbia has found that Congress sought to promote the use of settlements “through limits on the admissibility of settlement material rather than limits on their discoverability,” and thus declined to find a privilege over settlement negotiation-related evidence.<sup>33</sup> Other courts have followed suit.<sup>34</sup>

Perhaps unsurprisingly, the confusion over the existence of a federal privilege for settlement negotiation-related evidence has carried forward into the patent context. Some district courts, faced with motions to compel discovery of settlement negotiation-related evidence in patent infringement cases, have sided with the Sixth Circuit’s decision in *Goodyear*.<sup>35</sup> Other courts, however, have sided with those courts that have explicitly declined to find such a privilege exists.<sup>36</sup>

Among those that have followed the reasoning of *Goodyear* is the Eastern District of Texas — a particularly important district for patent litigation.<sup>37</sup> The Eastern District of

---

<sup>28</sup> *Goodyear*, 332 F.3d at 980. For a fuller discussion on this consideration at work for Federal Rule of Evidence 408, see *infra* notes 61–64.

<sup>29</sup> *Id.*

<sup>30</sup> *Id.* at 981 (citing *U.S. v. Contra Costa Cnty Water Dist.*, 678 F.2d 90, 92 (9th Cir. 1982)).

<sup>31</sup> *Id.* at 981.

<sup>32</sup> In addition to the cases discussed *infra* notes 33–34 and accompanying text, see also *JZ Buckingham Investments LLC v. United States*, 78 Fed. Cl. 15, 23 (2007) (finding “no basis for the implication of a new settlement privilege”).

<sup>33</sup> *In re Subpeona Issued to Commodities Futures Trading Comm’n*, 370 F. Supp. 2d 201, 211 (D.D.C. 2005).

<sup>34</sup> *E.g.*, *Matsushita Elec. Indus. Co. v. MediaTek Co.*, No. C-05-3148 MMC (JCS), 2007 U.S. Dist. LEXIS 27437, at \*18 (N.D. Cal. Mar. 30 2007) For a fuller discussion of this case, see *infra* text accompanying notes 46–50.

<sup>35</sup> See *supra* notes 26–31 and accompanying text.

<sup>36</sup> See *supra* notes 32–34 and accompanying text.

<sup>37</sup> The Eastern District of Texas is particularly notable because of the large volume of patent cases it hears. See, e.g., Yan Leychkis, *Of Fire Ants and Claim Construction: An Empirical Study of the Meteoric Rise of the Eastern District of Texas as a Preeminent Forum for Patent Litigation*, 9 YALE J. L. & TECH. 193, 204--205 (2007) (noting that the Eastern District of Texas has heard 4.2% of all federal patent litigation from 2002 to 2006, despite only hearing 1.2% of all federal civil litigation); see also Adam D. Kline, *Any Given Forum: A Proposed Solution to the Inequitable Economic Advantage that Arises*

Texas first recognized a privilege for settlement negotiation-related evidence in a 2004 order in *Intergraph Hardware Technologies v. Dell Computer Corporation*. In *Intergraph*, defendant Hewlett-Packard “argue[d] that discovery into the allocation of the \$225 million settlement [between Intergraph and Intel, a third-party] . . . ‘would inform’ the reasonable royalty analysis.”<sup>38</sup> Ruling in favor of the plaintiff, the court stated that the “settlement negotiations sought to be discovered are privileged as a matter of federal common law, as set forth by [*Goodyear*].”<sup>39</sup> Less than one year later, in *Soverain Software, LLC v. Amazon.com, Inc.*, the Eastern District of Texas reiterated this holding.<sup>40</sup> In *Soverain*, the court noted its fear that “[i]f . . . settlement negotiations are not kept confidential from other parties to the litigation, parties will be less forthright in their negotiations and less likely to resolve their differences without the need for a trial.”<sup>41</sup> Although the court was cautious to note that the privilege could not be used “as a shield to hide what would otherwise be discoverable,”<sup>42</sup> the court found that a privilege attaches to settlement negotiation-related evidence.<sup>43</sup> Similarly, in *Tessera, Inc. v. Micron Technology, Inc.*, the Eastern District of Texas ruled that “parties engaged in confidential settlement negotiations are more likely to make the type of important concessions . . . that lead to settlement, therefore, preserving the confidentiality of settlement negotiations associated with litigation furthers the public policy favoring settlement.”<sup>44</sup>

Despite the Eastern District of Texas’s holdings, the Northern District of California — another notable patent jurisdiction<sup>45</sup> — ruled contrarily in its 2007 decision in

---

*when Non-Practicing Patent Holding Organizations Predetermine Forum*, 48 IDEA 247, 275 (2008) (“[T]he Eastern District of Texas is the most popular venue for patent litigation in the nation . . .”).

<sup>38</sup> Intergraph’s Opposition to HP’s Motion to Compel Disclosure of Information Related to the March 29, 2004 Agreement Between Intel and Intergraph (#258), *Intergraph Hardware Techs. Co. v. Dell Computer Corp.*, No. 2:02-cv-312, Docket No. 294, at 10 (E.D. Tex. June 3, 2004).

<sup>39</sup> *Intergraph Hardware Techs. Co. v. Dell Computer Corp.*, No. 2:02-cv-312, Docket No. 348 (E.D. Tex. June 3, 2004).

<sup>40</sup> *Soverain Software, LLC v. Amazon.com, Inc.*, No. 6:04-cv-14, Docket No. 216 (E.D. Tex. Mar. 16, 2005).

<sup>41</sup> *Id.*

<sup>42</sup> *Id.* The court’s ruling suggests that such otherwise discoverable information could include previously unknown prior art, and well as final “settlement agreements related to the litigation.” However, because the parties had previously agreed to discuss disclosing the final settlement agreement, the court reserved judgment on whether or not such agreements are discoverable. Similarly, in the *Intergraph*, the court stated that “[t]he agreement itself is certainly relevant to certain claims and/or defenses, but the plaintiff has already produced the agreement. Apart from the terms of the actual agreement, the court is not persuaded that the details of the negotiations should be the subject of discovery . . .” *Intergraph Hardware Techs. Co. v. Dell Computer Corp.*, No. 2:02-cv-312, Docket No. 348 (E.D. Tex. June 3, 2004). The Eastern District of Texas does not appear to have issued a subsequent decision on the matter prior to *ResQNet*.

<sup>43</sup> *Id.*

<sup>44</sup> *Tessera, Inc. v. Micron Tech., Inc.*, No. 2:05-cv-94, Docket No. 325 (E.D. Tex. Apr. 13, 2006). In *Tessera* however, Judge Love ruled that licensing negotiations that were not litigation-related and that did not result in a final agreement were discoverable. *Id.*

<sup>45</sup> See, e.g., Leychkis, *supra* note 37 at 204--205 (noting that Northern District of California has heard 8.8% of all federal patent litigation from 2002 to 2006, despite only hearing 2.3% of all federal civil litigation).

*Matsushita*.<sup>46</sup> In *Matsushita*, the defendants sought discovery over settlement negotiation-related evidence, “argu[ing] that production of these materials may lead to the discovery of admissible evidence on the royalty rate that should be applied to determine damages.”<sup>47</sup> The plaintiffs objected, arguing “that a ‘federal settlement privilege . . . shields from discovery any communication created in the context of settlement negotiations.’”<sup>48</sup> The Northern District of California “conclude[d] that a federal settlement privilege should not be implied under Rule 501.”<sup>49</sup> Specifically, the court found that, in light of Rule 408’s “provi[sion] that settlement negotiations can be admitted for certain purposes” other than invalidity or the amount of a claim, “any federal settlement privilege is contrary to the enactment approved by the legislature.”<sup>50</sup>

These cases exemplify the conflict regarding the existence of a privilege over settlement-negotiation related evidence that has persisted in patent litigation. Although, as above, no court has held that final settlement agreements are privileged,<sup>51</sup> the federal courts are divided over the existence of such a privilege over settlement negotiation-related evidence in patent cases. The Eastern District of Texas followed the holding of *Goodyear* by “adopt[ing] a bright-line rule that settlement negotiations are privileged.”<sup>52</sup> On the other hand, the Northern District of California has ruled “that a federal settlement privilege should not be implied under Rule 501 of the Federal Rules of Evidence.”<sup>53</sup> This disagreement, however, only deepens when it comes to the admissibility of such evidence.

## 2. Admissibility of Settlement-Related Evidence

The starting point for any evidentiary question is that “[a]ll relevant evidence is admissible, except as otherwise provided.”<sup>54</sup> Evidence Rule 403, however, sets in place the basic background rule governing the admissibility of relevant evidence. Rule 403 allows

---

<sup>46</sup> *Matsushita Elec. Indus. Co. v. MediaTek Co.*, No. C-05-3148 MMC (JCS), 2007 U.S. Dist. LEXIS 27437, at \*1 (N.D. Cal. Mar. 30 2007).

<sup>47</sup> *Id.* at \*5–6.

<sup>48</sup> *Id.* at \*6 (citation omitted).

<sup>49</sup> *Id.* at \*20.

<sup>50</sup> *Id.* at \*18.

<sup>51</sup> Although no court appears to have held final settlement agreements privileged, some courts have declined to compel their production because of the court’s concern regarding the evidentiary value of the agreement. See, e.g., *Gen. Elec. Co. v. DR Sys. Inc.*, No 06-5581, 2007 WL 1791677, at \*2 (E.D.N.Y. June 20, 2007). Nevertheless, the Eastern District of Texas had indicated that such final settlement agreements are normally discoverable. See *supra* note 44 and accompanying text.

<sup>52</sup> *Tyco Healthcare Grp. v. E-Z-EM, Inc.*, No. 2:07-CV-262 (TJW), 2010 WL 774878, at \*6 (E.D. Tex. Mar. 2, 2010). The order in *Tyco*, as cited here, contains an articulation of the rule prior to the decision in *ResQNet*, discussed *infra* Part II.A. In light of *ResQNet*, *Tyco* ultimately breaks from this rule. See *infra* notes 117–124 (discussing *Tyco*).

<sup>53</sup> *Matsushita Elec. Indus. Co. v. MediaTek Co.*, No. C-05-3148 MMC (JCS), 2007 U.S. Dist. LEXIS 27437, at \*20 (N.D. Cal. Mar. 30 2007).

<sup>54</sup> Fed. R. Evid. 402; *Corley v. United States*, 556 U.S. 303 (2009); see also *U.S. v. Blankenship*, 775 F.2d 735, 742 (6th Cir. 1985) (Merritt, C.J., dissenting); see also *Carter v. Massey-Ferguson, Inc.*, 716 F.2d 344, 347 (5th Cir. 1983) (“Under federal rules of evidence, all relevant evidence is admissible, unless there are sound reasons to exclude it.”).

the court to exclude evidence which, in the court's judgment, is more likely to be prejudicial, confusing, or misleading than probative in the litigation.<sup>55</sup> This exclusionary principle, however, is an extraordinary remedy that is not intended to be exercised except in rare instances.<sup>56</sup> In requiring the probative value of the potential evidence to be "substantially outweighed" by its prejudicial effect, the Rule highlights the baseline principal, established in Rule 402, of broad admissibility of evidence while simultaneously allowing the court to limit admission based on its independent judgment of the likely impact of such proffered evidence.<sup>57</sup>

The discretionary exclusionary power embodied in Rule 403 is mandated in the Federal Rules' treatment of settlement-related evidence by Rule 408. As a general matter, settlement-related evidence is thought to be an unreliable and irrelevant indicator of damages.<sup>58</sup> Thus, Federal Rule of Evidence 408 mandates that settlement-related evidence is "not admissible . . . to prove the validity or amount of a disputed claim."<sup>59</sup> The text of the Rule encompasses both settlement negotiation-related evidence, as well as final settlement agreements.<sup>60</sup>

---

<sup>55</sup> FED. R. EVID. 403; *see also* MICHAEL H. GRAHAM, 1 HANDBOOK OF FED. EVID. § 403.1 (6th ed. 2010) (noting the interrelation between Rule 401 and 403 for admissibility).

<sup>56</sup> *See* CLIFFORD S. FISHMAN & ANNE T. MCKENNA, 2 JONES ON EVIDENCE § 11:10 (7th ed. 2010) ("First and foremost, [Rule 403] states a strong assumption of admissibility: relevant evidence should be admitted unless its probative value is 'substantially outweighed' by one or more of the negative factors listed in the rule. Thus, exclusion is an 'extraordinary remedy' that should be used only 'sparingly.'") (citations omitted); Graham, *supra* note 55 ("Rule 403 is employed sparingly as it is an extraordinary remedy.").

<sup>57</sup> FED. R. EVID. 403.

<sup>58</sup> At first blush, this statement might seem odd given the familiar maxim that parties "bargain[] in the shadow of the law." Lewis Kornhausert & Robert H. Mnookin, *Bargaining in the Shadow of the Law: The Case of Divorce*, 88 YALE L.J. 950, 950 (1979). Despite the notion that settlement outcomes may reflect the expected value of a trial outcome, other studies have shown that settlement outcomes can differ substantially from trial outcomes, especially in the patent context, where damages are supposed to reflect the added value of the patented invention. *E.g.*, Mark A. Lemley & Carl Shapiro, *Patent Holdup and Royalty Stacking*, 85 TEX. L. REV. 1991, 2008 (2007) (suggesting that infringers may "settle for an amount that is greater than the expected value of the patentee's contribution but less than the expected loss in sales of the unpatented components of its product"); *see also* eBay Inc. v. MercExchange LLC, 547 U.S. 388, 395–97 (2006) (Kennedy, J. concurring) ("[A]n injunction . . . can be employed as a bargaining tool to charge exorbitant fees to companies that seek to buy licenses to practice the patent."); Carrie Menkel-Meadow, *Toward Another View of Legal Negotiation: The Structure of Problem Solving*, 31 UCLA L. REV. 754, 801–04 (1984) (suggesting that economic, legal, social, psychological, and ethical factors influence settlements). For the purposes of this Article, we take FED. R. EVID. 408 at its face and assume that settlement-related evidence is irrelevant and would chill future settlements. *See infra* notes 61–64 and accompanying text.

<sup>59</sup> FED. R. EVID. 408.

<sup>60</sup> "The rule is ordinarily phrased in terms of offers of compromise," or settlement negotiation-related evidence. Nevertheless, the Advisory Committee has clearly stated "that a similar attitude must be taken with respect to completed compromises," or final settlement agreements. Thus, the Rule applies equally to final settlement agreements and to settlement negotiation-related evidence. FED. R. EVID. 408 advisory committee's notes. *See also infra* notes 215–217 and accompanying text.

The Advisory Committee's Notes provides two primary rationales for the protection of settlement-related evidence. First, settlement offers are often "motivated by a desire of peace rather than from any concession of weakness of position."<sup>61</sup> Such offers, taken out of context, are "irrelevant" and therefore inadmissible.<sup>62</sup> Second, the Advisory Committee felt that the potential admissibility of settlement-related evidence would dissuade parties from engaging in settlement negotiations.<sup>63</sup> Fearing that the potential use of such evidence would place a "chill on settlement negotiations," the Advisory Committee reasoned that excluding such evidence to prove the "liability," "invalidity" or "amount" of a claim "promot[es] the public policy favoring the compromise and settlement of disputes."<sup>64</sup>

Despite the Advisory Committee's strong policy rationales for precluding settlement-related evidence from trial, the federal courts have failed to reach consensus on whether Rule 408 applies to settlements reached between one party in litigation and a third-party (e.g., agreements between the plaintiff and a defendant in a prior, unrelated lawsuit). Instead, different courts have evaluated such settlement-related evidence by different standards. Specifically, the courts have disagreed on the required relationship between the dispute in litigation and the dispute that precipitated the settlement agreement sought to be put into evidence. For example, in *Bradbury v. Phillips Petroleum Co.*, the Tenth Circuit emphasized the use of the phrase "the claim" in Rule 408: "Read literally, the rule does not appear to cover compromise and compromise offers that do not involve the dispute that is the subject of the suit . . . ."<sup>65</sup> Several subsequent cases have relied on this reasoning to find Rule 408 inapplicable where the offered evidence "relate[s] to settlement discussions that involved a different claim than the one at issue in the current trial."<sup>66</sup> Thus, the Tenth Circuit has taken a narrow view of the applicability of Rule 408, ruling that it does not apply where the settled claim and the litigated claim differ.

---

<sup>61</sup> FED. R. EVID. 408 advisory committee's notes.

<sup>62</sup> *Id.*; see also FED. R. EVID. 402 ("Evidence which is not relevant is not admissible."). This justification for the exclusion of settlement evidence stems from a deeply held common law tradition that was imported into the Federal Rules of Evidence by the drafters. See Wayne D. Brazil, *Protecting the Confidentiality of Settlement Negotiations*, 39 *Hastings L.J.* 955, 958 (1988) (noting that the Advisory Committee for the Federal Rules of Evidence intentionally incorporated this common law rule).

<sup>63</sup> FED. R. EVID. 408 advisory committee's notes.

<sup>64</sup> *Id.*

<sup>65</sup> 815 F.2d 1356, 1363 (10th Cir. 1987). In *Phillips Petroleum*, the Tenth Circuit began with its literal reading of Rule 408. The court, however, ultimately concluded that the facts of the case presented an exception to the exclusionary rule under Rule 408 and ruled the evidence admissible. Nevertheless, later cases in the Tenth Circuit have relied on this language in the *Phillips Petroleum* opinion and have taken a stricter view of admissibility. See *infra* note 66 (collecting cases).

<sup>66</sup> *Broadcort Capital Corp. v. Summa Med. Corp.*, 972 F.2d 1183 (10th Cir. 1992); see also *Towerridge Inc. v. T.A.O., Inc.*, 111 F.3d 758, 769 (10th Cir. 1997) ("Rule 408 does not require the exclusion of evidence regarding the settlement of a claim different from the one litigated . . . ."); *Vulcan Hart Corp. v. NLRB*, 718 F.2d 269, 277 (8th Cir. 1983) ("Rule 408 excludes evidence of settlement offers only if such evidence is offered to prove liability for or invalidity of the claim under negotiation."). The Seventh Circuit has similarly held:

By contrast, other circuit courts have applied Rule 408 to exclude third-party settlement-related evidence where the settled claim is factually similar to — but distinct from — the dispute in litigation.<sup>67</sup> For example, in *Hudspeth v. Commissioner*, the Ninth Circuit affirmed a lower court decision to exclude evidence that had been collected during the course of a separate lawsuit that was eventually settled.<sup>68</sup> The court noted that the present litigation and the previous case “involve[] the same factual situation” because “[i]n both cases, the issue was the valuation of timber taken from the same forest and timber that was of similar quality.”<sup>69</sup> Thus, even though the appellants contended that “Rule 408 is inapplicable . . . because . . . the claims involved in the present case are not the same claims that were involved” in the settlement, the Ninth Circuit ruled that where the settled claim “involves the same factual situation,”<sup>70</sup> “Rule 408 does apply” even if the party seeking to introduce settlement-related evidence was not involved in the original lawsuit.<sup>71</sup>

---

[i]n deciding whether Rule 408 should be applied to exclude evidence, courts must consider the spirit and purpose of the rule and decide whether the need for the settlement evidence outweighs the potentially chilling effect on future settlement negotiations. *The balance is especially likely to tip in favor of admitting evidence when the settlement communications at issue arise out of a dispute distinct from the one for which the evidence is being offered.*

*Zurich Am. Ins. v. Watts Indus.* 417 F.3d 682, 689 (7th Cir. 2005) (emphasis added). Thus, although the Seventh Circuit’s articulation leaves open the possibility that Rule 408 may bar the introduction of third-party settlement-related evidence, it, like the Tenth Circuit, has ruled that Rule 408 takes on a diminished capacity where the settled claim and the litigated claim are distinct.

<sup>67</sup> In addition to the cases discussed in this section, the district court for the District of Columbia has also reached a similar conclusion. *C & E Svcs. v. Ashland Inc.*, 539 F. Supp. 2d 316, 318–320 (D.D.C. 2008) (“The very policy underlying Rule 408 would be defeated if it did not operate to preclude the admissibility of settlement discussions in a case involving another party . . .”).

<sup>68</sup> *Hudspeth v. Comm’r of IRS*, 914, F.2d 1207, 1210 (9th Cir. 1990).

<sup>69</sup> *Id.* at 1214 n.8.

<sup>70</sup> *Id.* In *Hudspeth*, the appellants sought valuation data from a previous settlement. “In both cases, the issue was the valuation of timber taken from the same forest and timber that was of similar quality.” *Id.*

<sup>71</sup> *Id.* The First and Fifth Circuits have issued similar rulings. In *Branch v. Fidelity Casualty Company of New York*, the Eastern District of Louisiana admitted evidence regarding the settlement of an indemnity agreement between two parties in a potential multiparty litigation. The Fifth Circuit, noting that “settlements should be even more encouraged” in such multiparty litigation, held that it was error for the court to admit such evidence for the determination of liability and damages. *Branch v. Fidelity Cas. Co. of N.Y.*, 783 F.2d 1289, 1291–94 (5th Cir. 1986); *see also* *Kennon v. Slipstreamer Inc.*, 794 F.2d 1067, 1069 (5th Cir. 1986) (“Even where the evidence offered favors the settling party and is objected to by a party not involved in the settlement, Rule 408 bars the admission of such evidence . . .”). Similarly, in *McInnis v. A.M.F., Inc.*, the First Circuit noted, “Rule 408 is more commonly invoked to bar the admission of agreements between a defendant and a third party to compromise a claim arising out of the same transaction as the one being litigated.” *McInnis v. A.M.F., Inc.*, 765 F.2d 240, 247–48 (1st Cir. 1985). Although *McInnis* involved a situation in which the defendants sought to introduce evidence of settlement between the plaintiff and a third-party, the court found it “axiomatic” that Rule 408 equally “prohibit[s] the admission of settlement evidence against a plaintiff who has accepted payment from a third party against whom he has a claim.” *Id.*

This split, as evidenced by these contrasting approaches, unsurprisingly persists in the patent context. Although a large number of federal courts had, prior to *ResQNet*, excluded settlement-related evidence from patent infringement trials, the reasoning in each court for doing so differed. Some courts relied on Rule 408 to exclude settlement-related evidence. Other courts found Rule 408 inapplicable, but have considered the admissibility of settlement-related evidence under Rule 403 to varied results.<sup>72</sup>

Several courts have excluded settlement-related evidence from patent trials on the basis of Rule 408. Reliance on Rule 408 to exclude final settlement agreements from evidence is consistent with the Supreme Court's well-aged ruling in *Rude v. Westcott*, which predates the enactment of the Federal Rules of Evidence by nearly one hundred years.<sup>73</sup> In *Rude*, the Supreme Court faced a patent appeal involving the use of a final settlement agreement made with a third-party "under a threat of suit."<sup>74</sup> The Court specifically held that

[i]t is clear that a payment of any sum in settlement of a claim for an alleged infringement cannot be taken as a standard to measure the value of the improvements patented, in determining the damages sustained by the owners of the patent in other cases of infringement. Many considerations other than the value of the improvements patented may induce the payment in such cases. The avoidance of the risk and expense of litigation will always be a potential motive for a settlement.<sup>75</sup>

Several courts have relied on *Rude*, in addition to Rule 408, to exclude settlement-related evidence from patent trials. Among these courts is the Federal Circuit, which stated that "evidence of . . . offers in compromise made in contemplation of infringement litigation [are] . . . inadmissible under Rule 408."<sup>76</sup> Although *Hanson* addressed only settlement negotiation-related evidence,<sup>77</sup> other courts have reached a similar conclusion regarding final settlement agreements. For example, the Northern District of Iowa found final settlement agreements inadmissible under Rule 408 where those agreements are "specifically entered into under the threat of litigation or against the backdrop of continuing litigation, with the intention of avoiding the risks and expenses of that

---

<sup>72</sup> In addition to the cases described in this section, others have foregone an analysis of Rule 408 altogether and simply considered the settlement-related evidence on the basis of Rule 403 alone. The majority of these courts have ruled to exclude settlement-related evidence. *See, e.g.,* Spreadsheet Automation Corp. v. Microsoft Corp., 587 F. Supp. 2d 794, 801 (E.D. Tex. 2007); Wang Labs., Inc. v. Mitsubishi Elecs. Am. Inc., 860 F. Supp. 1448, 1452 (C.D. Cal. 1993).

<sup>73</sup> *Rude v. Westcott*, 130 U.S. 152 (1889). The Federal Rules of Evidence were formally enacted in 1975. Act of Jan. 2, 1975, Pub. L. No. 93-595, 88 Stat. 1926 (1975).

<sup>74</sup> *Id.* at 164.

<sup>75</sup> *Id.*

<sup>76</sup> *Hanson v. Alpine Valley Ski Area, Inc.*, 718 F.2d 1075, 1078 (Fed. Cir. 1983). *Hanson* was ultimately resolved on alternate grounds. *Id.* at 1082 (stating that resolving the Rule 408 question is unnecessary).

<sup>77</sup> *Id.* ("The fact that licenses were offered at a particular rate does not show that that rate was the established rate, since the latter requires actual licenses, not mere offers to license."). In fact, the settlement negotiation-related evidence was being offered to prove an established royalty rate, rather than a reasonable royalty rate. *See supra* note 15. The distinction, however, does not seem to bear on the admissibility of the settlement offer.

litigation.”<sup>78</sup> The District of Delaware has similarly ruled to “exclude all evidence relating to negotiations of [settlement] licenses, including the license agreements themselves” where “the agreements arose in a context where litigation was threatened or at least probable.”<sup>79</sup> Other courts have reached similar conclusions.<sup>80</sup>

Despite this authority suggesting that third-party settlement-related evidence ought to be inadmissible under Rule 408, some courts have found the Rule inapplicable.<sup>81</sup> For example, the Western District of Michigan, faced with a motion to exclude three separate final settlement agreements with third-parties to the litigation, ruled that “it is obvious that [Rule 408] itself does not preclude evidence of these compromises in this case because the offers to compromise the claims do not concern the claim being litigated in this case.”<sup>82</sup> In so holding, the court cited to Tenth Circuit authority<sup>83</sup> in support of the view, articulated above,<sup>84</sup> that “Rule 408 does not require the exclusion of evidence regarding the settlement

---

<sup>78</sup> *Century Wrecker Corp. v. E.R. Buske Mfg. Co.*, 898 F. Supp. 1334, 1338–42 (N.D. Iowa 1995). In *Century Wrecker*, the Northern District of Iowa granted the motion to exclude the settlement agreements “to the extent that the settlement agreements are not admissible.” However, the court found that the agreements may be admissible for purposes outside of those excluded by Rule 408, such as to show bias, or they may be admissible under Rule 705 (regarding the basis of expert testimony). *Id.* For more information regarding the Rule 408 and the use of expert testimony, see *infra* Part IV.B.

For another, similar Northern District of Iowa case, see *Pioneer Hi-Bred Intern. v. Ottawa Plant Food, Inc.*, 219 F.R.D. 135, 144 (N.D. Iowa 2003) (citing Rule 408 for proposition that “settlement agreements with other defendants cannot be admitted to show the amount of the claim against the remaining defendant”).

<sup>79</sup> *Honeywell Int’l Inc., v. Nikon Corp.*, Bo. 04-1337, 2009 WL 577274, at \*1 (D. Del. Mar. 4, 2009) (stating “licenses [that] were negotiated under threat of litigation” “should not be admitted as evidence of . . . reasonable royalty”); see also *PharmaStem Therapeutics, Inc. v. Viacell Inc.*, No. C.A. 02-148 GMS, 2003 WL 22387038, at \*4 (D. Del. Oct. 7, 2003). Like *Century Wrecker*, discussed *supra* note 78, *PharmaStem* faced the additional complication of reconciling Rule 408 with Article VII of the Federal Rules of Evidence. Unlike *Century Wrecker*, however, the court ruled that it was “not required to allow otherwise inadmissible settlement agreements into evidence simply because one party’s expert relies on them in reaching a reasonable royalty.” It thus concluded to “exclude all evidence relating to negotiations of the [third-party] licenses, including the license agreements themselves,” including stating that “[t]he parties’ experts may not rely on the [third-party] licenses.” For more information regarding the Rule 408 and the use of expert testimony, see *infra* Part III.B.

<sup>80</sup> See, e.g., *Insight Tech. Inc. v. SureFire LLC*, No. 4-cv-74, 2009 WL 3242554, at \*1 (D.N.H. Oct. 8, 2009) (“[S]ettlement . . . made to resolve ongoing litigation . . . is therefore not probative of a reasonable royalty”).

<sup>81</sup> A few cases have sensibly reasoned that Rule 408 does not apply to agreements reached where “[t]here was no threat of litigation . . . nor was the . . . settlement negotiated against a backdrop of continuing litigation.” *Studiengesellschaft Kohle, m.b.H. v. Dart Industries, Inc.*, 862 F.2d 1564, 1572 (Fed. Cir. 1988). However, because these cases do not concern settlements arising out of litigation, they are not germane to the discussion here.

<sup>82</sup> *Donnelly Corp. v. Gentex Corp.*, 918 F. Supp. 1126, 1133 (W.D. Mich. 1996).

<sup>83</sup> *Id.* (citing *Broadcort Capital Corp. v. Summa Medical Corp.*, 972 F.2d 1183, 1194 (10th Cir.1992)).

<sup>84</sup> See *supra* notes 65–66 and accompanying text.

of a claim different from the one litigated.”<sup>85</sup> Despite finding Rule 408 inapplicable, the court ultimately ruled the settlement agreements inadmissible under Rule 403. Rule 403 provides that evidence which is more prejudicial than probative may be excluded.<sup>86</sup> The Western District of Michigan, citing to the Federal Circuit’s decision in *Hanson*, found that “the rates paid . . . as a result of settlement negotiations may not be considered since they do not accurately reflect what a willing licensee would pay a willing licensor in an arm’s length negotiation.”<sup>87</sup> The court accordingly excluded the evidence. Other courts have reached similar conclusions.<sup>88</sup>

Contrastingly, the Northern District of Illinois — yet another notable patent jurisdiction<sup>89</sup> — has suggested that final settlement agreements with third-parties to the litigation are not only beyond the scope of Rule 408’s exclusionary principle, but are also admissible under Rule 403. Although *Sunstar* actually involved a claim of trademark infringement, the Northern District of Illinois’s ruling in that case leaned heavily on patent decisions,<sup>90</sup> including *Rude v. Westcott*, to find that neither Rule 408 nor Rule 403 applied. *Sunstar* sought to exclude evidence “pertaining to any purported reasonable royalty or other damages calculations,” including final settlement agreements with third-parties to the litigation.<sup>91</sup> With respect to Rule 408, the court ruled that because “the dispute under negotiation in the [final settlement agreement] is different than the dispute at issue in this litigation, Rule 408 does not bar this evidence from being considered.”<sup>92</sup> With respect to Rule 403, the court found that the Supreme Court’s decision “in *Rude* governs the weight, not the admissibility of such license evidence in a reasonable royalty analysis,” and thus concluded that “that any prejudice from admitting the [settlement agreement at issue] for the purpose of establishing a reasonable royalty rate does not substantially outweigh their probative value, as required by Rule 403.”<sup>93</sup>

In summary, the federal courts and the Advisory Committee have relied on varying methodologies to reach different conclusions regarding the admissibility of settlement-related evidence for the determination of patent damages. The results are a mess. The Committee Notes to the Rule seem to bar the admission of all settlement-related evidence. Nevertheless, the federal courts have taken a narrower view of Rule 408, applying the

---

<sup>85</sup> *Towerridge Inc. v. T.A.O., Inc.*, 111 F.3d 758, 769 (10th Cir. 1997) (citing *Broadcort Capital*, 972 F.2d at 1194).

<sup>86</sup> FED. R. EVID. 403.

<sup>87</sup> *Donnelly*, 918 F. Supp. at 1133.

<sup>88</sup> See *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F. Supp. 2d 147, 159 (citing to both Rule 403 and Rule 408 for the propositions that “settlements offered, negotiated or made under threat of litigation are generally not considered probative of a reasonable royalty” and that “whatever relevance the evidence could have as to reasonable royalty is substantially outweighed by the unfair prejudice”). The Court’s ultimate analysis appears to rest on Rule 403, rather than Rule 408.

<sup>89</sup> The Northern District of Illinois heard, from 2002 to 2006, 5.6% of all federal patent cases despite hearing only 3.6% of all federal civil cases. Leychkis, *supra* note 37, at 204.

<sup>90</sup> *Sunstar Inc. v. Alberto-Culver Inc.*, No. 01 C 0736, 01 C 5825, 2004 WL 1899927, at \*30–31 (N.D. Ill. Aug. 23, 2004) (citing several patent cases from the Supreme Court, Federal Circuit, Seventh Circuit, and elsewhere).

<sup>91</sup> *Id.* at \*28.

<sup>92</sup> *Id.* at \*29.

<sup>93</sup> *Id.* at \*30.

exclusionary rule only where the court finds a relationship between the settled claim and the litigated claim. Some courts have applied Rule 408 to rule evidence inadmissible. Other courts, leaning on circuit precedent taking an even narrower view of Rule 408's exclusionary principle, have found the rule inapplicable, but nevertheless have excluded settlement-related evidence under Rule 403. Still others have found that neither Rule 408 nor Rule 403 bars the admission of final settlement agreements into evidence. Thus, courts across the country have failed to reach consensus regarding the discovery as well as the admission of settlement-related evidence to determine damages for patent infringement. The Federal Circuit's decision in *ResQNet*, discussed in the next Part, appears to have deepened this confusion.

## II. *RESQNET* AND THE NEW RULES FOR SETTLEMENT-RELATED EVIDENCE FOR PATENT DAMAGES

In February of 2010, the Federal Circuit issued its opinion in *ResQNet*. This decision has had important implications for the use of settlement-related evidence for the determination of patent damages. In *ResQNet*, the Federal Circuit stated that the "most reliable" evidence of such damages may be a license that emerges from the settlement of other litigation.<sup>94</sup> In the short time since this decision, patent practitioners have leaned on this statement to support the discovery and admission of settlement-related evidence. The results have been mixed. Part II explains the Federal Circuit's decision in *ResQNet*, and describes the ensuing confusion.

### A. *ResQNet.com, Inc. v. Lansa, Inc.*

In 2001, ResQNet filed a complaint in the Southern District of New York, alleging that Lansa had infringed several patents owned by ResQNet.<sup>95</sup> In 2008, following a bench trial, the district court issued a decision that awarded ResQNet \$506,325.00 in damages, reflecting a 12.5% reasonable royalty rate, as applied to Lansa's revenues from the sale of infringing software.<sup>96</sup> Lansa appealed.<sup>97</sup> On appeal, the Federal Circuit ruled that the damages award was "inconsistent with sound damages jurisprudence" because it "relied on speculative and unreliable evidence divorced from proof of economic harm."<sup>98</sup> The Federal Circuit vacated the award and remanded to the Southern District of New York.<sup>99</sup>

In reaching its conclusion, the Federal Circuit did not consider the admissibility of any of the evidence presented to the court. Rather, it scrutinized the evidence in the record relative to the factors articulated in *Georgia-Pacific* that form the basis of a reasonable royalty determination.<sup>100</sup> Specifically, the court noted that the reasonable royalty analysis requires the fact-finder to consider "royalties received by the patentee from existing

---

<sup>94</sup> *ResQNet.com, Inc. v. Lansa, Inc.*, 594 F.3d 860 (Fed. Cir. 2010) (finding that "the most reliable license in this record arose out of litigation").

<sup>95</sup> *ResQNet.com, Inc. v. Lansa, Inc.*, 533 F. Supp. 2d 397, 403 (S.D.N.Y. 2008).

<sup>96</sup> *Id.* at 868.

<sup>97</sup> *Id.*

<sup>98</sup> *Id.*

<sup>99</sup> *Id.*

<sup>100</sup> See *supra* Part I.A (discussing reasonable royalty determinations and *Georgia-Pacific* factors)

licenses.”<sup>101</sup> In *ResQNet*, the Federal Circuit, relying on its own recent precedent, clarified that courts should “consider[] only past and present licenses to the actual patent and the actual claims in litigation,” and that courts should “exercise vigilance when considering past licenses to technologies other than the patent in suit.”<sup>102</sup> Reviewing the evidence presented to the district court, the Federal Circuit found that ResQNet’s expert “used licenses with no relationship to the claimed invention to drive the royalty rate up to unjustified double-digit levels.”<sup>103</sup> Thus, because the district court “made no effort to link certain licenses to the infringed patent,” the Federal Circuit remanded with instructions to rely on “evidence of licenses on the claimed technology.”

Notably, the Federal Circuit indicated that evidence of licenses for the claimed technology could include final settlement agreements arising out of previous litigation between ResQNet and outside third parties.<sup>104</sup> The court acknowledged its precedents to the contrary: The decision in *ResQNet* quoted *Hanson’s* statement that “license fees negotiated in the face of a threat of litigation may be strongly influenced by a desire to avoid full litigation.”<sup>105</sup> Nevertheless, the Federal Circuit instructed the trial court to “not rely on unrelated licenses to increase the reasonable royalty rate,” while simultaneously suggesting “that the most reliable license in this record arose out of [other] litigation,” thereby implying, as we will see, that licenses emerging from third-party settlements can be reliable evidence of a related license.<sup>106</sup>

The Federal Circuit reached its decision over the dissent of Judge Newman, who disagreed with the majority’s emphasis of the third-party settlement license. Judge Newman suggested that the majority’s decision “exclude[s] all evidence except for the royalty in the settlement agreement” even though “[t]he district court observed that licenses entered during litigation are not necessarily comparable to licenses negotiated between a willing licensor and licensee.”<sup>107</sup> Indeed, the dissent notes that the final settlement agreement to which the majority alluded included a “royalty significantly lower than the . . . average of ResQNet’s other licenses” in evidence.<sup>108</sup> Further, Judge Newman noted that the majority opinion threatens to “diverge from principles of the hypothetical negotiation” because “negotiations performed in the context of litigation are not reliable as

---

<sup>101</sup> *Id.* at 869; *see also* *Georgia-Pacific Corp. v. United States Plywood Corp.*, 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970).

<sup>102</sup> *ResQNet*, at 869 (*citing* *Lucent Techs., Inc. v. Gateway*, 580 F.3d 1301, 1329 (Fed. Cir. 2009)) (emphasis added). The court’s statements in *ResQNet* and *Lucent* seem to be part of a new vigilance by the Federal Circuit regarding damages awards in patent cases. Brandon Crase et al., *The Law of Patent Damages: Who Will Have the Final Say?*, 22 NO. 4. INTELL. PROP. & TECH. L.J. 22 (2010) (noting that recent decisions, including *Lucent*, show that courts are “polic[ing] patent damage awards”).

<sup>103</sup> *ResQNet*, at 870.

<sup>104</sup> *Id.* at 871--72. There were two final settlement agreements at issue in the *ResQNet* case. One was an agreement between ResQNet and Seagull Software Systems. The second was between ResQNet and Zephyr Development Corporation. *Id.* at 878 (Newman, J., concurring in part and dissenting in part).

<sup>105</sup> *Id.* at 872 (*quoting* *Hanson v. Alpine Valley Ski Area, Inc.*, 718 F.2d 1075, 1078--79 (Fed. Cir. 1989)).

<sup>106</sup> *Id.* at 872.

<sup>107</sup> *Id.* at 879 (Newman, J., concurring in part and dissenting in part).

<sup>108</sup> *Id.* at 878.

a basis for determining a reasonable royalty.”<sup>109</sup> Rather, “litigation settlements may be based on unique considerations.”<sup>110</sup> Citing to the Federal Circuit’s precedent set in *Hanson*, Judge Newman argued that “the royalties of litigation-induced licenses should not be considered.”<sup>111</sup>

Despite Judge Newman’s warning that controlling precedent and public policy caution against relying on a settlement license for the determination of a reasonable royalty, the panel majority remained unconvinced. Thus, the Federal Circuit implicitly condoned the use of third-party final settlement agreements by directing the district court to “reconsider the reasonable royalty calculation” by making “factual findings that account[] for the technological and economic differences between those licenses” that “consider the panoply of events and facts that occurred [after infringement began]” — all the while suggesting that the “most reliable license in th[e] record arose out of litigation.”<sup>112</sup>

## B. Using Settlement-Related Evidence to Determine Patent Damages after *ResQNet*

Patent litigants and practitioners have quickly begun to cite *ResQNet* in support of arguments to discover and admit settlement-related evidence.<sup>113</sup> Thus far, the Federal Circuit has declined any opportunity to clarify the reach of its holding in *ResQNet*.<sup>114</sup> Absent such guidance, the results reached in the districts have varied widely. This section deciphers the various rulings of the federal courts on such motions, demonstrating the confusion that *ResQNet* has wrought.

### 1. *Discovery of Settlement-Related Evidence to Determine Patent Damages after ResQNet*

In the time since the Federal Circuit issued its opinion *ResQNet*, several cases across multiple districts have cited to it in their rulings on discovery motions involving

---

<sup>109</sup> *Id.* (quoting Corrected Brief in Opposition at 42).

<sup>110</sup> *Id.* at 880 (Newman, J., concurring in part and dissenting in part).

<sup>111</sup> *Id.* (citing *Hanson v. Alpine Valley Ski Area, Inc.*, 718 F.2d 1075, 1078-79 (Fed. Cir. 1983)).

<sup>112</sup> *Id.* (internal quotation marks omitted); see also Plaintiff/Cross-Appellant St. Clair Intellectual Property Consultants Inc.’s Corrected Reply Brief, *St. Clair Intell. Prop. Consultants Inc. v. Canon Inc.*, Nos. 2009-1052, 2010-1137, 2010-1140 (Fed. Cir. Jun 21, 2010) at 2010 U.S. Fed. Cir. Briefs LEXIS 240 (arguing to the Federal Circuit that settlement licenses were erroneously excluded at trial).

<sup>113</sup> See, e.g., Parker H. Bagley & Robert C. Scheinfeld, *The Evolving Law of Reasonable Royalty Patent Infringement Damages*, N.Y.L.J. at 3 (Nov. 23, 2010) (noting that *ResQNet* “has been widely viewed as potentially opening the door for usage of licenses obtained in settlement negotiations as competent proof of what is a reasonable royalty”).

<sup>114</sup> See *In re U.S. Bank Nat’l Ass’n*, No. 930 (Miscellaneous Docket), 2010 U.S. App. LEXIS 6682, at \*2 (Fed. Cir. Mar. 15, 2010) (declining to order writ of mandamus on grounds that the district court misapplied *ResQNet*, stating that such a challenge is more appropriately raised after final judgment).

settlement-related evidence.<sup>115</sup> Thus far, the federal courts have agreed that final settlement agreements may be the subject of discovery.<sup>116</sup> This is consistent with pre-*ResQNet* practice.

However, the response to *ResQNet* regarding the discovery of settlement negotiation-related evidence, as compared to final settlement agreements, has been more fractured. Shortly after the *ResQNet* decision, the Eastern District of Texas faced a motion in *Tyco Healthcare* to compel discovery of “communications between [the defendants and a third-party] that culminated in a license agreement.”<sup>117</sup> That is, the plaintiffs sought discovery of settlement negotiation-related evidence. In response, the defendants argued that such evidence was “protected by settlement negotiations privilege,”<sup>118</sup> as recognized in *Goodyear* and followed in the Eastern District of Texas.<sup>119</sup> The plaintiffs, however, argued that “the *Goodyear* doctrine has been called into doubt” by *ResQNet*.<sup>120</sup>

Although Judge Ward acknowledged that the Eastern District of Texas “ha[d] in the past followed *Goodyear* generally and adopted a bright-line rule that settlement negotiations are privileged,” he found that the court had to “shift its approach toward the discoverability of settlement negotiations” in light of *ResQNet*.<sup>121</sup> Specifically, Judge Ward relied on language in the *ResQNet* opinion directing the district court to “consider the

---

<sup>115</sup> This reliance on *ResQNet* is odd, given that Federal Circuit precedent does not normally appear to be binding on district courts for discovery-related matters. *Dorf & Stanton Comm'ns v. Molson Breweries*, 100 F.3d 919, 922 (Fed. Cir. 1996) (“Because an order compelling discovery is not unique to patent law, we agree that Second Circuit law must be considered for the proper standard of review”); *see also* *American Standard Inc. v. Pfizer Inc.*, 828 F.2d 734, 739 (Fed. Cir. 1987) (stating that regional circuit law applies to orders refusing to compel discovery); but *see* *Small v. Nobel Biocare USA*, 2011 U.S. Dist. LEXIS 77838 (S.D.N.Y. July 19, 2011) at \* 11 n.2 (“Where, as here, the determination of a discovery dispute implicates or relates to an issue of substantive patent law, Federal Circuit law applies” (citing, *inter alia*, *Advanced Cardiovascular Sys., Inc. v. Medtronic, Inc.*, 265 F.3d 1294, 1307-08 (Fed. Cir. 2001))). Even district courts in the Sixth Circuit, where *Goodyear* is binding precedent, have chosen to follow *ResQNet*'s rule if a *Goodyear* argument was waived. *Delphi Auto. Sys., LLC v. Vehicle Occupant Sensing Sys., LLC*, 2011 U.S. Dist. LEXIS 42236 at \*4 n.1 (E.D. Mich. Apr. 19, 2011).

<sup>116</sup> *Small v. Nobel Biocare USA, LLC*, 2011 U.S. Dist. LEXIS 77838 at \*17 (S.D.N.Y. July 19, 2011) (compelling production of a third-party settlement agreement); *Pandora Jewelry v. Bajul Imps.*, 2011 U.S. Dist. LEXIS 27340 (E.D. Mo. Mar. 17, 2011) (same); *Wyeth v. Orgenus Pharma*, No. 09-3235 (FLW), 2010 U.S. Dist. LEXIS 111004, at \*11 (D.N.J. Oct. 19, 2010) (ruling that final settlement agreements may be discoverable where those “settlement agreements may lead to the discovery of admissible evidence on the question of the damages”); *Software Tree, LLC v. Red Hat, Inc.*, No. 6:09-CV-097, 2010 WL 2788202, at \*5 (E.D. Tex. June 25, 2010) (ruling that a defendant may seek discovery of a complete final settlement agreement between a plaintiff and a third-party, including all exhibits, to understand how the settlement payment was structured)

<sup>117</sup> *Tyco Healthcare Grp. v. E-Z-EM, Inc.*, No. 2:07-CV-262 (TJW), 2010 WL 774878, at \*1 (E.D. Tex. Mar. 2, 2010).

<sup>118</sup> *Id.* at \*4.

<sup>119</sup> *See supra* notes 39-44 and accompanying text (discussing Eastern District of Texas's previous reliance on *Goodyear* to find settlement-negotiation related evidence privileged).

<sup>120</sup> *Tyco*, at \*4.

<sup>121</sup> *Id.*; *see also* *Delphi Auto. Sys., LLC v. Vehicle Occupant Sensing Sys., LLC*, 2011 U.S. Dist. LEXIS 42236 at \*4-\*5 & n.1 (E.D. Mich. Apr. 19, 2011) (declining to enforce *Goodyear*)

panoply of events and facts” and to “make factual findings that account for the . . . differences” between prior licenses and the present patent, including, for example, facts related to prior settlement agreements.<sup>122</sup> Thus, Judge Ward found that “*ResQNet* suggests that the underlying negotiations are relevant to the calculation of a reasonable royalty.”<sup>123</sup> Accordingly, Judge Ward broke from the Eastern District of Texas’s past practice, and compelled the production of settlement negotiation-related evidence.<sup>124</sup> Judge Folsom, also of the Eastern District of Texas, reached a similar conclusion. In *Datatransury Corp. v. Wells Fargo & Co.*, the court, citing to *Tyco Healthcare*, stated that the “[d]efendants are entitled to discovery on the negotiations surrounding those [settlement-based] licenses.”<sup>125</sup> Judge Ward, however, has been cautious to prohibit discovery into settlement negotiations that have not bore fruit.<sup>126</sup> That is, discovery of the negotiations is only relevant insofar as it inform an analysis of the actual settlement agreement.<sup>127</sup> Nevertheless, in both *Tyco Healthcare* and *Datatransury*, the court found no bar to the discovery of settlement negotiation-related evidence.

More recently, Judge Davis of the Eastern District of Texas also ruled in favor of the discoverability of settlement negotiation-related evidence. In *Clear with Computers*,<sup>128</sup> Judge Davis compelled the production of settlement-related communications between Clear with Computers and outside third parties. The court’s ruling, however, was less decisive than those in *Tyco Healthcare* and in *Datatransury*. While *Tyco Healthcare* and *Datatransury* may be read to endorse a view that settlement negotiation-related evidence is generally discoverable in light of *ResQNet*, *Clear with Computers* stated that “allowing discovery will be the exception, not the rule, and in most cases discovery of the negotiations will not be warranted.”<sup>129</sup>

Judge Davis found that discovery was warranted in *Clear with Computers* because of two factors. First, the court found that “an accurate understanding” of the final settlement agreements which arose out of the settlement negotiations at issue was especially “important” because “the settlement agreements will likely be the only licenses of the patents-in-suit.”<sup>130</sup> That is, because these potentially admissible<sup>131</sup> final settlement

---

<sup>122</sup> *Tyco*, at \*4.

<sup>123</sup> *Id.* at \*8.

<sup>124</sup> *Id.*

<sup>125</sup> *Datatransury Corp. v. Wells Fargo & Co.*, No. 2:06-CV-72 DF, 2010 WL 903259 at \*20 (E.D. Tex. Mar. 4, 2010).

<sup>126</sup> *Mondis Tech. v. LG Elecs.*, 2011 U.S. Dist. LEXIS 47807 at \*25–\*26 (E.D. Tex. May 4, 2011) (“[I]t is one thing to allow discovery of settlement negotiations . . . where the negotiations ultimately resulted in a license, but it is another thing to allow discovery of settlement or licensing negotiations where a license has not yet been adopted.”)

<sup>127</sup> *Id.* at \*26.

<sup>128</sup> *Clear with Computers, LLC v. Bergdorf Goodman, Inc.*, No. 6:09CV481, 2010 U.S. Dist. LEXIS 127193 (E.D. Tex. Nov. 29, 2010).

<sup>129</sup> *Id.* at \*6; *see also* *MSTG Inc. v. AT&T Mobility LLC*, No. 08 C 7411, 2011 U.S. Dist. LEXIS 5533, at \*39 (N.D. Ill. Jan. 20, 2011) (“[T]his Court finds that the most reasonable interpretation of *ResQNet* is that it does not require the discovery of settlement negotiations, although its exceptionally broad language may permit it under some circumstances.”) (further clarified in 2011 U.S. Dist. LEXIS 23417).

<sup>130</sup> *Id.* at \*6.

agreements may be the only reliable evidence of infringement damages, “the settlement communications are likely to be key in determining whether the settlement agreements accurately reflect the inventions’ value or were strongly influenced by a desire to avoid or end full litigation.”<sup>132</sup> Second, the court stated that because Clear with Computers’ “business is to litigate and license the patents” at issue, among other patents, “the prejudice to [Clear with Computers] is of decreased significance.”<sup>133</sup> In light of these factors, Judge Davis ruled that settlement negotiation-related evidence should be discoverable in this case, despite suggesting that such evidence should generally not be discoverable.

Other decisions have gone even further in maintaining a privileged space for settlement negotiation-related evidence: Instead of allowing discovery only under limited circumstances, some judges have continued to hold that a privilege attaches to all settlement negotiation-related evidence. In *Software Tree, LLC v. Red Hat, Inc.*, Judge Love, a magistrate judge in the Eastern District of Texas, noted that the Eastern District traditionally “has accepted the *Goodyear* rationale and protected negotiations from discovery.”<sup>134</sup> Despite a brief examination of the decisions in *Tyco Healthcare* and *Datatresury*, Judge Love concluded that “*ResQNet* has not upset this district’s case law regarding discoverability of settlement negotiations.”<sup>135</sup> Instead, Judge Love followed the district court’s previous precedent,<sup>136</sup> holding that “this Court recognizes a settlement privilege that applies to negotiations underlying licensing agreements arising out of litigation.”<sup>137</sup>

---

<sup>131</sup> The court stated that the admissibility of such final settlement agreements is decided on a “case-by-case” basis, citing *ReedHycalog UK, Ltd. v. Diamond Innovations, Inc.*, No. 6:08-CV-325, 2010 U.S. Dist. LEXIS 78138, at \*9 (E.D. Tex. Aug. 2, 2010). For further discussion on the admissibility of final settlement agreements in light of *ResQNet*, including a discussion of *ReedHycalog*, see *infra* Part II.B.2.

<sup>132</sup> *Id.* at \*4–\*5. Specifically, Judge Davis stated that the admissibility of such final settlement agreements is decided on a “case-by-case” basis, and that such admissibility “will likely depend on whether they are an accurate reflection of the inventions’ value.” Federal Rule of Civil Procedure 26 provides that information may be discoverable if it “appears reasonably calculated to lead to the discovery of admissible evidence.” FED. R. CIVIL PROC. 26. Thus, discovery of settlement-negotiation related evidence may be allowable if it informs the question of the admissibility of a related final settlement agreement.

<sup>133</sup> *Clear with Computers, LLC v. Bergdorf Goodman, Inc.*, No. 6:09CV481, 2010 U.S. Dist. LEXIS 127193 (E.D. Tex. Nov. 29, 2010); see also *Delphi Auto. Sys., LLC v. Vehicle Occupant Sensing Sys., LLC*, 2011 U.S. Dist. LEXIS 42236 & \*4–\*5 n.2 (E.D. Mich. Apr. 19, 2011). Clear with Computers is a “non-practicing entity” (sometimes pejoratively referred to as a “patent troll”). See, e.g., John R. Allison, Mark A. Lemley & Joshua Walker, *Extreme Value or Trolls on Top? The Characteristics of the Most Litigated Patents*, 158 U. PA. L. REV. 1, 33 (2009) (listing Clear with Computers as the assignee of one of the most litigated patents) [hereinafter Allison et al., *Extreme Value*]; Joe Mullen, *Patent Litigation Weekly: Orion’s Star Dims with Appellate Ruling*, at [http://www.law.com/jsp/cc/PubArticleCC.jsp?id=1202462660028&Patent\\_Litigation\\_Weekly\\_Orions\\_Star\\_Dims\\_With\\_Appellate\\_Ruling](http://www.law.com/jsp/cc/PubArticleCC.jsp?id=1202462660028&Patent_Litigation_Weekly_Orions_Star_Dims_With_Appellate_Ruling).

<sup>134</sup> *Software Tree, LLC v. Red Hat, Inc.*, No. 6:09-CV-097, 2010 WL 2788202, at \*9 (E.D. Tex. June 25, 2010).

<sup>135</sup> *Id.* at \*13.

<sup>136</sup> See *supra* notes 39-44 and accompanying text.

<sup>137</sup> *Software Tree*, 2010 WL 2788202, at \*13-14.

The decision in *ResQNet* has been interpreted in a variety of ways. Although the courts (so far) have not split over the discoverability of final settlement agreements, they have reached vastly divergent conclusions with respect to the discoverability of settlement negotiation-related evidence. Some judges have ruled that *ResQNet* forces a “shift i[n] approach toward the discoverability of settlement negotiations,”<sup>138</sup> while others argue that “*ResQNet* has not upset . . . case law regarding discoverability of settlement negotiations.”<sup>139</sup> Still others have charted a middle course, suggesting that discovery “will be the exception, not the rule.”<sup>140</sup> Notably, *several of these competing rulings come from within a single district* — the Eastern District of Texas. Taken together with the pre-*ResQNet* rulings, there seems to be a complete absence of useful guidance on this issue: Disagreement on the scope of a discovery privilege, if any, exists within districts, across districts, and even across the circuits. This split of authority regarding settlement negotiation-related evidence has considerable implications for practitioners, as it becomes increasingly difficult to predict whether previously-confidential communications may become the subject of extensive discovery.

## 2. Admission of Settlement-Related Evidence to Determine Patent Damages after *ResQNet*

Discoverability of settlement-related evidence is not the only split to have been agitated by *ResQNet*: the confusion over the admissibility of such evidence has also deepened since the Federal Circuit’s decision. Although no case has yet addressed the possibility of admitting settlement negotiation-related evidence after *ResQNet*, at least six cases across four different districts have commented on *ResQNet*’s impact on the admissibility of final settlement agreements.<sup>141</sup>

The Northern District of Illinois has suggested that Rule 408 may bar the admission of final settlement agreements. Oddly, this ruling comes despite previous rulings in the district that Rule 408 is inapplicable to final third-party settlement agreements.<sup>142</sup> The

---

<sup>138</sup> *Id.*; see also *Automated Merchandising Systems Inc. v. Crane Co.*, 2011 WL 5025907, \*5+ (N.D.W. Va. Oct. 21, 2011) (*ResQNet* “seem[s] to indicate that [settlement-related documents] should be discoverable so that parties can establish a factual basis for a reasonable royalty”); *High Point SARRL v. Sprint Nextel Corp.*, 2011 WL 3241432 (D. Kan. July 29, 2011) (compelling production of settlement communications).

<sup>139</sup> *Software Tree, LLC v. Red Hat, Inc.*, No. 6:09-CV-097, 2010 WL 2788202, at \*13 (E.D. Tex. June 25, 2010).

<sup>140</sup> *Id.* at \*6.

<sup>141</sup> As with discovery, the reliance on *ResQNet* may be misplaced. The Federal Circuit has repeatedly stated that “[w]hen reviewing the evidentiary findings of the district court, [it] appl[ies] the law of the circuit in which the district court sits.” *Monsanto Co. v. David*, 516 F.3d 1009 (Fed. Cir. 2009). Federal Circuit law only applies where the use of evidence is restricted or governed by a principle in patent law. *Sulzer Textil A.G. v. Picanol N.V.*, 358 F.3d 1356, 1363 (Fed. Cir. 2004). In the cases discussed here, the applicable law is not specific to patent law but is rather a general Federal Rule of Evidence.

<sup>142</sup> See *supra* notes 90-93 and accompanying text. (discussing *Sunstar*, a Northern District of Illinois case which held that neither Rule 408 nor Rule 403 barred the admission of final settlement agreements with third-parties). The ruling in *Abbott Labs* did not cite *Sunstar*, but instead leaned

Northern District of Illinois's ruling in *Abbott Labs v. Sandoz* found it "clear that [Abbott's final settlement agreements with third-parties] would be inadmissible under Fed. R. Evid. 408 and the wealth of cases excluding evidence of settlement agreements offered to establish reasonable royalty rates in the context of patent infringement,"<sup>143</sup> despite the defendant's reliance on *ResQNet*. The court cited two justifications for finding such agreements generally inadmissible, echoing the Advisory Committee's original justifications for Rule 408.<sup>144</sup> First, the court suggested that the admission of final settlement agreements with third-parties might "chill parties' willingness to engage in settlement negotiations" in the future.<sup>145</sup> Second, the court noted that "such agreements are not very reliable guides for determining the value of a reasonable royalty."<sup>146</sup>

While *Abbott Labs* suggested that final settlement agreements are generally inadmissible under Rule 408, Judge Love of the Eastern District of Texas ruled such agreements inadmissible under Rule 403. Although Judge Love didn't consider the question of whether Rule 408 applied,<sup>147</sup> his ruling in *Fenner Investments, Ltd. v. Hewlett-Packard Co.* clearly stated that "the recent *ResQNet* decision has not altered the admissibility of agreements entered into under the threat of litigation," in part because "[i]n *ResQNet*, the litigation-related licenses were part of the record and their admissibility

---

heavily on outside authority, including *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F. Supp. 2d 147 (D.R.I. 2009), *Insight Technology Inc. v. SureFire LLC*, No. 04-CV-74-JD, 2009 U.S. Dist. LEXIS 97183, at \*1 (D.N.H. 2009), and *Cornell Univ. v. Hewlett-Packard Co.*, No. 01-CV-1974, 2008 U.S. Dist. LEXIS 41833, at \*1 (N.D.N.Y. May 21, 2008) (Rader, J., sitting by designation). The court also cited to a 1994 Northern District of Illinois ruling in *Vardon Golf Co. v. BBMG Golf Ltd*, 156 F.R.D. 641 (N.D. Ill. 1994). *Vardon Golf* ruled on the discoverability (rather than admissibility) of settlement negotiation-related evidence between the parties in litigation, rather than with a third-party. The court found that because "settlement evidence would be barred under Rule 408," and because the plaintiff "ha[d] made no showing that the settlement evidence is reasonably calculated to lead to discovery of other admissible evidence," as required by FED. R. CIV. PROC. 26, the motion to compel was denied.

<sup>143</sup> *Abbott Labs v. Sandoz*, No. 05 C 5373, 2010 U.S. Dist. LEXIS 109114, at \*7 (N.D. Ill. May 24, 2010). Although the court suggested that the final settlement agreements may be inadmissible, the motion in limine to exclude the evidence was ultimately denied. Citing to *Century Wrecker*, discussed *supra* note 78 and accompanying text, the court ruled that the plaintiff may introduce expert testimony which relies on those final settlement agreements. Further, if the plaintiff's expert does rely on those agreements, then, under Rule 705, the defendant may use the final settlement agreements to cross-examine the expert witness.

The District of Utah reached a similar decision in a post-*ResQNet* ruling. In a footnote to *Phillip M. Adams & Assocs, LLC v. Asustek Computer, Inc.*, No. 1:05-CV-64 TS, 2010 U.S. Dist. LEXIS 78857, at \*14 n.12 (D. Utah Aug. 4, 2010), the court stated that "*ResQNet* does not stand for the proposition that such licenses are always admissible." Nevertheless, the court found that final settlement agreements may be admissible to cross-examine expert witnesses at trial who rely on such evidence in their testimony.

<sup>144</sup> See *supra* notes 61–64 and accompanying text.

<sup>145</sup> *Abbott Labs*, 2010 U.S. Dist. LEXIS 109114, at \*8.

<sup>146</sup> *Id.*

<sup>147</sup> *Fenner Investments, Ltd. v. Hewlett-Packard Co.*, No. 6:08-cv-273, 2010 U.S. Dist. LEXIS 41514, at n.2 (E.D. Tex. Apr. 28, 2010).

was not before the court.”<sup>148</sup> Instead, the court, relying on *Rude*, emphasized that “royalties paid to avoid litigation are not a reliable indicator of the value of a patent.”<sup>149</sup> Citing to several cases to show that “[d]istrict courts routinely exclude settlement licenses,” Judge Love ruled to exclude the final settlement agreements because “the potential for prejudice and jury confusion substantially outweigh whatever probative value the agreements may have.”<sup>150</sup>

Other Eastern District of Texas cases, however, have ruled final settlement agreements admissible under Rule 403. In *ReedHycalog*, Judge Davis stated that *ResQNet* “was not the adoption of a bright[-]line rule regarding the reliability of litigation licenses nor even a ruling on their admissibility”<sup>151</sup> Instead, *ReedHycalog* found that final settlement agreements must be assessed “on a case-by-case basis” under Rule 403 to “determin[e] their admissibility”<sup>152</sup> Although *ReedHycalog*, like *Fenner*, did not consider the applicability of Rule 408, it did, citing to cases such as *Rude* and *Hanson*, note that “[h]istorically, courts have excluded licenses made to settle litigation, finding their probative value highly questionable.”<sup>153</sup> Nevertheless, the court found the “litigation licenses in this case [to be] consistent with the other nine non-litigation licenses” in evidence.<sup>154</sup> Accordingly, the court ruled the final settlement agreement admissible under Rule 403.

Although *Fenner* and *ReedHycalog* reached different conclusions regarding the admissibility of final settlement agreements under Rule 403, both decisions agreed that *ResQNet* “has not altered the admissibility of agreements entered into under the threat of litigation.”<sup>155</sup> Contrastingly, *Datatreasury*, another Eastern District of Texas decision, ruled that “*ResQNet* may have changed the legal landscape regarding admissibility of litigation-related licenses,” finding specifically that “[i]n light of *ResQNet*, litigation-related licenses should not be excluded.”<sup>156</sup> These statements in *Datatreasury* seem to endorse an

---

<sup>148</sup> *Id.* at \*8–\*9. Judge Love also distinguished *ResQNet* on two other grounds. First, he noted that *Fenner* was to be tried by a jury, while *ResQNet* was a bench trial, and so the court had no occasion to consider the potential for jury confusion. Second, Judge Love noted that the final settlement agreement in *ResQNet* was offered as proof of the first *Georgia-Pacific* factor, while the agreement in *Fenner* was offered as proof of the twelfth *Georgia-Pacific* factor.

<sup>149</sup> *Id.*

<sup>150</sup> *Id.*; see also *ePlus, Inc. v. Lawson Software, Inc.*, No. 3:09cv620, 2011 U.S. Dist. LEXIS 7372, at \*1 (E.D. Va. Jan. 26, 2011) (finding the law to be “well-settled that settlement agreements entered into in the context of litigation may be considered, but that they have minimal probative value respecting the calculation of reasonable royalties”).

<sup>151</sup> *ReedHycalog UK, Ltd. v. Diamond Innovations, Inc.*, No. 6:08-CV-325, 2010 U.S. Dist. LEXIS 78138, at \*9 (E.D. Tex. Aug. 2, 2010).

<sup>152</sup> *ReedHycalog*, 2010 U.S. Dist. LEXIS 78138, at \*9; see also *Phillip M. Adams & Assocs. v. Asustek Computer, Inc.*, No. 1:05-CV-64 TS, 2010 U.S. Dist. LEXIS 78857, at \*14 n. 12 (D. Utah Aug. 14, 2010) (“*ResQNet* does not stand for the proposition that such licenses are always admissible.”)

<sup>153</sup> *Id.*

<sup>154</sup> *Id.*

<sup>155</sup> *Fenner* at \*8–\*9.

<sup>156</sup> *Datatreasury Corp. v. Wells Fargo & Co.*, No. 2:06-CV-72 DF, 2010 WL 903259, at \*16 (E.D. Tex. Mar. 4, 2010). For *Datatreasury*’s statements regarding the discoverability of settlement negotiation-related evidence, see *supra* note 125 and accompanying text.

interpretation of *ResQNet* that make final settlement agreements generally, if not *per se*, admissible, noting that “concerns about the reliability of litigation-related licenses are better directed to weight, not admissibility.”<sup>157</sup> The Western District of Wisconsin has followed suit, stating that “licenses arising from the resolution of unrelated patent litigation can ordinarily be considered.”<sup>158</sup>

Altogether, the district courts have come to contradictory conclusions regarding the impact of *ResQNet* on the admissibility of final settlement agreements. Some courts have stated that “*ResQNet* does not stand for the proposition that licenses are always admissible.”<sup>159</sup> Others, however, have found that “[i]n light of *ResQNet*, litigation-related licenses should not be excluded.”<sup>160</sup> Importantly, these divisions, which are grounded in an underlying circuit split over the scope of Rule 408, exist within districts and across districts — including several districts that are especially important for patent litigation, such as Eastern District of Texas and the Northern District of Illinois. This split of authority regarding the admissibility of final settlement agreements echoes the conflicts regarding the discoverability of settlement negotiation-related evidence. For both, *ResQNet* appears to have deepened a preexisting confusion regarding the proper role of settlement-related evidence in the determination of damages for patent infringement.

### III. PATENT DAMAGES AND SETTLEMENT-RELATED EVIDENCE: A FRESH LOOK AT THE LAW

The Federal Circuit’s decision in *ResQNet* has aggravated an already deep confusion across the courts. As described in detail above, the “[c]ourts are all over the map” when it comes to determining the discoverability and admissibility of settlement-related evidence for the determination of damages in patent infringement cases.<sup>161</sup> This split of authority — across and within districts — poses two important questions. First, what is the best reading of the Federal Rules of Evidence and the Federal Rules of Civil Procedure? That is, under current law, how should courts rule on motions to discover and admit settlement-related evidence? Second, should these laws be reformed? In Part III, we provide our answer to the first question, while Part IV includes our argument for the second.

---

<sup>157</sup> *Id.* at \*2. Interestingly, the defendants argued that *ResQNet* was distinguishable because it “involved a bench trial, not a jury trial.” Judge Folsom, however, found this distinction irrelevant, stating that “the licenses at issue [in *ResQNet*] were considered by that trial court sitting as trier of fact, just as the jury will sit” in *Datatresury*. This finding contrasts with the Eastern District of Texas’s ruling in *Fenner*, which distinguished *ResQNet*, in part, of the basis of the fact that *Fenner* involved a jury trial while *ResQNet* was an appeal from a bench trial. See *supra* note 148.

<sup>158</sup> *Douglas Dynamics, LLC v. Buyers Prods. Co.*, No. 09-cv-261-wmc, 2010 U.S. Dist. LEXIS 108170, at \*3 (W.D. Wisc. Oct. 8, 2010). *Douglas* cited to *ResQNet* to reach its conclusion that such final settlement agreements “can ordinarily be considered” when “determining a reasonable royalty.” However, *Douglas* ultimately ruled to exclude the final settlement agreement in question because the settlement was over a patent that was “no longer at issue” in the litigation. *Id.*

<sup>159</sup> *Phillip M. Adams & Assocs. v. Asustek Computer, Inc.*, No. 1:05-CV-64 TS, 2010 U.S. Dist. LEXIS 78857, at \*14 n.12 (D. Utah Aug. 4, 2010)

<sup>160</sup> *Datatresury Corp. v. Wells Fargo & Co.*, No. 2:06-CV-72 DF, 2010 WL 903259, at \*16 (E.D. Tex. Mar. 4, 2010).

<sup>161</sup> *Constar Int’l, Inc. v. Ball Plastic Container Corp.*, No. 05-0669, 2006 WL 6021150, at \*1 (W.D. Wis. Mar. 27, 2006)

Here, we examine the Federal Rules of Evidence with fresh eyes, and suggest a path forward for courts under existing case law, including *ResQNet*. Part III.A posits a uniform standard allowing for the discoverability of settlement-related evidence. Part III.B, however, reveals that existing law — particularly Rule 408 — wholly precludes the admission of settlement-related evidence for the determination of a reasonable royalty.

#### A. Discovery of Settlement-Related Evidence to Determine Patent Damages Under Current Law

As discussed above,<sup>162</sup> Federal Rule of Civil Procedure 26 permits the discovery of “any nonprivileged matter that is relevant to any party’s claim or defense.”<sup>163</sup> Further, Rule 26 allows that “[r]elevant information need not be admissible at the trial if the discovery appears reasonably calculated to lead to the discovery of admissible evidence.”<sup>164</sup> Based on these provisions, the discoverability of settlement-related evidence turns on two factors: first, whether such evidence is privileged; and, second, whether such evidence is minimally relevant so as to be “reasonably calculated to lead to the discovery of admissible evidence.” A closer look at the reasoning underlying the case law shows that no privilege ought to attach to settlement-related evidence and that, in most cases, the discovery of settlement-related evidence can be reasonably calculated to lead to the discovery of admissible evidence — even if not directly admissible itself. Furthermore, allowing the discovery of settlement-related evidence provides parties with a starting point for their own pretrial negotiations, thereby providing incentives for settling parties to thoroughly assess the value of their claims, and facilitating future settlements.

##### 1. *Settlement Privilege*

No court has found that a privilege attaches to final settlement agreements, and only one appellate court — the Sixth Circuit in *Goodyear* — has found that a privilege attaches to settlement negotiation-related evidence.<sup>165</sup> By contrast, several other courts have declined to follow the lead of the Sixth Circuit, explicitly holding that no settlement privilege attaches to settlement negotiation-related evidence.<sup>166</sup> The decision in *ResQNet* appears to have exacerbated this split of authority. This conflict warrants a closer examination of the factors relevant to the determination of an evidentiary privilege.

“The Supreme Court has . . . identified a number of considerations that should guide the decision whether or not to imply a new privilege under Rule 501.”<sup>167</sup> First, a privilege

---

<sup>162</sup> *Supra* note 22 and accompanying text.

<sup>163</sup> FED. R. CIV. PROC. 26.

<sup>164</sup> *Id.*

<sup>165</sup> *Goodyear Tire & Rubber Co. v. Chiles Power Supp., Inc.*, 332 F.3d 976, 979 (2003). For a discussion of *Goodyear*, see *supra* notes 26-31 and accompanying text.

<sup>166</sup> *Matsushita Elec. Indus. Co. v. MediaTek Co.*, No. C-05-3148 MMC (JCS), 2007 U.S. Dist. LEXIS 27437, at \*1 (N.D. Cal. Mar. 30 2007); *In re Subpoena Issued to Commodity Futures Trading Com'n*, 370 F. Supp. 2d 201, 211 (D.D.C. 2005); *JZ Buckingham Investments LLC v. United States*, 78 Fed. Cl. 15, 23 (2007).

<sup>167</sup> *Matsushita*, 2007 U.S. Dist. LEXIS 27437, at \*13-14.

must serve “significant public and private interest[s].”<sup>168</sup> Second, the court must consider the evidentiary harm that will follow from finding a privilege.<sup>169</sup> Third, a privilege should be rooted in a consensus among the federal or state courts.<sup>170</sup> Fourth, the court should consider any relevant actions by Congress.<sup>171</sup> Fifth, there should be some historical or statutory basis for the privilege sought.<sup>172</sup> Finally, the court should consider the list of privileges proposed by the Judicial Conference in formulating the Federal Rules of Evidence.<sup>173</sup> Although the first two factors might counsel in favor a privilege, a close analysis of the others suggests that, on balance, no privilege should attach.

With respect to the first factor, *Goodyear* has identified several important interests that are served by a settlement privilege. Specifically, the Sixth Circuit relied heavily on Rule 408 and its underlying policy rationales to conclude that “a settlement privilege should exist” because of “[t]he public policy favoring secret negotiations, combined with the inherent questionability of any statements made therein.”<sup>174</sup> Second, it seems likely that the “evidentiary benefit that would result from the denial of the privilege is modest.”<sup>175</sup> That is, extending a privilege over such documents might only shield a small portion of relevant evidence.

Even assuming that this “modest” loss of relevant evidence tends to favor privilege, the remaining four factors disfavor an evidentiary privilege. As already noted, the federal courts have failed to reach a consensus regarding the existence of settlement privilege. Similarly, an evaluation of state law “reveals that several states have expressly declined to recognize a settlement privilege.”<sup>176</sup> With respect to the fourth and fifth factors, several courts have noted that the complete text of Rule 408 actually undermines the finding of a settlement privilege. Rule 408(b) explicitly enumerates several “permissible purposes” for settlement-related evidence, including proving “bias or prejudice” or for “negating a contention of undue delay.”<sup>177</sup> If a privilege were to attach, then these exceptions would be meaningless: settlement-related evidence could not be admitted to show bias, despite the exception, because of the settlement privilege.<sup>178</sup> The Northern District of California,

---

<sup>168</sup> *Id.* at \*14 (citing *Jaffee v. Redmond*, 518 U.S. 1, 11 (1996)).

<sup>169</sup> *Jaffee*, 518 U.S. at 11–12; *Id.*

<sup>170</sup> *Jaffee*, 518 U.S. at 12–13; *Matsushita*, 2007 U.S. Dist. LEXIS 27437, at \*14.

<sup>171</sup> *Univ. of Penn. v. EEOC*, 493 U.S. 182, 189 (1990); *Matsushita*, 2007 U.S. Dist. LEXIS 27437, at \*14.

<sup>172</sup> *Univ. of Penn. v. EEOC*, 493 U.S. 182, 195 (1990); *Matsushita*, 2007 U.S. Dist. LEXIS 27437, at \*14.

<sup>173</sup> *United States v. Gillock*, 445 U.S. 360, 367–68 (1980); *Matsushita*, 2007 U.S. Dist. LEXIS 27437, at \*14.

<sup>174</sup> *Goodyear Tire & Rubber Co. v. Chiles Power Supp., Inc.*, 332 F.3d 976, 981 (6th Cir. 2003).

<sup>175</sup> *Jaffee*, 518 U.S. at 11–12

<sup>176</sup> *In re Subpoena Issued to Commodity Futures Trading Comm'n*, 370 F. Supp. 2d 201, 210 (D.D.C. 2005).

<sup>177</sup> FED. R. EVID. 408.

<sup>178</sup> The Sixth Circuit briefly addresses this argument in *Goodyear*, noting that “[t]he fact that Rule 408 provides for exceptions to inadmissibility does not disprove the concept of a settlement privilege.” Specifically, the Sixth Circuit drew a distinction between settlement communications and the fact of settlement negotiations or the final settlement agreement itself. In so doing, the court argued that only the communications themselves are privileged, especially in light of its finding that the Rule 408 exceptions had not been used to admit settlement communications. However, the Rule 408 exceptions do appear to apply equally to settlement communications.

among other districts, has found that, for this reason, “any federal settlement privilege is contrary to the enactment approved by the legislature.”<sup>179</sup> Similarly, the district court for the District of Columbia concluded that Congress’s enactment of Rule 408 demonstrated a preference to impose “limits on the admissibility of settlement material rather than limits on their discoverability.”<sup>180</sup> Finally, the settlement privilege is “not listed among the nine privileges identified in the Proposed Federal Rules of Evidence drafted by the Advisory Committee of the Judicial Conference.”<sup>181</sup> Thus, the balance of the relevant factors tends against establishing a settlement privilege.

As described above, the Eastern District of Texas has recently cited to *ResQNet* in support of a shift away from the *Goodyear* standard. It is important to note that the rule of discoverability articulated here is independent of the Federal Circuit’s decision.<sup>182</sup> Contrary to the assertion that *ResQNet* signaled a “shift [in] approach toward the discoverability of settlement negotiations,”<sup>183</sup> *ResQNet* only addressed evidence already in the record. *ResQNet*’s statement that “the most reliable license in th[at] record arose out of litigation”<sup>184</sup> is properly limited to a “reflection on the evidence before it,”<sup>185</sup> as the decision does not reach the discoverability of any settlement-related evidence. Instead, courts should find such evidence generally discoverable because it is not privileged, and because, as discussed below, it is reasonably calculated to lead to admissible evidence.

## 2. Reasonably Calculated to Lead to Admissible Evidence

Even though settlement-related evidence should not be subject to a privilege, it must still be “reasonably calculated to lead to the discovery of admissible evidence” in order to be discoverable.<sup>186</sup> As demonstrated above,<sup>187</sup> the settlement-related evidence is itself inadmissible to prove a reasonable royalty under Rule 408.<sup>188</sup> Nevertheless, there are at least two circumstances under which the discovery of settlement-related evidence could lead to admissible evidence.

---

<sup>179</sup> *Matsushita*, 2007 U.S. Dist. LEXIS 27437, at \*18.

<sup>180</sup> *In re Subpoena Issued to Commodity Futures Trading Comm'n*, 370 F.Supp.2d 201, 211 (D.D.C. 2005).

<sup>181</sup> *Id.*

<sup>182</sup> Indeed, Federal Circuit precedent is not normally binding on discovery-related matters. See *supra* note 115.

<sup>183</sup> *Tyco Healthcare Grp. v. E-Z-EM, Inc.*, No. 2:07-CV-262 (TJW), 2010 WL 774878, at \*6 (E.D. Tex. Mar. 2, 2010).

<sup>184</sup> *ResQNet.com, Inc. v. Lansa, Inc.*, 594 F.3d 860, 872 (Fed. Cir. 2010).

<sup>185</sup> *ReedHycalog UK, Ltd. v. Diamond Innovations, Inc.*, No. 6:08-CV-325, 2010 U.S. Dist. LEXIS 78138, at \*8-9 (E.D. Tex. Aug. 2, 2010).

<sup>186</sup> FED. R. CIV. PROC. 26.

<sup>187</sup> *Supra* Part III.A.1.

<sup>188</sup> Of course, Rule 408(b) lists permissible purposes for which settlement-related evidence may be admissible. In the event that such evidence is sought for those purposes, rather than to prove damages, such evidence should clearly be discoverable.

First, several courts have already determined that final settlement agreements may be discoverable, because they are likely to lead to admissible evidence.<sup>189</sup> First, as the court explained in *Software Tree*, an adverse party is entitled to discover a complete copy of a settlement agreement in order to determine “if the settlement sum was apportioned” in a way that affects the claim for damages. This is true even if the settlement agreement is ultimately inadmissible.<sup>190</sup> Additionally, a final settlement agreement may provide information regarding the “economic demand for the claimed technology” — a relevant reasonable royalty consideration.<sup>191</sup> Thus, final settlement agreements may lead to the discovery of relevant evidence pertaining to the possible apportionment of previous agreements, or they may inform inquiries into the relationship between the infringing and claimed technology.

These factors are especially relevant when considered in the context of expert testimony. Although the settlement-related evidence is itself not admissible, it may inform the admissible testimony of an expert witness. Federal Rule of Evidence 703 provides that the facts or data that form the basis of an expert’s opinion need not be admissible in order for the expert testimony to be admissible.<sup>192</sup> Additionally, where an expert relies on such inadmissible data, Rule 705 provides that the court may, in its discretion, allow a cross-examination of the expert which discloses the otherwise inadmissible settlement evidence.<sup>193</sup> Indeed, several courts have admitted settlement-based evidence on this basis, despite concluding that Rule 408 would otherwise preclude the admission of such evidence. In *Century Wrecker*, the Northern District of Iowa ruled that it “would find the settlement agreements inadmissible under Fed. R. Evid. 408” except for the fact that an expert witness “specifically relied upon these settlement agreements in arriving at his calculations of a reasonable royalty.”<sup>194</sup> The court instead ruled that the “defendants are entitled to present those settlement agreements and to show in what way they form an appropriate or inappropriate basis for [the expert’s] calculations.”<sup>195</sup> More recently, at least two cases decided after *ResQNet* have reached similar conclusions.<sup>196</sup> Thus, the discovery of settlement-related evidence will generally lead to admissible evidence: either expert testimony based on such settlement-related evidence, or cross-examination testimony of the expert which may include the settlement-related evidence. This is

---

<sup>189</sup> E.g., *Wyeth v. Orgenus Pharma*, No. 09-3235 (FLW), 2010 U.S. Dist. LEXIS 111004, at \*11 (D.N.J. Oct. 19, 2010).

<sup>190</sup> *Software Tree, LLC v. Red Hat, Inc.*, No 6:09-CV-097, 2010 WL 2788202 (E.D. Tex. June 24, 2010).

<sup>191</sup> *ResQNet.com, Inc. v. Lansa, Inc.*, 594 F.3d 860, 873 (Fed. Cir. 2010). *Georgia-Pacific* indicates that “[t]he established profitability of the product made under the patent; its commercial success; and its current popularity” are relevant reasonable royalty considerations. *Georgia-Pacific*, 318 F. Supp. at 1120.

<sup>192</sup> FED. R. EVID. 703.

<sup>193</sup> FED. R. EVID. 705.

<sup>194</sup> *Century Wrecker Corp. v. E.R. Buske Mfg. Co.*, 89 F. Supp. 1334, 1338–42 (N.D. Iowa 1995).

<sup>195</sup> *Id.*

<sup>196</sup> *Abbott Labs v. Sandoz* No. 05 C 5373, 2010 U.S. Dist. LEXIS 109114, at \*7 (N.D. Ill. May 24, 2010); *Phillip M. Adams & Assocs., LLC v. Asustek Computer, Inc.*, No. 1:05-CV-64 TS, 2010 U.S. Dist. LEXIS 78857 at \*14 n.12 (D. Utah Aug. 4, 2010).

especially true given the increased emphasis on expert testimony for reasonable royalty determinations.<sup>197</sup>

The Federal Rules of Civil Procedure allow the discovery of information that is not privileged, and that is reasonably calculated to lead to the discovery of admissible evidence.<sup>198</sup> Although, the federal courts have failed to reach consensus regarding the discoverability of settlement-related evidence for reasonable royalty determinations, a closer look appears to demonstrate that such evidence should normally be discoverable. First, the federal courts should decline to find in favor of a settlement privilege, in light of the Supreme Court's Rule 501 jurisprudence. Second, the discovery of settlement-related evidence will normally be reasonably calculated to lead to some form of admissible evidence. Settlement-related evidence may itself be admissible for any purpose not prohibited by Rule 408, such as for proving bias. Settlement-related evidence may also be relevant to the testimony of an expert witness, under either Rule 703 or Rule 705. This is especially true, given the increased emphasis on expert testimony in the damages phase of patent infringement cases.<sup>199</sup> Alternatively, settlement-related evidence may inform the relationship between the patent and the infringing technology. Additionally, allowing the discovery of settlement-related evidence provides parties with a starting point for their own settlement negotiations. This facilitates future settlements while providing litigants with incentives to thoroughly assess the present value of their claims, thereby promoting a closer correlation between the settlement value and the expected trial outcome.<sup>200</sup> Altogether, there will frequently be some condition that permits the discovery of settlement-related evidence.

#### B. Admitting Settlement-Related Evidence to Determine Patent Damages Under Current Law

As discussed above, the starting point for any evidentiary question is that “[a]ll relevant evidence is admissible, except as otherwise provided.”<sup>201</sup> Thus, the question of the admissibility of settlement-related evidence turns on two factors: first, whether the settlement-related evidence is relevant; and second, whether the settlement-related evidence is otherwise restricted by the Federal Rules of Evidence. Although settlement-related evidence may be relevant to a reasonable royalty determination, a close analysis of Rule 408 shows that the Federal Rules of Evidence precludes the admission of such evidence.

---

<sup>197</sup> Dolly Wu, *Patent Litigation: What About Qualification Standards for Court-Appointed Experts?*, 2010 B.C. INTELL. PROP. & TECH. F. 91501 (2010) (suggesting “there is often little choice but to use expert to elucidate the technology” in patent cases”).

<sup>198</sup> Fed. R. Civ. P. 26.

<sup>199</sup> *Supra* note 197.

<sup>200</sup> *See supra* note 58.

<sup>201</sup> Fed. R. Evid. 402; *Corley v. United States*, 556 U.S. 303 (2009); *see also* *U.S. v. Blankenship*, 775 F.2d 735, 742 (6th Cir. 1985) (Merritt, C.J., dissenting); *see also* *Carter v. Massey-Ferguson, Inc.*, 716 F.2d 344, 347 (5th Cir. 1983) (“Under federal rules of evidence, all relevant evidence is admissible, unless there are sound reasons to exclude it.”).

## 1. *Relevance of Settlement-Related Evidence*

The first question is that of the relevance of settlement-related evidence. As noted, there is little consensus on this issue. Although the Supreme Court has held that “a payment of any sum in settlement of a claim for an alleged infringement cannot be taken as a standard to measure the value of the improvements patented,”<sup>202</sup> federal district courts have taken vastly varied positions on this question.

For example, some courts have found that a settling party’s considerations of “the avoidance of the risk and expense of litigation”<sup>203</sup> render final settlement agreements categorically irrelevant as evidence of a reasonable royalty. Relying on *Rude* (among other cases), these courts have determined that a license agreement is properly excluded “where it [1] was reached under a threat of litigation, [2] arose in a situation where litigation was threatened or probable, or [3] was negotiated against a backdrop of continuing litigation infringement.”<sup>204</sup> Similarly, the Eastern District of Texas has stated that “[w]here a license agreement thus arises under the threat of litigation, it has *little relevance* to the hypothetical reasonable royalty simulation.”<sup>205</sup>

Other courts have found that while these factors may be important, they do not preclude the admission of final settlement agreements as irrelevant. For example, as discussed above, the Northern District of Illinois has stated that “*Rude* governs the *weight*, not the admissibility of such license evidence in a reasonable royalty analysis.”<sup>206</sup> Similarly, Judge Folsom of the Eastern District of Texas ruled that, in light of *ResQNet*, “concerns about the reliability of litigation-related licenses are better directed to weight, not admissibility.”<sup>207</sup> In both of these cases, the court found that while the conditions that necessarily surround settlement agreements — the risk and expense of potential litigation — are important considerations, they alone do not present a bar to the admission of settlement-related evidence.

In light of these competing, irreconcilable positions, it remains unclear how courts should rule on the relevance of settlement-related evidence. However, the decisions reached by some other courts provides some helpful guidance. These courts have charted a middle course between these polar positions. For example, Judge Davis in *ReedHycalog* ruled that the relevance of final settlement agreements must be assessed “on a case-by-case basis.”<sup>208</sup>

We find this middle position to be the most reasonable: the relevance of a specific final settlement agreement can only be determined within the context of a specific

---

<sup>202</sup> *Rude v. Westcott*, 130 U.S. 152, 164 (1889).

<sup>203</sup> *Id.*

<sup>204</sup> *PharmaStem Therapeutics, Inc. v. ViaCell, Inc.*, No. 02-148 GMS, 2003 U.S. Dist. LEXIS 27869 at \*7 (D. Del. Oct. 7, 2003).

<sup>205</sup> *Pioneer Corp. v. Samsung SDI Corp.*, No. 2:06-cv-384, slip op. at 9 (E.D. Tex. Oct. 2, 2008) (emphasis in original).

<sup>206</sup> *Sunstar Inc. v. Alberto-Culver Inc.*, No. 01 C 0736, 2004 U.S. Dist. LEXIS 16855 at \*93 (N.D. Ill. Aug. 20, 2004)(emphasis added)

<sup>207</sup> *Datatreasury Corp. v. Wells Fargo & Co.*, NO. 2:06-CV-72 DF, 2010 U.S. Dist. LEXIS 25291 at \*20 (E.D. Tex. Mar. 4, 2010)

<sup>208</sup> *ReedHycalog UK, Ltd. v. Diamond Innovations, Inc.*, No. 6:08-CV-325, 2010 U.S. Dist. LEXIS 78138, at \*9 (E.D. Tex. Aug. 2, 2010),

litigation. Although it is true that the “avoidance of the risk and the expense of litigation will always be a potential motive for a settlement,”<sup>209</sup> there may nevertheless be instances, such as in *ReedHycalog*, where the relevance of a final settlement agreement is evident because of its consistency with non-litigation-based licenses.<sup>210</sup> Such a position is consistent with Federal Circuit decisions stating that *Hanson*, among other cases, “do not establish any rule that all post-infringement evidence is irrelevant to a reasonable royalty calculation.”<sup>211</sup> Thus, despite the cautions that considerations of “the risk and expense of litigation”<sup>212</sup> may render final settlement agreements irrelevant as evidence of a reasonable royalty, the limited and exceptional cases<sup>213</sup> such as *ReedHycalog* highlight the need for a case-by-case determination of relevance.

## 2. Rule 408 Restrictions on Admissibility

Even assuming that all settlement-related evidence is categorically relevant, our reading of the law suggests that this evidence is nevertheless inadmissible. As noted above, relevant evidence may be excluded if its admission is precluded by the Federal Rules of Evidence. A close reading of Rule 408 suggests that the Rule precludes the introduction of *any* settlement-related evidence for the purpose of proving damages. Rule 408 provides that, where a claim is disputed as to “validity or amount,” both evidence of “accepting or offering . . . a valuable consideration in compromising . . . the claim” and evidence of “conduct or [statements] made during compromise negotiations about the claim” is “not admissible . . . when offered to prove the validity or amount of a disputed claim.”<sup>214</sup>

By this language alone, Rule 408 seems to preclude the admission of all forms of settlement-related evidence — final settlement agreements as well as settlement negotiation-related evidence — for reasonable royalty determinations.<sup>215</sup> First, the language of the Rule includes any “conduct or a[ny] statement[s] made in compromise negotiation,” thus clearly encompassing settlement negotiation-related evidence. Second, the language of the Rule clearly applies to “offering” and to “accepting,” indicating that Rule 408 encompasses final settlement agreements since a typical settlement agreement is commonly reached through the offer of a settlement compromise by one party and the

---

<sup>209</sup> *Rude*, 130 U.S. at 164.

<sup>210</sup> We are not arguing that consistency with non-litigation-based licenses is the *only* circumstance under which final settlement agreement will be relevant evidence. Nevertheless, we are inclined to think, consistent the cautions of the Supreme Court and Federal Circuit in *Rude* and *Hanson*, respectively, that a finding of relevance is likely to be the exception rather than the rule. *Cf.* *Clear with Computers, LLC v. Bergdorf Goodman, Inc.*, No 6:00-CV-481, 2010 U.S. Dist. LEXIS 127193, at \*6 (E.D. Tex. Nov. 29, 2010) (“[A]llowing discovery will be the exception, not the rule, and in most cases discovery . . . will not be warranted.”).

<sup>211</sup> *Studiengesellschaft Kohle, m.b.H. v. Dart Industries, Inc.*, 862 F.2d 1564, 1564 (Fed. Cir. 1988).

<sup>212</sup> *Rude*, 130 U.S. at 164.

<sup>213</sup> *Cf.* *Clear with Computers*, 2010 U.S. Dist. LEXIS 127193, at \*6 (“[A]llowing discovery will be the exception, not the rule, and in most cases discovery . . . will not be warranted.”).

<sup>214</sup> FED. R. EVID. 408.

<sup>215</sup> We assume “that the amount of a reasonable royalty does relate, as a matter of fact, directly to the amount of a claim.” *Vardon Golf Co. v. BBMG Golf Ltd.*, 156 F.R.D. 641 (N.D. Ill. 1994).

acceptance of that offer by the opposing party.<sup>216</sup> Furthermore, this reading of the text of Rule 408 is consistent with its legislative history. The Advisory Committee's Notes state that the codified rule expands the common law rule "to include evidence of conduct or statement made in compromise negotiations, as well as the offer or completed compromise itself."<sup>217</sup> Thus, an understanding of Rule 408 that encompasses final settlement agreements as well as settlement negotiation-related evidence is consistent with the Advisory Committee's intent to construct a rule broader than that which existed under the common law.

If this seems unremarkable, we think that it is. Nevertheless, several courts, including some courts of appeals, have misread the text of Rule 408. The Rule's text does not explicitly address settlements with third parties and, importantly, it does not restrict its application to settlements between the parties in litigation. Nevertheless, this has caused misunderstandings in some instances. Some courts have interpreted the use of the phrase "the claim" in Rule 408(a)(1) and 408(a)(2) as limiting the applicability of the exclusionary principle to settlement offers of the claim disputed in litigation, interpreting "the claim" to mean only that claim which is the subject of the present litigation, at the exclusion of any other claim.<sup>218</sup> For example, the Tenth Circuit in *Phillips Petroleum* suggested that "Rule 408 is limited in its application to evidence concerning the settlement or compromise of 'a claim' when such evidence is offered to prove liability or validity of 'the claim' . . . or its amount."<sup>219</sup> That is, "[r]ead literally, [Rule 408] does not appear to cover compromise and compromise offers that do not involve the dispute that is the subject of the suit, even if one of the parties to the suit was also a party to the compromise."<sup>220</sup> Similarly, the Eighth Circuit has ruled that "Rule 408 excludes evidence of settlement offers only if such evidence is offered to prove liability for or invalidity of the claim under negotiation."<sup>221</sup>

This understanding of Rule 408, however, misreads the text of the Rule.<sup>222</sup> The full text of Rule 408(a) reads as follows:

Evidence of the following is not admissible — on behalf of any party — either to prove or disprove the validity or amount of a disputed claim or to impeach by a prior inconsistent statement or a contradiction:

---

<sup>216</sup> Cf. RESTATEMENT (SECOND) OF CONTRACTS § 74 cmt. c, illus. 4-7 (describing settlement of legal claim as process of offer and acceptance by the parties).

<sup>217</sup> FED. R. EVID. 408 advisory committee's notes.

<sup>218</sup> See *infra* note 225.

<sup>219</sup> *Bradbury v. Phillips Petroleum Co.*, 815 F.2d 1356, 1363 (10th Cir. 1987) (emphasis in original).

<sup>220</sup> *Id.* Although the court discussed its literal reading of Rule 408, it ultimately concluded that the particular facts of *Phillips Petroleum* warranted admissibility of the evidence. Nevertheless, subsequent decisions in the Tenth Circuit have interpreted this language as endorsing a strict view of Rule 408. See *supra* notes 65-66 (discussing *Phillips Petroleum* and subsequent cases interpreting this decision).

<sup>221</sup> *Vulcan Hart Corp. v. NLRB*, 718 F.2d 269, 277 (8th Cir.1983); see also *Zurich Am. Ins. V. Watts. Indus.* 417 F.3d 682, 689 (7th Cir. 2005) ("The balance is especially likely to tip in favor of admitting evidence when the settlement communications at issue arise out of a dispute distinct from the one for which the evidence is being offered.").

<sup>222</sup> See *infra* note 225.

- (1) furnishing, promising, or offering — or accepting, promising to accept, or offering to accept — a valuable consideration in compromising or attempting to compromise the claim; and
- (2) conduct or a statement made during compromise negotiations about the claim — except when offered in a criminal case and when the negotiations related to a claim by a public office in the exercise of its regulatory, investigative, or enforcement authority.<sup>223</sup>

The most natural reading of Rule 408(a) as a single and complete sentence is one where the phrase “the claim” in 408(a)(1) is used as an anaphoric reference to the phrase “a disputed claim” in the introductory clause of Rule 408(a), rather than as an exophoric reference to the actual claim in litigation. Similarly, “the claim” in 408(a)(2) refers to the same phrase from the introductory clause. Thus, properly construed, “the claim” in 408(a)(1) and 408(a)(2) means “a disputed claim” as to validity or amount. The only limitation on a claim sought to be covered by Rule 408, then, is that it must have been disputed as to validity or amount — there is no limitation that the claim be the same claim that is the subject of present litigation. Nor does the text demand that “a disputed claim” refer to the present litigation.<sup>224</sup> Rather, the disputed claim may be a claim that was the subject of a previous settlement, whose disputed value is sought to be introduced as evidence of the value of the presently litigated claim. Despite the rulings of some courts that the use of the phrase “the claim” limits the applicability of Rule 408 to only the claim in litigation for which the evidence is being offered,<sup>225</sup> Rule 408 is best construed to apply to evidence arising out of

---

<sup>223</sup> FED. R. EVID. 408(a).

<sup>224</sup> On this point, it is helpful to look at an earlier version of the Rule. The Federal Rules of Evidence were restyled on December 1, 2011, with the goal of improving readability without impacting the substance of the rule. FED. R. EVID 408, 2011 amends. In the earlier version, the antecedent phrasing was “a claim that *was* disputed as to validity of amount” (emphasis added). Here, use of the past tense “was” suggests that the Rule was intended to cover claims prior to the present litigation.

<sup>225</sup> As noted *supra* note 224, the Federal Rules of Evidence were restyled on December 1, 2011. However, these cosmetic changes, which are not intended to have any substantive effect, FED. R. EVID 408, 2011 amends., do not impact the analysis presented here. The earlier phrasing is as follows:

Evidence of the following is not admissible on behalf of any party, when offered to prove liability for, invalidity of, or amount of a claim that was disputed as to validity or amount, or to impeach through a prior inconsistent statement or contradiction:

- (1) furnishing or offering or promising to furnish--or accepting or offering or promising to accept--a valuable consideration in compromising or attempting to compromise the claim; and
- (2) conduct or statements made in compromise negotiations regarding the claim, except when offered in a criminal case and the negotiations related to a claim by a public office or agency in the exercise of regulatory, investigative, or enforcement authority.

nearly any disputed claim, including settlements between one party in litigation and a third-party.

This natural reading of the text of Rule 408 is consistent with its legislative history, which supports an understanding that the Rule applies to settlements with third-parties. The Advisory Committee's Notes explain that "completed compromises" will not typically be at issue "except when a party to the present litigation has compromised with a third person."<sup>226</sup> That is, because most completed compromises would terminate the pending litigation, evidence of a completed compromise is only at issue where the settlement was reached between one party in litigation and a third-party. Reading Rule 408 to reach evidence stemming from settlements between one party in litigation and a third-party is consistent with the Advisory's Committee's own view of Rule 408.<sup>227</sup>

Returning to *ResQNet* and the rulings that have emerged in its wake, it is clear that cases such as *Datatreasury*,<sup>228</sup> which appear to establish a rule of *per se* admissibility, misread the Federal Circuit's ruling. *ResQNet* "was not the adoption of a bright[-]line rule regarding the reliability of litigation licenses nor . . . on their admissibility."<sup>229</sup> Even

---

Similarly, the cases discussed and cited at *supra* notes 220–221 are interpreting an even earlier version of Rule 408. A reading of the text of that prior version also yields the same result. The text of that version of the Rule is as follows:

Evidence of (1) furnishing or offering or promising to furnish, or (2) accepting or offering or promising to accept, a valuable consideration in compromising or attempting to compromise a claim which was disputed as to either validity or amount, is not admissible to prove liability for or invalidity of the claim or its amount. Evidence of conduct or statements made in compromise negotiations is likewise not acceptable.

Consistent with the analysis presented of the current Rule, when either prior version of the Rule is read as a whole sentence, the phrase "a claim [that/which] was disputed as to [either] validity or amount" is the antecedent to the phrase "the claim." Thus, the phrase "the claim" should not be read as limiting the application of the Rule to only those claims which are the subject of present litigation.

<sup>226</sup> FED. R. EVID. 408 advisory committee's notes. This is because a completed settlement agreement between the parties in litigation would, presumably, terminate the litigation. Of course, the parties could, for example, settle with respect to liability for a claim, but proceed to trial to determine damages.

<sup>227</sup> In passing the Rules, neither the House nor the Senate Committees on the Judiciary commented on these aspects of Rule 408. Neither Report suggests that the Rule should or should not apply to completed compromises, as well as statements made in negotiation, nor does either report comment on the applicability of the Rule to settlements with third-parties. However, both Reports do comment — and disagree — on other aspects of the Rule. Thus, the Reports' collective silence on this matter could be understood as endorsing the Advisory Committee's position.

<sup>228</sup> See *supra* notes 156–158 and accompanying text.

<sup>229</sup> *ReedHycalog UK, Ltd. v. Diamond Innovations, Inc.*, No. 6:08-CV-325, 2010 U.S. Dist. LEXIS 78138, at \*8-9 (E.D. Tex. Aug. 2, 2010); see also John Land, Christopher S. Marchese & John M. Skenyon, *PATENT DAMAGES LAW AND PRACTICE* § 3:17 (2010) ("[T]he case of *ResQNet.com, Inc. v. Lansa, Inc.*, has been cited . . . for the proposition that licenses in settlement of litigation are admissible on the issue of reasonable royalty damages, but any fair reading of the *ResQNet.com* [decision] does not support that view" (internal citations omitted)).

*ReedHycalog*, which suggests only a limited rule of admissibility, misses its mark.<sup>230</sup> Rather, a close look at Federal Rule of Evidence 408 suggests that settlement-related evidence ought to be categorically excluded when offered to prove damages in a patent infringement case.

The Federal Rules of Evidence begin with the presumption that all relevant evidence is admissible, except as stated otherwise in the Rules. Nevertheless, Rule 408 appears to preclude the admission of all such settlement-related evidence, irrespective of any potential relevance. Although some courts, including the Tenth Circuit, have read Rule 408 narrowly, the text and legislative history of the Rule indicates that it applies to exclude evidence of final settlement agreements and settlement negotiation-related evidence, including that which arises out of settlements with third parties.

#### IV. THE FUTURE OF SETTLEMENT-RELATED EVIDENCE IN DETERMINING PATENT DAMAGES

Our interpretation of prevailing law suggests a disconnect between the admission and discovery of settlement-related evidence. We argue that although the discovery of settlement-related evidence should generally be allowed, courts ought to apply Rule 408 to preclude the admission of all settlement-related evidence. Although this disparity is easily explained by the differing standards for discoverability and admissibility, this difference nevertheless may have the strange effect of adding to the growing costs of discovery in patent litigation,<sup>231</sup> by allowing an extensive inquiry into settlement-related information, but ultimately finding such evidence inadmissible at trial.

But even more curious is that even though Rule 408 indicates that settlement-related evidence should be excluded, federal courts have continued to allow the admission of settlement-related evidence. This naturally invites further investigation: If Rule 408 seems to clearly exclude such evidence, why are courts letting it in? In support of their rulings, these courts have cited several reasons in support of their rulings, finding that policy and practical implications compel their result. These rationales warrant a second look: The nature of patent litigation and settlement has evolved considerably since the enactment of the Federal Rules of Evidence. In this part, we put aside our argument about the proper interpretation of prevailing law and consider the policies that underlie the Rules of Evidence and patent law. We find that these important policies suggest that courts are in fact getting it right — and that, rather than have courts change their behavior, we should strongly consider amendments to prevailing law. First, the rise of non-practicing entities, or “patent trolls,” challenges the continuing viability of Rule 408. Second, the increased emphasis on expert testimony has already threatened to undermine Rule 408’s rigid exclusionary rule. Finally, key differences between bench and jury trials suggest that Rule

---

<sup>230</sup> As noted above, *ReedHycalog* did not consider the issue under Rule 408. See *supra* note 153.

<sup>231</sup> James Bessen & Michael J. Meurer, *Lessons for Patent Policy from Empirical Research on Patent Litigation*, 9 LEWIS & CLARK L. REV. 1, 26 (2005) (“For patent suits with less than \$1 million at risk, the median estimated cost of discovery is \$290,000 and the median estimated total litigation cost is \$500,000; for suits with \$1–\$25 million at risk, the median estimated cost of discovery is \$1 million and the median estimated total litigation cost is \$2 million; for suits with more than \$25 million at risk, the median estimated cost of discovery is \$2.5 million and the median estimated total litigation cost is \$3.995 million.”).

408 operates too tightly where a judge sits as the trier of fact. In light of these important evolutions in patent law, we advocate for a rule, not unfamiliar in the Evidence Code,<sup>232</sup> that grants trial judges the discretion to admit settlement-related evidence where its probative value exceeds its potential prejudice.

#### A. The Growth of Non-Practicing Entities

Recent decades have witnessed the rise of the non-practicing entities (“NPEs”),<sup>233</sup> which, broadly, are “companies in the business of buying up and enforcing patents” by litigation.<sup>234</sup> NPEs profit by purchasing patent rights and threatening alleged infringers with litigation over these patents. These actions have been the source of much criticism: several commentators have accused NPEs of “us[ing] weak and vague patents to threaten product manufacturers and extract excessive licensing fees or engage in frivolous infringement litigation.”<sup>235</sup> On the other hand, supporters of NPEs have argued that they “enhance innovation and competition by providing capital to independent inventors and creating an efficient market for trade in technological information.”<sup>236</sup> The actual impact of NPEs is the subject of a fierce debate that we need not wade into here.<sup>237</sup> For our purposes, we are far more interested in the compelling empirical evidence showing that the vast majority of NPE-initiated litigation is resolved by settlement.<sup>238</sup>

This significant rise of a particular type of settlement agreement has important implications for the continued application of Rule 408. The NPE business model is

---

<sup>232</sup> *E.g.*, FED. R. EVID. 609(a) (allowing court to admit bad acts evidence where the “probative value of the evidence outweighs its prejudicial effect”).

<sup>233</sup> Non-practicing entities are also sometimes referred to, pejoratively, as “patent trolls,” “for the practice of hiding under a bridge they did not build and demanding a toll from surprised passers-by.” John R. Allison, Mark A. Lemley & Joshua Walker, *Patent Quality and Settlement Among Repeat Patent Litigants*, at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1677785](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1677785) [hereinafter Allison et al., Patent Quality].

<sup>234</sup> Allison et al., *Extreme Value*, *supra* note 133, at 24; *see also* Colleen V. Chien, *From Arms Race to Marketplace: The Complex Patent Ecosystem and Its Implications for the Patent System*, 62 HASTINGS L.J. 297 (2010) (suggesting taxonomy for NPEs in three main categories, “entities that litigate, entities that license, and individual inventors”); Sannu K. Shrestha, Note, *Trolls or Market-Makers? An Empirical Analysis of Nonpracticing Entities*, 110 COLUM. L. REV. 114, 114 (2010) (“NPEs . . . are firms that rarely or never practice their patents, and instead focus on earning licensing fees.”).

<sup>235</sup> Shrestha, *supra* note 234, at 115.

<sup>236</sup> *Id.*

<sup>237</sup> *Compare, e.g.*, Shrestha, *supra* note 234, at 150 (conducting empirical study concluding that “NPEs . . . hold high value patents and do not engage in frivolous litigation as has been alleged . . .”) *with, e.g.*, Robin M. Davis, Note, *Failed Attempts to Dwarf the Patent Trolls: Permanent Injunctions in Patent Infringement Cases Under the Proposed Patent Reform Act of 2005 and eBay v. Mercexchange*, 17 CORNELL J.L. & PUB. POL'Y 431, 438 (2008) (“Most patent trolling behavior thrives on the inequities of enforcing patent rights without contributing anything to either the invention or production of new technologies.”).

<sup>238</sup> *E.g.*, Allison et al., Patent Quality, *supra* note 233, at 18 (conducting empirical study showing that over 89% of NPE-initiated lawsuits settle).

predicated on the litigation-value of patents:<sup>239</sup> Thus, because NPEs rely on litigation and settlement to extract value from their patents, settlement-related evidence may be the best — or the only — available evidence of the value of a patent owned and litigated by an NPE. For example, in *Clear with Computers*, the Eastern District of Texas ruled that

[Clear with Computers's] business is to litigate and license the patents; it does not compete with Defendants in the marketplace. [Clear with Computers] has not shown that there are other non-litigation licenses that reflect the value of the invention. Therefore, the settlement negotiations have increased relevance, and the prejudice to [Clear with Computers] is of decreased significance.<sup>240</sup>

Thus, the court found Clear with Computers's status as a non-practicing entity relevant to its discovery determination. These considerations may also be relevant to an admissibility determination. On the other hand, the Supreme Court has recently suggested that settlement-based licenses may exaggerate patent value in the NPE-context.<sup>241</sup> In either case, Rule 408, properly applied, would operate to preclude the admission of such NPE-settlement-related evidence, even if it could provide the most reliable (or only) basis for a determination of damages.

The recent rise of NPEs undermines the traditional rationale undergirding Rule 408. Rule 408's fear that a contrary rule would place a "chill on settlement negotiations" seems misplaced for cases, such as these, where the settlement is the only — and indeed the *intended* — measure of patent value. Thus, as entities that rely on the process of litigation and settlement continue to derive value from their patent portfolios, the exclusion of settlement-related evidence at future trials may leave defendants — and courts — without any reliable evidence on which to base their damages determinations. The rise of NPEs suggests that the rule against the admissibility settlement-related evidence in patent litigation needs reconsideration: Courts ought to have the discretion to weigh the value of the evidence to the parties against Rule 408's traditional considerations of fairness in order to admit settlement-related evidence in certain circumstances, such as litigation by NPEs.

## B. The Increasing Importance of Expert Testimony

---

<sup>239</sup> See, e.g., Mark A. Lemley & Carl Shapiro, Patent Holdup and Royalty Stacking, 85 Tex. L. Rev. 1991, 2002 (2007).

<sup>240</sup> *Clear with Computers, LLC v. Bergdorf Goodman, Inc.*, No. 6:09CV481, 2010 U.S. Dist. LEXIS 127193 at \*6 (E.D. Tex. Nov. 29, 2010).

<sup>241</sup> *eBay Inc. v. MercExchange LLC*, 547 U.S. 388, 395–97 (2006) (Kennedy, J. concurring) ("An industry has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees. For these firms, an injunction, and the potentially serious sanctions arising from its violation, can be employed as a bargaining tool to charge exorbitant fees to companies that seek to buy licenses to practice the patent." (citation omitted)). Although Justice Kennedy alludes to the threat of an injunction, it is not clear if the licenses he refers to are "negotiated against a backdrop of continuing litigation." *Studiengesellschaft Kohle, m.b.H. v. Dart Industries, Inc.*, 862 F.2d 1564, 1572 (Fed. Cir. 1988).

In addition to the rise of NPEs, expert testimony has become an increasingly important feature of patent litigation in recent years. The prevalence of such testimony has important implications for the role of settlement-related evidence, as the use of expert testimony introduces a significant loophole to Rule 408, and thereby undermines its rigid applicability.

The role of expert testimony in patent litigation has changed significantly over time. An early view of experts was best captured by Judge Learned Hand who, despite “hav[ing] not the slightest wish to minimize the vital importance of expert testimony in patent suits,” found that “the testimony of experts on these issues is inevitably a burdensome impertinence.”<sup>242</sup> Despite Judge Hand’s disparaging characterization of expert testimony, recent studies have noted a marked uptick in the use and reliance on expert testimony in patent infringement cases.<sup>243</sup> This is especially true with regard to expert testimony on damages determinations, which the Federal Circuit has repeatedly upheld as relevant.<sup>244</sup>

This increased reliance on expert testimony has several important implications for Rule 408’s relationship with Article VII of the Federal Rules of Evidence. As described above, Rule 408, properly construed, operates to preclude nearly all settlement-related evidence from trial. But because such evidence is the subject of discovery, these very same settlement documents may be compiled, analyzed, and then discussed at trial by an expert. Furthermore, the court may allow the introduction of settlement-related evidence upon which the expert relied in order to cross-examine or rebut the expert testimony. That is, Rules 703 and 705 operate to admit that which Rule 408 precludes.

Several courts have noted this oddity, and — perhaps unsurprisingly — have dealt with it in competing ways. The District of Delaware, in *Pharmastem*, ruled that it was “not required to allow otherwise inadmissible settlement agreements into evidence simply because one party’s expert relies on them in reaching a reasonable royalty.”<sup>245</sup> Finding that Rule 408 trumped Article VII, the court prohibited the parties’ experts from relying on settlement-related evidence, and ruled to “exclude all evidence relating to negotiations of the [third-party] licenses, including the license agreements themselves.”<sup>246</sup> By contrast, the Northern District of Iowa, in *Century Wrecker*, has stated that Rule 705 provides that parties may present “settlement agreements and to show in what way they form an appropriate or inappropriate basis” for expert testimony, despite finding that the settlement agreements would be otherwise inadmissible.<sup>247</sup>

More recently, the Northern District of Illinois, in its decision in *Abbott Labs v. Sandoz*, has lent its voice to the debate. The Northern District of Illinois noted that its “determination would be easy if the question merely involved whether to admit evidence of

---

<sup>242</sup> *Kohn v. Eimer*, 265 F. 900 (2d Cir. 1920).

<sup>243</sup> *Supra* note 197; Steven M. Evans & Michael H. King, *Selecting an Appropriate Damages Expert in a Patent Case: An Examination of the Current Status of Daubert*, 38 AKRON L. REV. 357, 358 (2005).

<sup>244</sup> The Federal Circuit has approved the use of experts for damages determinations. *See, e.g., Micro Chemical, Inc. v. Lextron Inc.*, 317 F. 3d 1387 (Fed. Cir. 2003) (finding expert testimony did not violate FED. R. EVID. 702).

<sup>245</sup> *PharmaStem Therapeutics, Inc. v. Viacell Inc.*, No. C.A. 02-148 GMS, 2003 WL 22387038, at \*1 (D. Del. Oct. 7, 2003).

<sup>246</sup> *Id.*

<sup>247</sup> *Century Wrecker v. E.R. Buske Mfg. Co., Inc.*, 898 F. Supp. 1334, 1340–42 (N.D. Iowa 1995).

[settlement] license agreements” because such final settlement agreements “would be inadmissible under Fed. R. Evid. 408 and the wealth of cases excluding [such] evidence . . . .”<sup>248</sup> However, the court’s inquiry was complicated by the fact that an “expert relied on the license agreements at issue.”<sup>249</sup> After analyzing the opinions in *Century Wrecker* and in *Pharmastem*, the court ultimately followed the Northern District of Iowa’s approach in *Century Wrecker*.<sup>250</sup>

These cases demonstrate how Article VII — Rule 703 and Rule 705 in particular — have complicated the absolute application of Rule 408’s exclusionary principle. As we argued in Part III, Rule 408 as written precludes the admission of all settlement-related evidence. However, Article VII of the Federal Rules of Evidence threatens to undermine this rigid Rule by allowing experts to rely on and discuss such evidence, and most notably, allow adverse parties to present the settlement-related evidence itself in order to rebut the expert testimony. Judges have the discretion to admit settlement-related evidence in cases that involve expert testimony, but are subject to the rigid application of Rule 408 in other cases. For patent trials, in which experts are nearly ubiquitous, this is a mostly artificial distinction. Reforming the Rules of Evidence to grant judges the discretion to admit such evidence under Rule 408 is a recognition of this patent litigation reality, eliminates an important loophole in the Federal Rules of Evidence, and simplifies evidentiary rulings.

### C. Bench Trials vs. Jury Trials

Finally, some courts have relied on a distinction between bench trial and jury trials to justify the admission of settlement-related evidence. This is particularly relevant in the patent context, as the use of juries in patent litigation has grown rapidly. In 1978, only 8.3% of all patent cases were tried by juries.<sup>251</sup> By 1994, that ratio jumped to 70% of all patent cases.<sup>252</sup> Thus, the increased reliance on juries coupled with a different standard for admission between bench and jury trials has important implications for current Rule 408 practices.

Several studies have indicated that “patent juries display a pronounced bias in favor of inventors.”<sup>253</sup> Accordingly, some courts have found the distinction between bench trials

---

<sup>248</sup> *Abbott Labs v. Sandoz*, No. 05 C 5373, 2010 U.S. Dist. LEXIS 109114, at \*7 (N.D. Ill. May 24, 2010).

<sup>249</sup> *Id.*

<sup>250</sup> The rationale for this choice, however, appears to be based solely in the parties’ briefing. After surveying *Century Wrecker* and *Pharmastem*, the court noted that “[t]his precedent presents the [c]ourt with two clear alternatives: (1) deny Abbott’s motion under *Century Wrecker* or (2) grant Abbott’s motion and preclude Abbott’s expert from relying on the license agreements as part of his reasonable royalty calculation.” *Id.* However, because “neither party suggest[ed] option (2),” the *Pharmastem* option, the court ruled to “deny Abbott’s motion under *Century Wrecker*.” *Id.* Had the parties suggested the *Pharmastem* alternative, it is not clear how the court would have ruled.

<sup>251</sup> John R. Allison & Mark A. Lemley, *Empirical Evidence on the Validity of Litigated Patents*, 26 *AIPLA Q. J.* 185, 211 (1998).

<sup>252</sup> *Id.*

<sup>253</sup> Bessen & Meurer, *supra* note 231, at 26 (2005); *see also* Hon. Kimberly A. Moore, *Populism and Patents*, 82 *N.Y.U. L. REV.* 69, 111 (2007) (“In time, a changing perception of inventors in our society may diminish the jury bias manifested in patent litigation data. For now, the jury favors the individual inventor.”).

and jury trials to be significant. In *Fenner*, Judge Love distinguished *ResQNet*'s direction on remand to consider the settlement-based license on the ground that that license "had been admitted during a bench trial" and thus "did not raise the concern of jury confusion," whereas the parties in *Fenner* were to "try [its] case to a jury."<sup>254</sup>

Despite the implication in *Fenner* that the standards for relevance and admission may be different between bench and jury trials, the truth about the distinction between the two is far less clear. Although some evidence indicates that juries tend to favor individual inventors, this effect may disappear when the patent-holder is a corporation, due to a jury's general anti-corporation bias.<sup>255</sup> Further, although some commentators have suggested that "[e]xperience might enable judges to ignore prejudicial aspects of evidence more readily than jurors, thereby justifying a looser interpretation of . . . exclusionary rules," empirical studies suggest that judges are also susceptible to the influence of inadmissible evidence.<sup>256</sup> Notably, a study of patent trials shows that verdicts rendered by judges and by juries are equally likely to be affirmed on appeal to the Federal Circuit.<sup>257</sup>

Accordingly, some judges have disregarded arguments based on distinctions between judge and jury trials. For example, although the defendants in *Datatreasury* argued that *ResQNet* did not apply because it "involved a bench trial, not a jury trial," Judge Folsom found this distinction irrelevant, admitting the settlement-related evidence on the basis that "the licenses at issue [in *ResQNet*] were considered by that trial court sitting as trier of fact, just as the jury will sit." This result, however, is strange. If judges and juries are both susceptible to the influence of inadmissible evidence, then the evidence should be *barred* in both cases, rather than admitted. However, if the evidence is relevant — because it pertains to a claim by an NPE or because it forms the basis of an expert's testimony — then perhaps the settlement-related evidence *should* be admissible, regardless of whether the trier of fact is a judge or jury, and in spite of Rule 408. Thus, the most sensible rule is one that turns on the discretion of the trial judge, who has the best view into the potential relevance of settlement-related evidence.

---

<sup>254</sup> *Fenner Investments, Ltd. v. Hewlett-Packard Co.*, No. 6:08-cv-273, 2010 U.S. Dist. LEXIS 41514, at \*8 (E.D. Tex. Apr. 28, 2010).

<sup>255</sup> *E.g.*, Robert J. MacCoun, *Differential Treatment of Corporate Defendants by Juries: An Examination of the "Deep-Pockets" Hypothesis*, 30 LAW & SOC'Y REV. 121, 136–37 (1996)

<sup>256</sup> *E.g.*, Chris Guthrie, Jeffrey J. Rachlinski, Andrew J. Wistrich, *Can Judges Ignore Inadmissible Evidence? The Difficulty of Deliberately Disregarding*, 153 U. PA. L. REV. 1251, 1256, 1259 (2005) (presenting empirical study showing "some types of highly relevant, but inadmissible, evidence influenced the judges' decisions").

<sup>257</sup> Hon. Kimberly A. Moore, *Judges, Juries, and Patent Cases — An Empirical Peek Inside the Black Box*, 99 MICH. L. REV. 365, 397 (2000). A natural reaction to this finding might be to suggest that these findings are attributable to the differing standards of review for findings of fact made by judges and by juries. However, the author of this study noted that "[a]lthough the 'substantial evidence' standard (for juries' findings) is, in theory, more deferential than the 'clear error' standard (for judges' findings), there is no practical difference that would predict different affirmance rates under the two standards." *Id.* (citing *United States v. Hill*, 196 F.3d 806, 808 (7th Cir. 1999) (Posner, C.J.) ("Basically there is deferential review and non-deferential (plenary) review, and whether deferential review is denominated for 'abuse of discretion' or 'clear error' or 'substantial evidence' or any of the other variants (with the exception of 'mere scintilla of evidence') that courts use makes little practical difference.")).

As described above, federal courts have cited to several recent developments unique to patent law in support of rulings in tension with the language and history of Federal Rule of Evidence 408. The Supreme Court has stated that settlement-related evidence may be an unreliable indicator of the value of a patent.<sup>258</sup> This ruling, however, is over a century old. Rule 408's absolute ban on settlement-related evidence is also several decades old. In the intervening years, the nature of patent litigation has changed substantially. Some courts have already noted the strong tensions between the Federal Rules of Evidence and patent law.<sup>259</sup> Non-practicing entities have grown to become an important force in patent litigation, prompting reactions from the Supreme Court.<sup>260</sup> Further, the complicated interactions between the rules governing expert testimony and settlement-related evidence may undermine Rule 408. These changes strongly suggest that Rule 408's harsh proscription ought to be reformed to grant trial judges the discretion to admit settlement-related evidence where they find its probative value is likely to outweigh any concomitant prejudice.<sup>261</sup> Such a rule upholds the traditional justifications for excluding settlement-related evidence while recognizing the many changing facets of patent — and other — litigation.

## CONCLUSION

The federal courts have long struggled to define the appropriate role for settlement-related evidence in the determination of damages in patent infringement cases. Patent practitioners have often sought to introduce evidence from other negotiations in order to prove a reasonable royalty for an infringed patent — including settlement negotiation-related evidence as well as final settlement agreements. The use of such settlement-related evidence, however, is governed by separate evidentiary principles that have been applied inconsistently by district courts across the country. Relying on circuit precedent that is inconsistent, some courts have applied Federal Rule of Evidence to exclude settlement-related evidence from trial and hold such evidence privileged from discovery. Other courts, however, have found the opposite.

The Federal Circuit's recent decision in *ResQNet.com, Inc. v. Lansa, Inc.*, in which the court stated that the “most reliable” evidence of damages for patent infringement may be a license that arises out of the settlement of other litigation, appears to have made matters worse.<sup>262</sup> In the short time since this decision, patent practitioners have cited to *ResQNet* in support of their motions to discover and admit third-party settlement-related evidence.

---

<sup>258</sup> *Id.*

<sup>259</sup> *E.g.*, *NewRiver, Inc. v. Newkirk Products, Inc.*, 674 F. Supp. 2d 320, 335 (D. Mass. 2009) (suggesting that “patent law trump[s] the Federal Rules of Evidence on the issue of obviousness”).

<sup>260</sup> *eBay Inc. v. MercExchange LLC*, 547 U.S. 388, 395–97 (2006) (Kennedy, J. concurring) (“An industry has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees. For these firms, an injunction . . . can be employed as a bargaining tool to charge exorbitant fees to companies that seek to buy licenses to practice the patent.” (citation omitted)).

<sup>261</sup> *Cf.*, FED. R. EVID. 609(a) (allowing court to admit bad acts evidence where the “probative value of the evidence outweighs its prejudicial effect”).

<sup>262</sup> *ResQNet.com, Inc. v. Lansa, Inc.*, 594 F.3d 860, 872 (2010) (finding “the most reliable license in th[at] record arose out of litigation”).

The widely divergent results, however, have deepened the confusion regarding the role of settlement-related evidence in patent damages determinations, yielding both inter-district conflicts and intra-district conflicts.

In response, this Article takes a fresh look at prevailing law. This new examination of Rule 408 finds that settlement-related evidence, although discoverable by an adverse party, must be excluded from trial. Our close analysis of the text of Rule 408 yields a result that categorically precludes the admission of settlement-related evidence for the determination of damages — a result that is supported by the legislative history of the Rule. Despite a finding that such evidence is not admissible, our analysis Federal Rule of Civil Procedure 26 suggests that settlement-related evidence should normally be discovered, because it may inform other aspects of the litigation (and indeed, may lead to pre-trial settlement).

This disconnect between the discoverability and admissibility of settlement-related evidence leaves something to be desired — especially when considered together with several features unique to patent litigation. First, the rise of nonpracticing entities suggests that the ban on settlement-related evidence may need to be reconsidered, especially in those cases where settlement-related evidence is not only the only available evidence, but also the best available evidence. This is so because NPEs value patents by their success in earning licensing revenue, often through threatened litigation. Additionally, the expanded reliance on expert testimony suggests that the ban on settlement-related evidence has been eroded by the loophole in Rule 408 created by Article VII of the Federal Rules of Evidence. Finally, new studies regarding the relative evidentiary competences between judges and juries suggest that policy rationales which underlie Rule 408 are not as strong as once assumed. These circumstances, some of which are particular to patent litigation, suggest that the Rule warrants re-examination. Judges ought to have the discretion to admit settlement-related evidence where its relevance exceeds its potential for prejudice.

Despite the widespread confusion regarding the applicability of Rule 408 to preclude settlement-related evidence from trial, and a concomitant confusion over discovery, a new look at the relevant provisions reveals that while admission is barred, discovery is permitted. This discord, along with the several other factors described above, suggest that the Advisory Committee to the Judicial Conference and Congress reconsider the continued viability of Rule 408 for the determination of damages in the patent litigation.