IPO ANNUAL MEETING

2012

SAN ANTONIO

PAPER PREPARED BY:

KAREN WEIL, KNOBBE MARTENS

ALAN ALBRIGHT, BRACEWELL GIULIANI

CHRIS NORTHCUTT, CHEVRON

ALAN RATLIFF, STONETURN GROUP

TIPS AND TACTICS FOR DRAFTING AND USING SETTLEMENT LICENSES IN LITIGATION POST-*RESQNET**

An analysis of modern patent damages jurisprudence reveals a recent trend in the courts to reevaluate the methods and procedures that are used to determine the baseline reasonable royalty in patent infringement actions. Recognizing that "the purpose of compensatory [reasonable royalty] damages is not to punish the infringer, but to make the patentee whole," the Federal Circuit began more actively scrutinizing and commenting on damages in 2009 with the *Lucent* decision, as well as the trial court in *Cornell*, where Judge Rader presided by designation.[1] One specific trend relates to the discovery and admissibility of settlement licenses, which had historically been considered largely irrelevant to patent damages,[2] but now are frequently being offered as evidence in connection with determining a reasonable royalty based on a hypothetical negotiation.[3]

As the discussion hereafter reflects, since the Federal Circuit's decision in *ResQNet*, most district courts have held that settlement licenses may be relevant to a reasonable royalty determination, have not categorically excluded them from discovery and often have allowed them at trial. Part I of this paper explores the discoverability of settlement licenses and the underlying negotiations, noting a general trend in the courts to permit discovery of such licenses post-*ResQNet*, but to deny the underlying negotiations unless a substantial need for them exists. Part II explores the admissibility of settlement licenses at trial.

---

*Co-authored by Alan Albright, Bracewell Giuliani, Chris Northcutt, Chevron, Alan Ratliff, StoneTurn, and Karen Weil, Knobbe Martens. This article does not reflect the opinions of any individual author or their firms.

[1] *Lucent Techs. Inc. v. Gateway, Inc.*, 580 F.3d 1301 (Fed. Cir. 2009); *Cornell Univ. v. Hewlett-Packard Co.*, No. 5:01-cv-1974 (N.D.N.Y. March 30, 2009 and May 14, 2008).

[2] *Rude v. Westcott*, 130 U.S. 152, 164 (1889); *Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970); *Panduit Corp. v. Stahlin Bros. Fibre Works, Inc.*, 575 F.2d 1152, 1164 n.11 (6th Cir. 1978); *Goodyear Tire & Rubber Co. v. Chiles Power Supply, Inc.*, 332 F. 3d 976 (6th Cir. 2003).

[3] *See, e.g.*, *In re MSTG, Inc.*, 675 F.3d 1337, 1348 (Fed. Cir. 2012) (permitting discovery); *Wordtech Sys., Inc. v. Integrated Networks Solutions, Inc.*, 609 F.3d 1308, 1319 (Fed. Cir. 2010) (finding settlement licenses not comparable); *ResQNet.com v. Lansa, Inc.*, 594 F.3d 860, 870 (Fed. Cir. 2010) (finding most reliable license in this record arose out of litigation).

Finally, Part III addresses tips and tactics for obtaining or avoiding discovery and admissibility from a transactional and evidentiary perspective.

I. DISCOVERABILITY

Although consistent application has not yet been achieved, courts are demonstrating an increased willingness to allow parties to an infringement action to discover settlement licenses and, in some circumstances, the underlying negotiations, where the licenses may be helpful in determining whether there is a relevant royalty that should serve as the starting royalty before the *Georgia Pacific* factors are applied. This section examines a representative sample of the recent decisions.

A. Courts Now Generally Permit Discovery of Settlement Licenses Post-*ResQNet*

Discoverability is governed by Fed. R. Civ. P. 26(b)(1), which provides:

> Parties may obtain discovery regarding any nonprivileged matter that is relevant to any party's claim or defense…. Relevant information need not be admissible at the trial if the discovery appears reasonably calculated to lead to the discovery of admissible evidence.[4]

In *ResQNet*, the Federal Circuit expressly declared that two licenses that arose from litigation provided a potential proper basis for a determination of a reasonable royalty. Indeed, the Federal Circuit stated that "the most reliable license in this record arose out of litigation."[5] Thus, certainly in similar circumstances where other evidence to support a reasonable royalty is limited, district courts have allowed discovery of settlement agreements involving the patent-in-suit, similar technology or the same products.[6]

[4] Fed. R. Civ. P. 26(b)(1).
[5] *ResQNet.com*, 594 F.3d at 872.
[6] *Small v. Nobel Biocare USA, LLC*, 808 F. Supp. 2d 584, 590 (S.D.N.Y. 2011).

Because discoverability is considerably broader than admissibility and information need only be "reasonably calculated to lead to admissible evidence" in order to be discoverable, Federal Rule of Evidence 408 does not protect settlement licenses from disclosure.[7] That said, a few district courts appear to maintain that settlement licenses are irrelevant to a determination of a reasonable royalty and categorically deny discovery of such agreements.[8] Citing *Rude v. Westcott*[9], *Hanson v. Alpine Valley Ski Area*[10], and other similar cases which relate to the relevance of settlement licenses in determining an *established* royalty, these courts reason that settlement licenses reflect considerations of avoiding the risk and expense of litigation and do not provide "an accurate reflection of what a willing licensor would do in an arm's length transaction."[11] Further, "the potential prejudice and jury confusion substantially outweigh whatever probative value they may have."[12] These cases distinguish *ResQNet* on the grounds that in *ResQNet*, the settlement licenses were voluntarily produced, were part of the record and their admissibility and discoverability were not before the court.[13]

A few other courts, while acknowledging that settlement licenses may be discoverable, have imposed heightened scrutiny to their production. Recognizing the public policy favoring efficient settlements, some courts have concluded that they must balance one party's interest in

[7] Fed. R. Civ. P. 26(b)(1); *Small*, 808 F. Supp. 2d at 586; *Volumetrics Med. Imaging, LLC, v. Toshiba Am. Med. Sys., Inc.*, No. 1:05CV955, 2011 U.S. Dist. LEXIS 65422, at *40-42 (M.D.N.C. June 20, 2011); *Big Baboon Corp. v. Dell, Inc.*, No. CV 09-01198, 2010 U.S. Dist. LEXIS 108027, at *14-16 (C.D. Cal. Oct. 8, 2010).
[8] *Bascom Global Internet Servs., Inc. v. AOL, LLC*, No. CV 08-1765, 2011 U.S. Dist. LEXIS 100609, at *8 (E.D.N.Y. Sep. 8, 2011) (declining to order the production of settlement licenses and citing *Rude* and *Hanson* for support); *Fenner Investments, Ltd. v. Hewlett-Packard Co.*, No. 6:08-CV-273, 2010 WL 1727916, at *3 (E.D. Tex. Apr. 28, 2010) (citing *Rude* and other established royalty cases to support its order excluding the settlement agreements from trial though, generally, in the Eastern District of Texas courts have taken a facts and circumstances approach as reflected hereafter).
[9] 130 U.S. 152 (1889). *Rude*, however, dealt with whether an established royalty existed, not the determination of a reasonable royalty. Accordingly, reliance on that case to avoid discoverability or admissibility of a settlement agreement in order to determine a reasonable royalty is misplaced.
[10] *Hanson v. Alpine Valley Ski Area, Inc.*, 718 F.2d 1075 (Fed. Cir. 1983). *Hanson*, like *Rude*, addressed whether an established royalty existed.
[11] *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F. Supp. 2d 147, 159 (D.R.I. 2009).
[12] *Bascom*, 2011 U.S. Dist. LEXIS 100609, at *8-9.
[13] *Id.* at *7.

the discovery of a settlement license with the other party's interest in protecting a settlement negotiated with the expectation of confidentiality.[14] Indeed, some district courts have ordered *in camera* review of the settlement licenses in order to resolve questions of discoverability.[15]

Even courts which routinely allow for the discoverability of settlement licenses have identified circumstances where a settlement license may not be discoverable. Specifically, a party may succeed in preventing the disclosure of a settlement license where it can show that the requested agreement lacks relevance or that the disclosure would impose a disproportionate or otherwise undue burden on the producing party. For example, a settlement license may lack relevance because it does not relate to the patents-in-suit.[16] In addition, in *Volumetrics*, the court suggested that where other more comparable, non-litigation licenses exist, the harm caused by allowing the discovery of the settlement licenses may outweigh the potential benefit.[17] The court in *Volumetrics* also suggested it would deny discovery if specific litigation pressures were identified that demonstrated that the royalties agreed to in the settlement license were below the price the parties would have negotiated at arms-length prior to litigation.[18]

As a practical matter, absent a strong showing of a lack of relevance, most courts are unlikely to prohibit discovery of settlement licenses because, before the agreements are produced, little is known about their content and therefore it would be difficult to evaluate their probative value to a reasonable royalty. For example, although comparability of the licenses to

[14] *See, e.g.*, *Big Baboon Corp.*, 2010 U.S. Dist. LEXIS 108027, at *18-19. *But see Small*, 808 F. Supp. 2d at 587 (indicating majority view in the Second Circuit is that a heightened showing of relevance is no longer required).

[15] *See, e.g.*, *Small*, 808 F. Supp. 2d at 590 (concluding that settlement agreement was relevant to determining a reasonable royalty for purposes of discovery after *in camera* review); *Big Baboon*, 2010 U.S. Dist. LEXIS 108027, at *17-18 (denying discoverability of settlement license after *in camera* review and noting that "Defendants' assertion that Plaintiff's settlement agreement with Honda contains information relevant to this litigation is necessarily hypothetical, however, because Defendants have not seen the agreement.").

[16] *See, e.g.*, *Fenner Investments, Ltd. v. Hewlett-Packard Co.*, No. 6:08-CV-273, 2010 WL 1727916, at *3 (E.D. Tex. Apr. 28, 2010); *ReedHycalog v. Diamond Innovations, Inc.*, 727 F. Supp. 2d 543, 546-47 (E.D. Tex. 2010).

[17] *Volumetrics*, 2011 U.S. Dist. LEXIS 65422, at *57-58 (although holding that in that case no other comparable licenses did exist and therefore allowed discovery).

[18] *Id.* at *60.

the hypothetical negotiation is a prerequisite to relevance, the terms of the agreement are essential to know whether they are or can be adjusted to be comparable.[19] Accordingly, before the licenses are produced, the party seeking production will generally be ignorant of the agreement's actual licensing terms and structure, and will not be able to evaluate whether in fact litigation substantially affected the royalty rate.

B. District Courts Generally Deny Discovery of Settlement Negotiations Unless a Substantial Need for Them Exists

Because settlement licenses are now generally considered to be discoverable, litigants have also sought to discover documents and negotiations underlying the agreements to clarify, support and/or challenge the terms of the settlement licenses, whether to promote or resist the admissibility of the agreements at trial. While the agreement includes terms the parties finally agreed upon, the negotiations may provide additional information detailing why the parties reached their royalty agreements and what influenced particular terms. Thus, potentially, information about the negotiations may help determine whether the royalty rate was primarily influenced by the value of the patents or litigation-related factors.

On the other hand, the negotiations are generally considered more sensitive than the settlement licenses themselves, and thus their production potentially more harmful. This is because, for example, permitting the discovery of settlement negotiations may have a chilling effect on future negotiations.[20] Settlement negotiations may also be less probative than the agreements themselves because:

---

[19] *Lucent*, 580 F.3d at 1326 (Fed. Cir. 2009) (comparing lump sum licenses to running royalty licenses).

[20] *Mondis Tech. Ltd. v. LG Elecs., Inc.*, No. 2:07-CV-565-TJW-CE, 2011 U.S. Dist. LEXIS 47807, at *26 (E.D. Tex. May 4, 2011).

> The negotiation process is, by its nature, a place in which strategy predominates and often obscurity is generated at the cost of clarity. Parties are inclined to say or act in whatever way moves the process in their direction, regardless of the merit or truth of what is said or done at the negotiation table.[21]

Based on these competing interests, it appears that the prevailing rule is that discovery of negotiations is the exception and not the rule and district courts generally will deny the production of settlement negotiations without a clearly articulated need for their discovery.[22] As one court stated:

> Whether the license negotiations and settlement discussions are properly discoverable will likely depend on whether, within the context of each case, they are an accurate reflection of the patents' underlying value and whether their probative value exceeds their prejudicial effect.[23]

Of course, when the party withholding their production has its expert rely upon such information, production is likely to be required.[24] In the *In re MTG* decision the Federal Circuit allowed production because it would be unfair for one party to affirmatively rely on the negotiations without granting access to the opposing party to rebut their significance.[25]

Another basis for production exists where the record contains a multitude of settlement licenses that contain inconsistent royalty rates.[26] Thus, the production of settlement negotiations

---

[21] *Charles E. Hill & Assocs., Inc. v. ABT Elecs., Inc.*, 2012 U.S. Dist. LEXIS 47995, at *6 (E.D. Tex. April 3, 2012).

[22] *Ceats, Inc. v. Continental Airlines, Inc.*, No. 6:10-CV-00120-LED, at 3-4 (E.D. Tex. filed Jan. 5, 2012); *Clear with Computers, LLC v. Bergdorf Goodman, Inc.*, 753 F. Supp. 2d 662, 664 (E.D. Tex. 2010).

[23] *Charles E. Hill*, 2012 U.S. Dist. LEXIS 47995, at *5.

[24] *In re MSTG, Inc.*, 675 F.3d 1337, 1348 (Fed. Cir. 2012) (denying mandamus to block production of negotiations because the expert relied on the negotiations to prove the rates in the settlement licenses were discounted by 75% because of the early stage of litigation).

[25] *Id*. *See also Implicit Networks, Inc. v. Juniper Networks, Inc.*, No. C 10-04234 SI (N.D. Cal. July 23, 2012) (ordering plaintiff to produce all settlement negotiation communications because plaintiff "argued that the rates on one or more of its prior licenses were 'discounted' in light of business decisions"); *Ceats*, No. 6:10-CV-00120-LED, at 3-4 (concluding that settlement negotiations would be discoverable if defendants establish that plaintiff's expert relied on such negotiations).

[26] *Charles E. Hill*, U.S. Dist. LEXIS 47995, at *9; *Clear with Computers,* 753 F. Supp. 2d at 663-64.

may be necessary to explain the inconsistencies and determine whether and to what extent the royalties reflect patent value or the desire to avoid litigation.[27]

Although most courts appear to deny discovery of settlement negotiations absent a clearly articulated need, a few courts have allowed more liberal discovery.[28] One early decision even concluded that *ResQNet* might compel such a rule.

> It necessarily follows that, in light of the admissibility and importance of prior related settlement agreements, *ResQNet* suggests that the underlying negotiations are relevant to the calculation of a reasonable royalty using the hypothetical negotiation damages model.[29]

In that case, the court concluded the fact finder must know "whether and to what extent the rate from a prior license agreement is the result of a compromise or reflects a desire to avoid litigation."[30] In contrast, where no final settlement agreement was reached, the negotiations were viewed as an unreliable indicator of a reasonable royalty by themselves, without an actual agreement to provide context and their production carried with it a high probability of chilling settlement talks that are in progress.[31] As a result, the court refused to order the production of negotiations relating to ongoing or unconsummated negotiations.

Historically, some courts had adopted a settlement privilege resulting in a categorical denial of discovery of settlement negotiations.[32] These courts utilized their power under Federal

[27] *See* cases cited *supra* note 31. *But see Ceats*, No. 6:10-CV-00120-LED, at 3-4 (concluding that settlement negotiations were not discoverable because the patentee established a consistent royalty rate for each company within a particular industry).
[28] *Delphi Auto. Sys. v. Vehicle Occupant Sensing Sys. LLC*, No. 10-10886, 2011 U.S. Dist LEXIS 42236, at *5 (E.D. Mich. Apr. 19, 2011); *Datatreasury Corp. v. Wells Fargo & Co.*, No. 2:06-CV-72 DF, 2010 U.S. Dist. LEXIS 25291, at *19-20 (E.D. Tex. Mar. 4, 2010); *Tyco Healthcare Group LP v. E-Z-EM, Inc.*, No. 2:07-CV-262, 2010 U.S. Dist. LEXIS 18253, at *7-8 (E.D. Tex. Mar. 2, 2010).
[29] *Tyco*, 2010 U.S. Dist. LEXIS 18253, at *7-8.
[30] *See id*.
[31] *Mondis*, 2011 U.S. Dist. LEXIS 47807, at *26 (distinguishing *Tyco* based on the fact that no settlement agreement had been reached and declining to order the production of ongoing or unconsummated negotiations.
[32] *Goodyear*, 332 F.3d at 981; *Software Tree, LLC v. Red Hat, Inc.*, No. 6:09-CV-097, 2010 U.S. Dist. LEXIS 70542, at *9 (E.D. Tex. June 24, 2010) (C.J. Rader sitting by designation) (while applying the privilege to licenses entered into within the context of litigation, the court permitted discovery of negotiations pertaining to agreements entered into outside the context of litigation).

Rule of Evidence 501 to create an additional privilege in light of reason and experience.[33] The policy concerns cited for creating the privilege were that, like the attorney-client privilege and doctor-patient privilege, it would encourage open and honest communication between litigating parties, and thereby encourage settlement.[34] However, the Federal Circuit in *MSTG* recently expressly repudiated a privilege for settlement negotiations sought in discovery to prove a reasonable royalty.[35] Nevertheless, the Federal Circuit in *MSTG* noted that all states have apparently enacted a mediation privilege, so any communications made in the context of mediation are per se not discoverable.[36]

Therefore, although settlement negotiations are generally considered somewhat relevant, the majority of courts have determined that the incremental benefit of allowing this discovery is generally too small when compared to the potential harm caused by allowing such discovery.

II. ADMISSIBILITY

In addition to expanding the discoverability of settlement licenses, *ResQNet* and its progeny have also greatly advanced the potential admissibility and use of settlement licenses at trial. While some courts have continued to limit the admissibility of settlement licenses in the aftermath of *ResQNet*,[37] others have demonstrated a willingness to admit settlement licenses that involve the patents-at-issue and otherwise where the available licensing evidence is insufficient to calculate a reasonable royalty. Accordingly, the admissibility of settlement licenses is largely dependent on the specific facts and circumstances of each case, placing particular emphasis on

---

[33] *Goodyear*, 332 F.3d at 979-80.
[34] *Id.*
[35] *In re MSTG*, 675 F.3d at 1348.
[36] *Id.* at 1343. *See also Networks, Inc. v. Juniper Networks, Inc.*, No. C 10-04234 SI (N.D. Cal. July 23, 2012) (refusing to order confidential communications submitted to third-party mediators); *Hear-Wear Techs., Inc. v. Oticon, Inc.*, 77 Fed. R. Evid. Serv. (CBC) 273, at *2 (N.D. Okla. Aug. 8, 2008) (extending mediation privilege to settlement that occurs after a court ordered settlement conference and without assistance from the court ordered settlement judge).
[37] *See, e.g., Fenner*, No. 6:08-CV-273, 2010 WL 1727916, at *3 ("[T]he recent ResQNet decision has not altered the admissibility of agreements entered into under the threat of litigation.")

determining whether the agreement is sufficiently comparable and whether the royalty provided in the relevant settlement license can be properly adjusted to account for differences in subject matter, timing, and/or litigation context.

In contemplating the admissibility of settlement licenses, courts are tasked with balancing the potential prejudicial effects of admission with the potential utility of using the relevant settlement license as a starting point for determining a hypothetical reasonable royalty.[38] Given the magnitude of the potential consequences and the divergence of opinions concerning the degree to which settlement licenses are relevant, courts have struggled to adopt a consistent approach when considering the issue of admissibility.

Despite the potential utility of using a settlement license in determining an appropriate starting point in a reasonable royalty analysis, several district courts have declined to admit settlement licenses into evidence where such licenses are not sufficiently comparable or where other relevant non-settlement licenses exist. Primarily, these courts generally conclude that admission of settlement licenses gives rise to an unacceptable potential for prejudice and jury confusion.[39] As expressed by the court in *Fenner*:

> Parties enter into settlements for a number of reasons other than the value of the improvements patented. These reasons include not only cost of additional litigation or the relative financial positions of the parties, but also the risk of a sizeable verdict against a defendant or a finding of invalidity or unenforceability against a plaintiff, which would end not only that action but future actions against other alleged infringers. Thus, admission of these agreements would invite a mini-trial on similarities and differences in the facts between this case and the settled claims. Such a diversion would cause unfair prejudice, confuse the issues, and waste time. Moreover, courts have long held settlement licenses do not accurately reflect what a willing licensee would pay a willing licensor in an arm's

[38] *See Clear with Computers*, 753 F. Supp. 2d at 663 ("[T]he admissibility of litigation licenses—like all evidence—must be assessed on a case-by-case basis, balancing the potential for unfair prejudice and jury confusion against the potential to be a reliable license.") (quoting *ReedHycalog*, 727 F. Supp. 2d at 546-47).

[39] *See, e.g., Fenner*, No. 6:08-CV-273, 2010 WL 1727916, at *3 ("[T]he potential for prejudice and jury confusion substantially outweigh any probative value.").

length negotiation, and have found them to have little relevance to the hypothetical reasonable royalty situation.[40]

In one example of a court adopting the approach set forth in *Fenner*, the court in *Lighting Ballast* declined to admit evidence of a settlement license involving the patent-at-issue based on a finding that the settlement license was not sufficiently comparable to a hypothetical negotiation due to differences in the licensed subject matter and the litigation context.[41] Moreover, the court noted that the differences were not sufficiently addressed by the expert and held that "to the extent [the settlement license] is probative of such royalty, such probative value is outweighed by its prejudicial effect under Rule 403 of the Federal Rules of Evidence."[42]

In contrast to the approach adopted in *Fenner* and *Ballast*, several courts have begun to admit settlement licenses that involve the patents-in-suit where such licenses are sufficiently comparable and where other evidence allowing for determination of a reasonable royalty is limited. This approach is based on an understanding that settlement licenses and the underlying negotiations "may be central to the fact-finder's determination of damages using a hypothetical negotiations analysis."[43]

In *Datatreasury*, the court held that relevant settlement licenses were admissible for *all purposes*, including for use in determining the reasonable royalty.[44] In that case, the court stated that "Defendants' concerns about the reliability of litigation-related licenses are better directed to

[40] *Id.* at *4 (internal citations and quotations omitted) (denying admission of settlement licenses because "the potential for prejudice and jury confusion substantially outweigh any probative value the agreements may have.").
[41] *Lighting Ballast Control, LLC v. Philips Electronics N. Am. Corp.*, No. 7:09-CV-29-O, 2011 WL 7575006, at *4 (N.D. Tex. June 10, 2011) (The settlement license "convey[ed] rights broader than those contemplated by the hypothetical negotiation, because it includes [a second] patent."); *see Tyco Healthcare Group LP v. Applied Med. Res. Corp.*, No. 9:09-CV-176, 2011 WL 7563868, at *3 (E.D. Tex. Sept. 23, 2011) (excluding an experts testimony on a related settlement license based, at least in part, on the courts holding in *Fenner*).
[42] *Id.*
[43] *Tyco Healthcare*, No. 2:07-CV-262, 2010 WL 774878, at *2; *Clear with Computers*, 753 F. Supp. 2d at 664 (granting a motion to compel discovery of settlement negotiations where the settlement licenses were likely the only licenses of the patents in suit based on a finding that "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.").
[44] *See Datatreasury Corp.*, No. 2:06-CV-72 DF, 2010 WL 903259, at *2.

weight, not admissibility," and noted that "Defendants (as well as Plaintiff) may nonetheless propose a final jury instruction that gives the jury guidance on applying litigation-related licenses."[45]

Given the general reluctance of courts to order the discovery of settlement negotiations absent substantial need, admissibility of such negotiations is likely to be rare.In sum, this area of law continues to evolve and whether the settlements will be allowed into evidence at trial will primarily depend on whether subject matter and litigation context issues can be properly adjusted for. A recent law review article discusses more exhaustively the broader issues relating to discovery and admission of settlement agreements.[46]

III. TIPS FOR DRAFTING SETTLEMENT LICENSES POST-*RESQNET*

A. Transactional Perspective

In light of the recent rulings allowing the admission of relevant agreements, in-house attorneys and their business clients need to be aware that their licensing agreements will likely be viewed by third-parties if the licensor's technology is the subject of a subsequent dispute. The thought of our client's license agreements becoming known to others, including those agreements with provisions stating the deal is confidential, may initially give rise to concerns. After careful consideration, corporate clients and their in- house counsel may soon realize that these recent rulings may open up the door to opportunities previously unavailable. In license agreements (whether a straight license or as part of a settlement), clients will have the opportunity to help the licensor. But, they also have the opportunity to help the licensee. Accordingly, they should first ask how useful they would like the agreement to be.

---

[45] *Id.*

[46] See Keele, "ResQing Patent Infringement Damages After *ResQNet*: The Dangers of Litigation Licenses as Evidence of a Reasonable Royalty," 20 *Texas Intellectual Property Law Journal* 181 (Spring 2012).

As discussed in the sections above, it is clear that comparability is a key factor that is considered when reviewing prior licensing agreements. Initially, one would probably think that the license should be narrowly drafted so that the value of the patent is perfectly clear if the drafter wants to provide a comparable license. However, such an approach may not actually be comparable. Likewise, including additional scope to the license may not always make the license less comparable. Therefore, drafting practitioners should think of how the licensor would likely be licensing the technology to the next licensee. For example, saying that the license also includes non-patented know-how may not be helpful to differentiate the license if it is likely that other licensors will also be licensing such technology. Similarly, the same could also happen when considering licenses for just the US patent or for the US and foreign counterparts, or licenses for a single patent or for a patent family including continuation and divisional patents. Once the drafter understands how the licensor will most likely offer the technology to the next licensee, the drafter can draft the license to either be comparable and useful, or differentiated and not useful.

Predicting how a future licensee will want the license may not be easy, but there are some factors that can be considered by the drafter which may provide some guidance. If the patentee has a large family of patents in a given technology and the anticipated licensees/defendants are large non-competitors, the drafter can safely assume that the anticipated licensees would want to make sure they are not brought into another lawsuit. Therefore, the anticipated licensees will want the broadest protections available (i.e., entire patent family – continuations, divisionals, foreign counterparts, world-wide, and associated know-how). If the anticipated licensees are direct competitors, a more narrow approach may be more likely because the competitor may be confident in its freedom-to-operate and its ability to defend and cross-claim in the event of another suit.

A drafter trying to draft a comparable license may also look to itemize the value of everything in the license – each patent, foreign counterpart, continuation, divisional, and the associated know-how. Such an approach would provide the most clarity and comparability to a court. However, such an approach could also potentially hurt a licensor, especially if narrow licenses are anticipated.

A practitioner looking to draft a differentiated and therefore non-comparable license can also try to hide the true value in several ways. For example, the licensee may take the belligerent licensee approach in order to show that they are taking the license merely to end the lawsuit rather than to obtain a right they were looking for from fair negotiations. The belligerent licensee would continue to proclaim that they do not infringe and that they are only taking the license in order to end what it considers a frivolous nuisance. However, such an approach may be allowed by a licensor if the licensor would expect similar push-back from other licensees (therefore making them comparable).

Another tactic a drafting attorney may use in order to differentiate a license would be to include something that is not likely to be in subsequent licenses. For a company that has its own patent family, a cross-license would provide a differentiating effect that would be very difficult to find comparability when applied to another. Another differentiator may be the inclusion of services in the license agreement. If the anticipated licensees likely will not be customers, but rather straight defendants, then it is unlikely that the anticipated licensees would also be receiving ancillary services. Moreover, in the event that the drafter does not want the license to be comparable, the drafter could also make the license itself ancillary to a product or other services being provided. Of course such a situation would really only be available in rare situations. However, one should be cautioned that this is not a suggestion to try to hide the license by selling a product that would use a method rather than providing the license to the method – such a transaction could be viewed as comparable due to the implied license associated with the product and its intended use.

As should be evident from the discussion above, many of the tips can be used to both help and hinder the comparability of the license. Before drafting to achieve the desired comparability or differentiation, practitioners must first consider how comparable the licenses will be for anticipated licensees. When the practitioner knows what will likely be included in future licenses, the practitioner can more effectively prepare a license that can be as useful or useless as they desire.

B. Evidentiary Perspective

When it comes to settlement licenses then, the potential party positions can be presented in a simple two-by-two matrix:

Party / Stage	**Discoverable**	**Admissible**
Plaintiff	**Y/N**	**Y/N**
Defendant	**Y/N**	**Y/N**

The matrix can become multi-dimensional if differentiation is made between plaintiff's settlements in the subject case and settlements in other cases that are arguably relevant under *Georgia-Pacific* factors 2 or 12, as well as settlements where the current plaintiff was a defendant, along with a defendant's settlements in other matters involving the same accused products or similar technology, again, whether as a plaintiff or defendant. The simple matrix can quickly triple or more in size.

In any event, following is a non-exhaustive discussion of potentially relevant considerations by parties in deciding whether to seek or resist the discovery and admission of settlement licenses.

1. Plaintiff's Perspective

Continuing the simplicity theme, generally, a plaintiff will want to use settlement licenses in the same and future litigations where it has negotiated an arrangement that is within the targeted range it seeks. Unique arrangements with "first" and smaller defendants (e.g., a low nuisance or no value arrangements, reduced value arrangements in order to secure an initial license and/or provide litigation funding), as well as complex agreements with larger or difficult defendants (e.g., cross-licenses, IP bundles, resolving multiple disputes, extra covenants, contingent future payments, etc.) are generally less useful. Also, since settlements generally involve a single payment through the date of settlement and, most are paid up licenses based on a lump sum (though some involve a continuing royalty), the structure may complicate use against other defendants and future litigants where a running royalty may be sought in litigation or used to determine the historical infringement royalty portion of any lump sum. As noted in the case law discussion, the key is being able to equate the lump sum to a running royalty which experts have been unsuccessful in doing in many cases. Stating an effective running royalty rate is a good start but having verifiable support for it is even better. This may risk, however, opening up discovery "behind the license" or third-party discovery. Attaching accused sales data and computations to the settlement may cut off additional discovery. It also serves to document the date back to which the royalty applies, which can be useful in arguing the relevance of the settlement to determining the royalty for other defendants who began infringing around the same time.

The plaintiff should be careful to address how estimated future royalties were determined if a paid up lump sum license is granted since significant future expected accused sales may suggest that only a small portion of the lump sum was for past infringement since that is the relevant royalty period for remaining litigants. Understandably, settling defendants will want waivers and releases and those are a common arrangement. Noting that the settling parties dispute validity and infringement are useful support for the argument that the arrangement reached was below the royalty that would apply where patent validity and infringement were not in dispute, which are the assumptions that must be made for damages purposes.

In contrast, where a settlement is below the target range, less is more in the sense that not including provisions that would aid in comparing the settlement license to the hypothetical license potentially limits its relevance. But also more may be more where provisions are added to further distance the settlement license from the hypothetical license, including explanations or rationales for the settlement, unique structuring, extra covenants and other considerations, describing limitations on discovery and information, and so forth. But plaintiffs must keep in mind that this license will become part of their body of work concerning licensing practices and policies that may be referenced in future litigations whether as a plaintiff and defendant concerning arrangements plaintiff found acceptable in the past.

Generally, a plaintiff that wants its settlement licenses to be potentially admissible can start by voluntarily producing them in the litigation as part of automatic or mandatory disclosures or, even better, in response to a specific defendant discovery request for licenses. Of course, in negotiating the settlements plaintiff will have to be mindful of provisions that may restrict disclosure of the agreements to others, including in litigation. Provisions are often included requiring the licensed parties to resist disclosure or discovery, to notify one another, and/or to require an objection forcing a motion to compel. Generally, such provisions will only slow down the production as courts will frequently compel production based on the protective order in the case.

Odds of discoverability and admissibility (whether sought by the plaintiff or a defendant that wants plaintiff's settlement licenses discovered and admitted) will be increased where the settlement license involves the patent-in-suit. While comparability is a critical factor in determining whether a settlement license is admissible, the cases suggest that some comparability considerations may come up at the discovery phase. Of course where a plaintiff has produced its own settlement licenses, the discovery issue is moot. As to discovering defendant's settlement licenses, the plaintiff should anticipate objections to discovery relating to relevance and comparability so that at least an initial showing can be made of reasons to anticipate the settlements may eventually be admissible. Among other things, technical expert opinions can be used to bridge the gap between settlements involving other patents for relevant technology (e.g., relating to similar products, in the same field and of comparable significance, and so forth). Plaintiffs representing their intention to conduct such analyses may be sufficient at this stage to overcome objections based on relevance and non-comparability. But, parties will have to be mindful of other comparability differences including the relationship between the parties, date, litigation context, and other rights included in the agreement. Practically, it is often difficult to adjust for many of these differences with mathematical precision, requiring some sound economic rationale for the adjustments such that the result is not speculative.

As reflected in the case law, affirmatively addressing and properly adjusting for differences in royalty structures (lump sum vs. running royalty), date differences between the settlement (or relation back date) and the hypothetical negotiation, and subject matter (freedom to operate under the patents-in-suit vs. a bundle of rights, other patents, other considerations and covenants) is critical to ultimate admissibility. Where the license documentation and witness testimony does not address these issues directly, the technical and damages expert will have to work together to perform the analyses and develop the record. For example, where a plaintiff has granted a paid up license in settlement, adjustments will need to be made to determine the equivalent through the date of trial as to remaining defendants. Where a plaintiff has granted a lump sum license in settlement but seeks a running royalty, computations reflecting a reasonable estimate of the effective royalty rate will need to be performed. Or where the settlement license involves different patents or technology but the same products, technical expert opinions concerning the comparative significance of the technology and, potentially, economic analyses of the importance of the features impacted by the other technology to the consumer compared to the patented technology will be needed.

2. Defendant's Perspective

In short, reverse the above. Well, not exactly. Of course, where a plaintiff doesn't produce or rely upon prior settlement licenses, a defendant has to consider whether they want to seek their production. While the plaintiff's failure to produce the prior settlements suggests they are not that useful to plaintiff, seeking their discovery will open the door to defendant's settlement licenses as well. Where defendant's prior settlements are useful to defendant, then it is perhaps worth the risk of seeking plaintiff's settlement licenses as well.

The defendant settlements most likely in issue will be ones involving the same accused products, the same field of invention or otherwise similar technology to the patented technology, both where defendant was the plaintiff and defendant in the prior action. Where defendant doesn't want to produce such agreements, the discussion in the previous section concerning anticipated barriers to admissibility as a threshold argument against discovery (i.e. relevance and comparability) should be raised to demonstrate that discovery exceeds that which is expected to lead to admissible evidence. Parties who are mostly defendants understandably want to fill settlement licenses with provisions that will distance them from the "bare patent license for a running royalty based on a percentage of sales structure" often sought in the hypothetical negotiation. Thus, adding one-sided and cross-exchanges of other rights and considerations, language reflecting the importance of settling and avoiding litigation as opposed to licensing the patents, expressing the limits on information used to reach the settlement, and so forth, may limit comparability. Of course, the plaintiff may seek discovery "behind the license" but, to date, courts have been reluctant to grant that relief, meaning most of what can be determined about the licenses will come from the face of the documents and party witnesses presented in connection with them. As noted above, plaintiffs can often overcome objections to discovery based on issues about inadmissibility by explaining the process by which they can make the agreements more comparable. As discussed in the previous section, making appropriate comparability adjustments will most likely dictate admissibility.

Where a defendant wants to use its own settlement licenses, the defendant can simply voluntarily produce them or produce them in response to the plaintiff's specific request for license agreements. The defendant should be careful about criteria applied to determine agreements produced where there are other less favorable agreements not being produced. The existence of the other agreements may be discovered through public records, may be well known by those active in the industry (including counsel who have litigated many other cases involving market participants) or designated representative depositions, and defendant may have to produce those potentially undermining the favorable royalty theory suggested by the agreement voluntarily produced.

For those who find themselves on both sides of the docket, there may be considerations on one side or the other that will dictate the philosophy for the party in all circumstances. In other words, a large software company that gets sued a lot by NPE's and competitors but also asserts patents to block competitors, may decide to take a uniform approach to settlement licensing and terms of settlement which may make its settlements as plaintiff less comparable to its litigation position, but may provide the safest structure for its defendant cases where discovery of the settlement licenses are regularly expected. This approach may also prevent some cases from settling where a counter party desires provisions to which the software company will not agree. The result may include trials involving settlement licenses and verdicts based on them, leading to appeals where those agreements may be further published and scrutinized. It's a tangled web.

13720846
080112