

CLIENT ALERT

Federal Circuit Holds That Settlement Negotiations Are Not Privileged

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In a decision last week that could have far reaching implications in "patent troll" cases, the Federal Circuit held that settlement negotiations are not immune from discovery, rejecting recognition of a "settlement negotiation privilege."

In *In re MSTG, Inc.*, a three-judge panel considered for the first time whether communications relating to reasonable royalties and damages are protected from discovery based on a settlement negotiation privilege. Applying the criteria for establishing privileges articulated by the Supreme Court, the panel determined that a settlement negotiation privilege is not warranted, and upheld a district court decision ordering production of settlement negotiation documents.

MSTG sued several mobile device manufacturers and service providers claiming infringement of three patents allegedly covering 3G mobile communications technologies. MSTG extracted royalty-based settlements from all but one defendant. The remaining defendant sought those settlement agreements and all related communications in discovery, arguing that they were relevant to MSTG's royalty-based damages claims. MSTG produced the settlement agreements, but objected to production of the negotiation communications.

In the meantime, however, MSTG served its expert's report on reasonable royalties. Therein, MSTG's expert admitted to relying on the agreements and the deposition testimony of a MSTG executive who indicated that the settlement agreements reflected "litigation-related compromises" and were therefore not proper comparisons for the hypothetical negotiation. Based on that testimony, the magistrate ordered MSTG to produce negotiation communications. The district judge affirmed, reasoning that because MSTG's expert relied on the testimony of MSTG's executive regarding MSTG's "business reasons" for entering into the settlement agreements, it would be unfair for MSTG to "then shield those reasons from further examination." MSTG filed a mandamus petition arguing that the Federal Circuit should fashion a new privilege in patent cases which would prevent discovery of litigation settlement negotiations related to reasonable royalties and damages.

The panel, which included Chief Judge Rader, disagreed, considering the factors identified by the U.S. Supreme Court as relevant to the consideration of defining new privileges: (1) the policy decisions of the states; (2) whether Congress considered the question; (3) whether the privilege is listed among the nine evidentiary privileges recommended by the Advisory Committee of the Judicial Conference in its proposed Federal Rules of Evidence; and (4) whether the contemplated privilege advances a public good. The panel determined that the majority of the relevant factors weighed against establishment of a settlement negotiation privilege. The Court also noted that any such privilege would necessarily have numerous exceptions, and there are other effective methods to limit the scope of discovery to achieve the articulated public policy goals of protecting the sanctity of settlement discussions and promoting the compromise and settlement of disputes.

Corporate defendants, particularly those in troll cases, should take note of this important development. Early settling defendants are cautioned that their settlement negotiations may be discoverable, while later settling defendants may be encouraged to know that they can seek the settlement negotiations related to the reasonable royalties of previously settled Defendants during discovery.

For more information, please contact the professional(s) listed below, or your regular Crowell & Moring contact.

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