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# ACCIDENTALLY ON TARGET: THE *MSTG* EFFECTS ON NON-PRACTICING ENTITIES' LITIGATION AND SETTLEMENT STRATEGIES

Alex S. Li<sup>†</sup>

By making settlement-related documents discoverable, the *In re MSTG*<sup>1</sup> decision may lessen the sting of non-practicing entity (“NPE”)-related litigation. Over the past decade, the rise of NPEs has had a profound impact on the patent ecosystem.<sup>2</sup> Growing at an “alarming” rate, NPE-related litigation has become a significant percentage of all patent lawsuits filed.<sup>3</sup> Recognizing the problem, both the United States Supreme Court and the Federal Circuit have taken steps to control NPE-related litigation through a series of landmark decisions.<sup>4</sup> These judicial doctrines have limited the reach

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1. *In re MSTG, Inc.*, 675 F.3d 1337, 1348 (Fed. Cir. 2012), *reh'g denied*, 468 Fed. App'x. 994 (Fed. Cir. 2012).

2. See Daniel P. McCurdy, *Patent Trolls Erode the Foundation of the U.S. Patent System*, SCIENCE PROGRESS 78–79, available at <http://www.scienceprogress.org/wp-content/uploads/2009/01/issue2/mccurdy.pdf> [hereinafter *Erode Foundation*] (“By far, the most significant and destabilizing change in the patent environment since 2003 has been the dramatic increase in the growth, financing, and patent acquisitions of so called non-practicing entities.”); see also *President Obama Admits that Patent Trolls Just try to ‘Extort’ Money; Reform Needed*, TECHDIRT (Feb. 14, 2013, 2:45PM), <http://www.techdirt.com/articles/20130214/14351821988/president-obama-admits-that-patent-trolls-just-try-to-extort-money-reform-needed.shtml> (President Obama, during a “Fireside Hangout” on Google+, noted that patent trolls, a specific type of NPEs, “don’t actually produce anything themselves. They’re just trying to essentially leverage and hijack somebody else’s idea and see if they can extort some money out of them.”).

3. See *Erode Foundation*, *supra* note 2, at 79 (“From October 1, 1994 through September 30, 2002, 527 Patent lawsuits were filed by or against the 219 NPEs . . . represent[ing] 2.7 percent of patent lawsuits filed in the United States during that 8-year period. From October 1, 2003 through September 30, 2007, there were 1,210 lawsuits filed by or against these entities, representing approximately 8.4 percent of all patent lawsuits filed in that period, and exceeding 10 percent in 2006 and 2007.”); Sara Jeruss, Robin Cooper Feldman & Joshua Walker, *The America Invents Act 500: Effects of Patent Monetization Entities on US Litigation*, DUKE L. & TECH. REV. (forthcoming) at 38, available at <http://ssrn.com/abstract=2158455> [hereinafter *ALA 500*] (“A random sample of 500 cases from 2007–2011 suggests that the impact of patent monetization entities on patent litigation is both dramatic and growing across time.”).

4. PETER S. MENELL ET AL., PATENT CASE MANAGEMENT JUDICIAL GUIDE, § 1.1.2.2 (2d ed. 2012).

of NPEs by “tighten[ing] the non-obviousness requirement . . . , [modifying] the standard for obtaining injunctive relief . . . [, and raising] the bars for proving willful infringement . . . and reasonable royalty.”<sup>5</sup> The *MSTG* decision represents the Federal Circuit’s latest attempt to subdue NPEs’ negative effects on the judiciary.

Ever since the *eBay*<sup>6</sup> decision, which severely curtailed NPEs’ ability to obtain injunctive relief in a federal court,<sup>7</sup> NPEs have been forced to turn to the reasonable royalty damages standard for their infringement remedy.<sup>8</sup> While many courts traditionally excluded settlement licenses in the reasonable royalty calculation,<sup>9</sup> in *ResQNet.com, Inc. v. Lansa, Inc.*, the Federal Circuit reversed this rule and allowed for the consideration of settlement licenses in the reasonable royalty calculation because “the most reliable license in [the] record arose out of litigation.”<sup>10</sup> In reaching this conclusion, the court held that the most “reliable” measure of damages for patent infringement may be the settlement licenses of the patents-in-suit from other related third-party litigations.<sup>11</sup>

Following *ResQNet*, the discoverability of the negotiation documents underlying settlement licenses became uncertain,<sup>12</sup> and many courts issued conflicting rulings on the topic.<sup>13</sup> This debate over the privileged nature of

5. *Id.* (internal citations omitted).

6. *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006).

7. *See, e.g.*, Daniel E. Valencia, *Celebrating Twenty-Five Years of a Liberal Domestic Industry Requirement in Section 337 Cases: Would A Qualitative Analysis of Statutory “Exploitation” Activities Put the Trade Back in International Trade Commission?*, 40 AIPLA Q.J. 267, 271 (2012) (“[The eBay] decision substantially decreased the likelihood of a party receiving a permanent injunction from a district court where the patentee does not itself practice the asserted patent.”).

8. *See, e.g.*, Layne S. Keele, *Res“Q”Ing Patent Infringement Damages After ResQNet: The Dangers of Litigation Licenses as Evidence of a Reasonable Royalty*, 20 TEX. INTELL. PROP. L.J. 181, 188 (2012) [hereinafter *After ResQNet*] (“The addition of the reasonable royalty standard portended big business for non-practicing entities (NPEs), who, by definition could not prove lost profits, and who may have lacked sufficient non-litigation licenses to show an established royalty.”).

9. *See infra* Section I.B for the two primary reasons: (1) policy grounds and (2) lack of probative value.

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

11. *See id.*

12. *See E. Danielle Thompson Williams and Leslie T. Grab, Contemporary Issues in Patent Royalty Damages; TMI: How Much Settlement Information is Too Much Settlement Information?*, PRACTICING LAW INSTITUTE (Oct. 13, 2010), <http://patentlawcenter.pli.edu/2010/10/13/contemporary-issues-in-patent-royalty-damages/> [hereinafter *Contemporary Issues*]. (“Other courts have even gone further to allow discovery related to the negotiations behind the settlement agreements.”)

13. *See infra* Section I.D.

settlement-related communications has made it difficult for patent practitioners to determine the limits of discovery.<sup>14</sup> To clear up this confusion, through a *Jaffee* factors analysis,<sup>15</sup> the Federal Circuit held in *MSTG* that “settlement negotiations related to reasonable royalties and damage calculations are not protected by a settlement negotiation privilege.”<sup>16</sup>

The discoverability of settlement-related documents could have a significant impact on the behavior of NPEs. Because NPEs tend to sue multiple defendants over the same set of patents and force individualized settlement licenses with each party,<sup>17</sup> defendants who hold out the longest might be able to obtain more advantageous settlements based on their discovery of the NPEs’ settlement-related documents with the earlier settling defendants. Therefore, this decision could fundamentally alter the strategies that NPEs and their defendants take toward patent litigation.

This Note examines how *MSTG* might alter NPEs’ strategies toward both litigation and settlement and, in light of this, whether the decision was correctly analyzed under the *Jaffee* factors. Part I identifies eight different types of NPEs and groups them into three categories according to their litigation characteristics. It surveys the evidentiary and procedural laws governing the discoverability and admissibility of settlement-related documents and licenses, and assesses how recent developments in patent law have confused these areas. Part II reviews the facts and procedural history of the *MSTG* case and discusses the rationale behind the Federal Circuit’s decision not to create a privilege for settlement negotiations. Part III critiques the Federal Circuit’s analysis of the *Jaffee* factors and suggests that only two of the factors, “Advisory Committee’s Recommendations” and “Advancement of a Public Good,” should have been dispositive to the case. Part III continues by constructing a decision tree framework for an in-depth examination of the “Advancement of a Public Good” *Jaffee* factor and explores, through that framework, how *MSTG* could influence NPEs’ litigation and settlement strategies.

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14. See Tejas N. Narechania & Jackson Taylor Kirklin, *An Unsettling Development: The Use of Settlement-Related Evidence for Damages Determinations in Patent Litigation*, U. ILL. J.L. TECH. & POL’Y 1, 22 (2012) [hereinafter *Unsettling Development*].

15. This is a list of key factors, identified by the U.S. Supreme Court in *Jaffee v. Redmond*, 518 U.S. 1 (1996), for a court to consider when establishing a new privilege. See *infra* Sections I.C, II.B.

16. *In re MSTG, Inc.*, 675 F.3d 1337, 1348 (Fed. Cir. 2012), *reh’g denied*, 468 Fed. App’x. 994 (Fed. Cir. 2012).

17. See Colleen V. Chien, *Of Trolls, Davids, Goliaths, and Kings: Narratives and Evidence in the Litigation of High-Tech Patents*, 87 N.C.L. REV. 1571, 1579 (2009) [hereinafter *Of Trolls*].

This Note argues that *MSTG* will only affect the strategy of a specific subset of NPEs, those that are pejoratively known as “patent trolls,” by potentially making them less litigious toward smaller companies and more willing to settle with those larger companies that they do litigate against. Furthermore, as the recently enacted Leahy-Smith America Invents Act (“AIA”)<sup>18</sup> brings a more restrictive joinder rule, NPEs may be forced to file even more individual cases; thus, *MSTG* might also deter this behavior and help to reduce the strain on judicial resources. This “Advancement of a Public Good” factor analysis, along with the fact that the settlement negotiations privilege is not one of the original “Advisory Committee’s Recommendations,” indicate that, even though the Federal Circuit might have erred in its *Jaffee* analysis, the court’s decision to not establish a settlement negotiations privilege may well help to reduce abusive NPE lawsuits.

## I. BACKGROUND

Over the past decade, the percentage of all patent litigation cases associated with NPEs has risen dramatically.<sup>19</sup> With the total number of patent actions filed on the rise as well,<sup>20</sup> NPE-related litigation will continue to have a serious impact on judicial effectiveness which is a major public concern.<sup>21</sup> To this extent, judicial decisions that incentivize a reduction in either the length or the quantity of NPE-related litigation could significantly benefit the public by helping to unclog the judiciary. Before analyzing *MSTG* under this perspective, this Note provides some relevant background on NPEs and their relationship to patent law.

An NPE is any entity that does not actively practice the patents that it owns.<sup>22</sup> While most individuals commonly associate the term “patent trolls” with NPEs, only a subset of NPEs own their patents for the express purpose of profiting from infringement litigation.<sup>23</sup> Therefore, Section I.A first

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18. Leahy-Smith America Invents Act, Pub. L. No. 112-29, sec. 19(d), § 299, 125 Stat. 284, 332–33 (2011).

19. *See supra* note 3.

20. PricewaterhouseCoopers, 2011 PATENT LITIGATION STUDY: PATENT LITIGATION TRENDS AS THE “AMERICA INVENTS ACT” BECOMES LAW, at 8 (2011) [hereinafter Patent Study].

21. *See Erode Foundation, supra* note 2, at 78–81.

22. *See, e.g.,* Colleen V. Chien, *From Arms Race to Marketplace: The Complex Patent Ecosystem and Its Implications for the Patent System*, 62 HASTINGS L.J. 297, 326–33 (2010) [hereinafter *Arms Race*].

23. *See, e.g.,* Holly Forsberg, *Diminishing the Attractiveness of Trolling: the Impacts of Recent Judicial Activity on Non-Practicing Entities*, 12 U. PITT. J. TECH. L. & POL’Y 1, 5 (2011)

completes the broader NPE classification picture by identifying the different types of NPEs in the patent ecosystem. Section I.B then examines the type of remedies these NPEs rely on. Following this discussion, Section I.C outlines the pertinent evidentiary and procedural laws that govern the admissibility and discoverability of settlement-related licenses and documents. Finally, Section I.D describes how the *ResQNet* decision has both shaped and muddled these areas of law.

#### A. THE DIFFERENT TYPES OF NPEs

This Note identifies eight types of NPEs and organizes them into three groups based on their litigation characteristics: (1) litigation-at-all-costs NPEs, (2) litigation-as-a-business-model NPEs, and (3) non-litigious NPEs.

##### 1. *Litigation-at-all-costs* NPEs

Litigation-at-all-costs NPEs are composed solely of individuals. The U.S. Patent System was established for the individual, “the lone worker who follows the fleeting inspiration of a moment and finally does something that has not been done before.”<sup>24</sup> Today, however, many of these individuals are now NPEs, as they “have turned their focus away from the active development or practice of their patents and have moved towards patent enforcement.”<sup>25</sup> When individual inventors exhibit this behavior, they tend to be the most litigious of all NPEs.<sup>26</sup> One of the prominent causes of this extreme litigious nature is these individuals’ inability to secure pre-litigation licensing agreements from the allegedly infringing companies.<sup>27</sup> The other explanation for this behavior is that these NPEs are primarily motivated by public vindication and justice.<sup>28</sup> For these individuals, the trial court is their showroom, a place where they can describe to the public their “flash of

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[hereinafter *Diminishing Trolling*] (“This is because the term NPE can also be used to describe entities that choose to not actively practice their patents for legitimate, non-litigation-based reasons . . .”).

24. See John Seabrook, *The Flash of Genius*, NEW YORKER, Jan. 11, 1993, available at [http://www.newyorker.com/archive/1993/01/11/1993\\_01\\_11\\_038\\_TNY\\_CARDS\\_00036\\_3341](http://www.newyorker.com/archive/1993/01/11/1993_01_11_038_TNY_CARDS_00036_3341) [hereinafter *Flash of Genius*] (quoting Nikola Tesla).

25. *Arms Race*, *supra* note 22, at 330.

26. See *id.* at 330–31 (“Independent inventors are among the most litigious actors in the patent system.”).

27. See Wei Wang, *Non-practicing Complainants at the ITC: Domestic Industry or Not?*, 27 BERKELEY TECH. L.J. 409, 426–27 (2012) [hereinafter *Non-practicing Complainants*] (noting that companies may be unwilling to negotiate with individual inventors).

28. See *Flash of Genius*, *supra* note 24 (describing how Robert Kearns, the inventor of the intermittent windshield wiper, turned down a thirty million dollars settlement offer from Ford because he believed “[t]o accept money from Ford would have been like admitting it was O.K. for them to do what they did”).

genius.”<sup>29</sup> As Robert Kearns, the inventor of the intermittent windshield wiper, famously said, “I want [the public] to understand that I am wearing a little badge here, and that badge says that I am an inventor, and it says I am a net contributor to society . . . , and I don’t think anybody is going to be able to see the badge until *my trial is finished in this courtroom* and I will find out whether I am wearing the badge or not.”<sup>30</sup>

These individuals are more likely to work with contingency-fee lawyers and are more selective in choosing whom they sue because of their generally limited financial resources.<sup>31</sup> Their trials also tend to last the longest not only because they are more personally invested in their patents but also because they receive more favorable verdicts: juries tend to favor individuals over the defending companies at a rate of three to one.<sup>32</sup>

## 2. *Litigation-as-a-Business-Model NPEs*

This group of NPEs is the most recognized because it includes the notorious “patent trolls.”<sup>33</sup> These NPEs rely on the enforcement rather than the development or commercialization of the patents they own as their primary income stream.<sup>34</sup> They also tend to sue multiple defendants and to “rely on litigation and settlement to extract value from their patents.”<sup>35</sup> Most of these litigation-as-a-business-model NPEs do not actively practice or develop any form of technology, and thus, they have lower litigation risk due to the defending alleged infringers’ inability to countersue by asserting their own patents.<sup>36</sup> However, like any other business, these NPEs only litigate

29. See Flash of Genius, *supra* note 24 (“The cardinal rule for any patent attorney representing an independent inventor is to tell the invention story. You know—how he got the idea. It comes to him in a dream, or when he’s in the shower or mowing the lawn.”).

30. Flash of Genius, *supra* note 24 (emphasis added).

31. See *Arms Race*, *supra* note 22, at 331; *Of Trolls*, *supra* note 17, at 1587.

32. See *Of Trolls*, *supra* note 17, at 1586–87, 1605.

33. See, e.g., *Diminishing Trolling*, *supra* note 23; Tracie L. Bryant, *The America Invents Act: Slaying Trolls, Limiting Joinder*, 25 HARV. J.L. & TECH. 673, 676 (2012) [hereinafter *Slaying Trolls*] (“In invoking an image of a mythological creature that lies under a bridge and waits to impose a toll on unsuspecting travelers, the term “patent troll” was popularized in 2001 by Peter Detkin, then Intel’s general counsel.”).

34. See, e.g., Walter O. Alomar-Jiménez, *Harmonizing Ebay*, 1 U. PUERTO RICO BUS. L.J. 17, 23 (2010); *Arms Race*, *supra* note 22, at 328.

35. *Unsettling Development*, *supra* note 14, at 38; see *Of Trolls*, *supra* note 17, at 1601 (“When they sue, NPEs typically name multiple defendants, each of whom faces the prospect of being part of an ongoing litigation.”).

36. *Of Trolls*, *supra* note 17, at 1579 (“Because NPEs have no products of their own, they cannot be countersued for patent infringement.”).

when they believe they can generate a profit.<sup>37</sup> Because their primary concern is with the monetization of their patents, these NPEs tend to be less litigious than the litigation-at-all-costs NPEs and are willing to settle if the price is right.<sup>38</sup> Within this group, five distinct types of NPEs stand out: (1) small portfolio patent holders, (2) massive patent aggregators, (3) practicing entities with non-practiced patents, (4) private research & development companies, and (5) offensive patent funds.

a) Small Portfolio Patent Holders

Relative to the other four types of NPEs in this category, small portfolio patent holders tend to be more selective in their patent purchases.<sup>39</sup> Because of the limited number of patents these NPEs purchase, their patents tend to be of a higher quality.<sup>40</sup> Small portfolio patent holders are highly litigious because their patents are also more likely to be valid and, therefore, valuable.<sup>41</sup> As they do not practice the patents they own, they have low litigation risk and can coerce a significant settlement out of an allegedly infringing company.<sup>42</sup>

b) Massive Patent Aggregators

Massive patent aggregators are large-scale patent holders. Some well-known examples are Intellectual Ventures, Acacia Research Corporation, and Round Rock Research LLC. Massive patent aggregators have the financial wealth to “aggregate” a significant number of patents.<sup>43</sup> For example, Intellectual Ventures is estimated to have “a worldwide portfolio of 30,000–60,000 patents and applications as of May 2011.”<sup>44</sup> They are distinct from

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37. *See id.* at 1587; *see generally* Mark Liang, *The Aftermath of Ts Tech: The End of Forum Shopping in Patent Litigation and Implications for Non-Practicing Entities*, 19 TEX. INTELL. PROP. L.J. 29, 33–36 (2010) [hereinafter *Forum Shopping*].

38. *Cf. Of Trolls*, *supra* note 17, at 1587 (“First, some independent inventors are perceived as seeking not only money, the main objective of licensing shops, but also justice or vindication by a court.”).

39. *Arms Race*, *supra* note 22, at 330 (noting firms such as Stragent LLC and Synchrome Technologies hold about sixty and ten patents, respectively).

40. *Arms Race*, *supra* note 22, at 318 (noting these patent holders “tend to have a higher proportion of ‘crown jewel’”).

41. *Non-practicing Complainants*, *supra* note 27, at 421.

42. *See Arms Race*, *supra* note 22, at 319 (“Many patent-assertion entities . . . lack websites that describe what they do. . . . This secrecy serves a ‘troll’ business model, in which patentees wait until companies are already practicing an invention to ‘surprise’ them with a suit.”); *Non-practicing Complainants*, *supra* note 27, at 421.

43. Robin Feldman & Tom Ewing, *The Giants Among Us*, 2012 STAN. TECH. L. REV. 1, 1 (2012) [hereinafter *The Giants*].

44. *Id.* at 5.

small portfolio patent holders in that they have patent portfolios that span many different areas of technology and types of innovation.<sup>45</sup> They are also unique in that they do not just litigate; these massive patent aggregators also license, develop, and sell their own patents.<sup>46</sup> However, because they have so many patents, massive patent aggregators are more likely to assert patents that are weaker in quality than those asserted by small portfolio patent holders.<sup>47</sup>

c) Practicing Entities with Non-Practiced Patents

By definition, it seems illogical that a practicing entity could be an NPE. However, when a practicing entity owns patents in an area “in which the company no longer operates or never did,” it becomes an NPE with respect to those patents.<sup>48</sup> In this era, it has become more common for practicing entities to enforce these patents to recover research and development expenses.<sup>49</sup> Because practicing entities have products of their own, they need to be more selective about whom they sue in order to avoid potential countersuits.<sup>50</sup> Although patent enforcement could generate a lot of revenue for these practicing entities, it does not function as their primary revenue source.<sup>51</sup> Their core business model remains focused on product merchandising and distribution.

d) Private Research & Development Companies

Along with universities,<sup>52</sup> private research & development companies (“R&D companies”) are sometimes referred to as “Idea Shops.”<sup>53</sup> These NPEs tend to possess patents that cover emerging technologies developed

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45. *Id.* at 1–2.

46. *See Arms Race*, *supra* note 22, at 330 (“In addition to litigating, IV has sold patents to companies . . . .”); *Non-practicing Complainants*, *supra* note 27, at 423.

47. *See Of Trolls*, *supra* note 17, at 1580 (“This follows from a business model based on generating licensing revenue rather than getting an injunction to prevent defendants from making or selling their products.”).

48. *See Arms Race*, *supra* note 22, at 322.

49. *See id.*

50. *See Of Trolls*, *supra* note 17, at 1579.

51. *See generally Arms Race*, *supra* note 22, at 322–24 (While practicing companies could generate a substantial amount of revenue from patents in areas they no longer practice, it is still described as a line of business within the company and rather than being a part of the company’s core business model).

52. *See infra* Section I.A.3.

53. Robert P. Merges, *The Trouble with Trolls: Innovation, Rent-Seeking, and Patent Law Reform*, 24 BERKELEY TECH. L.J. 1583, 1599 (2009) [hereinafter *Trolls Trouble*] (defining a pure idea shop as “one that sells its innovations in disembodied form”).

from their own cutting-edge research.<sup>54</sup> These R&D companies often use a hybrid business model and seek to both license and litigate their patents.<sup>55</sup> Due to their hybrid practice, these NPEs are less litigious than the other litigation-as-a-business-model NPEs described above.<sup>56</sup> However, like small portfolio patent holders, they are more concerned with the quality rather than the quantity of their patents, focusing mainly on whether they have appropriate patent coverage for their specific technology area.<sup>57</sup>

e) Offensive Patent Funds

Similar to massive patent aggregators, patent funds are also large-scale patent holders that seek to collect a myriad of different types of patents to cover a wide range of technologies.<sup>58</sup> However, offensive patent funds are distinguishable from massive patent aggregators in that most offensive patent funds began as defensive patent funds, whose primary purpose is to license their patents back to their members, thereby defensively protecting their members from potential infringement actions.<sup>59</sup> One famous defensive patent fund is RPX Corporation, which spent more than \$490 million to acquire the ownership rights or sublicenses to 2,900 patents worldwide.<sup>60</sup> Their strategy involves buying patents, licensing these patents out to their members, and then selling these patents, with the licenses attached, to generate additional revenue.<sup>61</sup>

Patent funds only play a role in NPE-related litigation when they transform themselves from defensive patent funds into offensive patent funds that actively seek the enforcement of their patents.<sup>62</sup> Here, their strategy becomes very similar to that of massive patent aggregators, with one key difference. While the patents they acquire still tend to be “high volume, low cost, and [of] uneven quality . . . ,” the patents are encumbered with cross-licensing agreements that the patent funds entered into while they were

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54. See *Arms Race*, *supra* note 22, at 327.

55. *Non-practicing Complainants*, *supra* note 27, at 425.

56. See *Arms Race*, *supra* note 22, at 327.

57. *Non-practicing Complainants*, *supra* note 27, at 425–26.

58. See *Arms Race*, *supra* note 22, at 331–32.

59. See *id.* at 332.

60. See *Fast Facts*, RPX CORPORATION, <http://www.rpxcorp.com/index.cfm?pageid=39> (last visited Nov. 4, 2012).

61. *ALA 500*, *supra* note 3, at 12.

62. However, the transformation of a patent fund from defensive to offensive is “neither easy nor automatic.” *Arms Race*, *supra* note 22, at 326 (“Even if the patents are being practiced, a company may have neither the means nor the inclination to pursue infringers or possible technology partners.”).

still acting in a defensive manner.<sup>63</sup> This usually makes the offensive patent funds' patents worth less than those of massive patent aggregators, as the former has less litigation value because of limits in litigable parties.<sup>64</sup>

### 3. *Non-Litigious NPEs*

Because their business model is not based on the monetization of their patents through legal enforcement actions, non-litigious NPEs are the least litigious of all types of NPEs.<sup>65</sup> The patents that these NPEs own tend to cover emerging technologies.<sup>66</sup> This group includes: (1) universities and (2) start-ups.

#### a) Universities

Like R&D companies, universities are frequently perceived as "Idea Shops."<sup>67</sup> Universities do not generally practice or enforce the patents they develop. Rather, they generate revenue through the licensing of these patents through their technology transfer offices.<sup>68</sup> The majority of these licenses are exclusive in nature primarily because licensees tend to prefer exclusive licenses.<sup>69</sup>

Recently, some universities have become more vigilant in the legal enforcement of their patents,<sup>70</sup> but two studies suggest that this is still the exception rather the norm.<sup>71</sup> Because these universities that display litigious tendencies are very similar to R&D companies, they could be analyzed under the litigation-as-a-business-model NPEs' framework.<sup>72</sup> However, it is worth noting that even when they litigate, universities sometimes seek out litigation

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63. *Non-practicing Complainants*, *supra* note 27, at 424.

64. See John R. Allison et al., *Valuable Patents*, 92 GEO. L.J. 435, 436–37 (2004) (noting that the most valuable patents are the ones that tend to be litigated the most).

65. See *Arms Race*, *supra* note 22, at 327.

66. See *id.*

67. See *Trolls Trouble*, *supra* note 53.

68. See *Arms Race*, *supra* note 22, at 327.

69. See Mark A. Lemley, *Are Universities Patent Trolls?*, 18 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 611, 616 (2008) [hereinafter *Universities Trolls*].

70. See *id.* at 618 (describing recent litigations facilitated by universities such as University of California in *Eolas Technologies, Inc. v. Microsoft Corp.*); Elizabeth A. Rowe, *The Experimental Use Exception to Patent Infringement: Do Universities Deserve Special Treatment?*, 57 HASTINGS L.J. 921, 936–37 (2006).

71. See *ALA 500*, *supra* note 3, at 5 (noting that universities only represented 0.2% of the NPE-initiated lawsuits in a sample of 500 recent cases); Patent Study, *supra* note 20, at 33 (University & Non-profit represented about 5% of all NPE-initiated lawsuits from a list of 1,617 district court patent decisions from 1995 to 2010).

72. See *supra* Section I.A.2.

partners rather than acting alone.<sup>73</sup> Also, unlike “patent trolls,” universities tend not to purposefully wait until an industry has been developed before “popping up and demanding a disproportionate share of royalties based on irreversible investments.”<sup>74</sup>

b) Start-ups

This Note categorizes start-ups as NPEs largely because start-ups are still in the process of preparing to practice their patents.<sup>75</sup> According to a 2008 Berkeley patent survey, start-ups accumulate patents primarily to “prevent others from copying [their] products or services,” and to “improve chances of securing investment.”<sup>76</sup> In fact, “obtaining licensing revenues” is by far the least important reason.<sup>77</sup> Because litigious activity is not their primary business driver, start-ups are the least litigious of all NPEs identified in this Note.

B. REASONABLE ROYALTIES AS A FORM OF PATENT DAMAGES

For all patent trials, including NPE-related litigation, once the patent-in-suit is found valid and infringement is proven, the case then shifts to the patent holder’s remedies. While NPEs can technically still threaten an alleged infringer with an injunction, the bar has been set very high in the wake of *eBay*, and NPEs are unlikely to succeed in requests for injunctive relief.<sup>78</sup> Realistically, there are only three types of damages that are available to NPEs: (1) lost profits, (2) established royalty, and (3) reasonable royalty.<sup>79</sup> For NPEs, the most important measure of damage is reasonable royalty because, by definition, they do not practice the patent and, therefore, have no lost

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73. See, e.g., *Universities Trolls*, *supra* note 69, at 618 (“University of California licensed a software patent to a company . . . and then shared with that company a jury award of \$520.6 million against Microsoft.”); Brian Kladko, *Araid, Research Institutes win Patent-Infringement Case against Eli Lilly*, Boston Bus. J., May 4, 2006, available at <http://boston.bizjournals.com/boston/stories/2006/05/01/daily48.html>; Press Release, University of Colorado Technology Transfer Office, University of Colorado Health Sciences Center Faculty Patent Upheld by Federal Circuit Court (June 18, 2004) (on file with author) (noting that Competitive Technologies represented University of Colorado and Columbia University).

74. *Universities Trolls*, *supra* note 69, at 629.

75. See *Arms Race*, *supra* note 22, at 332.

76. Stuart J.H. Graham et. al., *High Technology Entrepreneurs and the Patent System: Results of the 2008 Berkeley Patent Survey*, 24 BERKELEY TECH. L.J. 1255, 1299, figure 2 (2009).

77. *Id.*

78. See *supra* note 7.

79. *After ResQNet*, *supra* note 8, at 184–85.

profits;<sup>80</sup> also, NPEs rarely can prove established royalty as they usually do not seek pre-litigation licenses.<sup>81</sup>

With respect to the calculation of a reasonable royalty, the Patent Act provides that once infringement is found, a “court shall award . . . damages 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>82</sup> Therefore, a reasonable royalty sets the minimum amount of damages that a patent holder should receive;<sup>83</sup> it is “the royalty upon which the parties would have agreed had they successfully negotiated an agreement just before infringement began.”<sup>84</sup> But, because such a calculation is based on a “legal fiction,” court frequently struggle in assigning damages.<sup>85</sup> Nevertheless, reasonable royalty has become “the most frequent kind of damages awards in patent cases and comprise a greater share with each passing year.”<sup>86</sup>

The seminal case for the determination of a reasonable royalty is *Georgia-Pacific Corp. v. U.S. Plywood Corp.*,<sup>87</sup> in which the Southern District of New York developed a list of fifteen factors for a court to consider when determining the damages amount.<sup>88</sup> The Federal Circuit has repeatedly

80. *See, e.g.*, *Poly-America, L.P. v. GSE Lining Tech., Inc.*, 383 F.3d 1303, 1311 (Fed. Cir. 2004) (“[T]he patentee needs to have been selling some item, the profits of which have been lost due to infringing sales, in order to claim damages consisting of lost profits.”).

81. *See, e.g.*, *Studiengesellschaft Kohle, m.b.H v. Dart Indus., Inc.*, 862 F.2d 1564, 1572 (Fed. Cir. 1988) (“[O]ffers to license made at a time when ‘litigation was threatened or probable’ should not be considered evidence of an established royalty.”).

82. 35 U.S.C. § 284 (2006) (emphasis added) (The AIA left this section unchanged).

83. *See Unsettling Development*, *supra* note 14, at 5.

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

85. *Panduit Corp. v. Stahl Bros. Fibre Works, Inc.*, 575 F.2d 1152, 1159 (6th Cir. 1978).

86. Patent Study, *supra* note 20, at 14.

87. 318 F. Supp. 1116 (S.D.N.Y. 1970).

88. *Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 318 F.Supp. 1116, 1120 (S.D.N.Y. 1970). The fifteen factors are:

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 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 promoter.
6. The effect of selling the patented specialty in promoting sales of other products of the

approved of this approach.<sup>89</sup> These factors are intended to simulate the hypothetical negotiation that would have taken place between the patent holder and the infringer and ascertain the royalty amount to which they would have agreed.<sup>90</sup> Within these fifteen factors, some generally carry more weight than others with “[t]he most influential factor [being] that of prior and existing licenses negotiated under the patent in suit.”<sup>91</sup> However, many courts

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licensee; that 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 conveyed 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.*

89. See, e.g., *Hanson v. Alpine Valley Ski Area, Inc.*, 718 F.2d 1075, 1080 (Fed. Cir. 1983) (affirming the lower court’s decision based on an analysis of the Georgia-Pacific factors); D. Christopher Holly, *The Book of Wisdom: How to Bring a Metaphorical Flourish into the Realm of Economic Reality by Adopting A Market Reconstruction Requirement in the Calculation of a Reasonable Royalty*, 92 J. PAT. & TRADEMARK OFF. SOC’Y 156, 165 (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.”).

90. See, e.g., Michael R. O’Neill, *Lucent v. Gateway: Federal Circuit Provides Guidance on Patent Damages Issues*, 22 *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.”).

91. 1 DONALD S. CHISUM, *CHISUM ON PATENTS* § 20.07 (Matthew Bender 2012) (emphasis added).

have excluded settlement-related licenses in consideration of this factor,<sup>92</sup> primarily on “lack of probative value” grounds or for “evidentiary or policy” reasons.<sup>93</sup> Courts have noted that settlement licenses lack probative value because “[m]any 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>94</sup> In support of their policy and evidentiary findings, courts have pointed to the Advisory Committee’s notes accompanying Rule 408 of the Federal Rules of Evidence (“FRE”)<sup>95</sup> that states this form of “evidence is irrelevant, since the offer may be motivated by a desire for peace rather than from any concession of weakness of position.”<sup>96</sup> Before discussing how *ResQNet* uprooted this area of law, the following section first examines the evidentiary and procedural rules that govern these settlement-related licenses and their underlying documents.

### C. EVIDENTIARY AND PROCEDURAL LAWS UNDERLYING SETTLEMENT NEGOTIATIONS

The Federal Rules of Civil Procedure (“FRCP”) provide for “a broad and liberal treatment” of the discovery process.<sup>97</sup> The purpose of this policy is to enable “parties to obtain the fullest possible knowledge of the issues and facts before trial.”<sup>98</sup> However, the discovery process is not without boundaries, and a federal “court must limit the frequency or extent of discovery otherwise allowed . . . if it determines that . . . the burden or expense of the proposed discovery outweighs its likely benefit.”<sup>99</sup> FRCP Rule

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92. *See, e.g.*, *Rude v. Westcott*, 130 U.S. 152, 164 (1889) (“It 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.”); *American Original Corp. v. Jenkins Food Corp.*, 774 F.2d 459, 464 (Fed. Cir. 1985) (“A royalty at which a patentee offers to license his invention, particularly when coupled with a claim of infringement, is not necessarily the same rate as that upon which a hypothetical willing licensee and willing licensor would agree.”); *Hanson v. Alpine Valley Ski Area, Inc.*, 718 F.2d 1075, 1078–79 (Fed. Cir. 1983) (“[S]ince the offers were made after the infringement had begun and litigation was threatened or probable, their terms ‘should not be considered evidence of an ‘established royalty’ . . . .”’) (internal citations omitted).

93. *See Contemporary Issues*, *supra* note 12.

94. *Spreadsheet Automation Corp. v. Microsoft Corp.*, 587 F. Supp. 2d 794, 800 (E.D. Tex. 2007) (quoting *Rude v. Westcott*, 130 U.S. 152, 164 (1889)).

95. Fed. R. Evid. 408.

96. *See Contemporary Issues* (quoting Fed. R. Evid. 408 Advisory Committee Notes), *supra* note 12.

97. *Hickman v. Taylor*, 329 U.S. 495, 507 (1947).

98. *Id.* at 501.

99. Fed. R. Civ. P. 26(b)(2)(C).

26<sup>100</sup> also restricts the discovery process to “any *nonprivileged* matter that is relevant to any party’s claim or defense.”<sup>101</sup> Because discovery is restricted to nonprivileged items, the characterization of material information as *privileged* or *nonprivileged* represents a significant concern for litigants.

Affecting the applicability of FRCP Rule 26, FRE Rule 501<sup>102</sup> enables a court to “define new privileges by interpreting ‘common law principles . . . in the light of reason and experience.’”<sup>103</sup> Expounding on this statement, the United States Supreme Court, in *Jaffee v. Redmond*, identified several key factors that should be considered when a court seeks to establish a new privilege.<sup>104</sup> These five factors are: (1) whether there is a consensus in the policy decisions of the states over the privilege;<sup>105</sup> (2) whether there are Congressional considerations for the privilege;<sup>106</sup> (3) whether the privilege is a part of “the list of evidentiary privileges recommended by the Advisory Committee of the Judicial Conference in its proposed Federal Rules of Evidence;”<sup>107</sup> (4) whether the privilege would introduce numerous exceptions that “would distract from the effectiveness, clarity, and certainty of the privilege;”<sup>108</sup> and (5) whether the privilege would “‘advance a public good.’”<sup>109</sup>

Relatedly, FRE Rule 408 specifically states that settlement-related documents are not admissible.<sup>110</sup> The Federal Circuit has indicated that Rule 408 promotes “the policy in favor of protecting settlement negotiations from being admitted as evidence, thus serving to encourage settlements.”<sup>111</sup> As the Advisory Committee’s Notes indicate, Rule 408 aims to decrease the strain on judicial resources by promoting “the public policy favoring the compromise and settlement of disputes.”<sup>112</sup> Despite this seemingly straightforward legislative intent, courts have often limited the exclusionary scope of Rule 408 by holding it inapplicable to third-party settlement

100. Fed. R. Civ. P. 26.

101. Fed. R. Civ. P. 26(b)(1) (emphasis added).

102. Fed. R. Evid. 501.

103. *Jaffee v. Redmond*, 518 U.S. 1, 8 (1996) (quoting Fed. R. Evid. 501).

104. *See id.* at 10–19.

105. *In re MSTG, Inc.*, 675 F.3d 1337, 1343 (Fed. Cir. 2012), *reh’g denied*, 468 Fed. App’x. 994 (Fed. Cir. 2012) (citing *Jaffee*, 518 U.S. at 12–13).

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

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

108. *Id.* at 1345–46 (citing *Jaffee*, 518 U.S. at 18).

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

110. Fed. R. Evid. 408.

111. *Advanced Cardiovascular Systems, Inc. v. Medtronic, Inc.*, 265 F.3d 1294, 1308 (Fed. Cir. 2001).

112. Fed. R. Evid. 408 Advisory Committee Notes.

documents.<sup>113</sup> Furthermore, courts have also noted that Rule 408 only blocks the admissibility of settlement-related documents and does not play a role in the discoverability of these same documents.<sup>114</sup>

The rise of expert testimony has further complicated this landscape by blurring the line between the discoverability and admissibility of settlement-related documents, therefore reducing the applicability of FRE Rule 408.<sup>115</sup> The role of expert witnesses has become significant and common in patent litigation, especially for the calculation of damages.<sup>116</sup> While Rule 408 prevents the admissibility of settlement-related documents, so long as they were discoverable, “these very same settlement documents may be compiled, analyzed, and then discussed at trial by an expert.”<sup>117</sup> In such cases, the distinct line in the sand separating the discoverability and admissibility of these documents is washed away. Rule 408 is further weakened by the fact that an expert’s reliance on settlement-related documents for patent damages calculations could allow the other party to introduce these documents to

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113. 7 ROBERT A. MATTHEWS, JR., ANNOTATED PATENT DIGEST § 44:94 (2012) (citing *Century Wrecker Corp. v. E.R. Buske Mfg. Co., Inc.*, 898 F. Supp. 1334, 1341 (N.D. Iowa 1995) (settlement agreement reached with a third party may be relevant to establishing a reasonable royalty and may be admissible despite 408).

114. *Id.* § 44:94.50 (2012) (citing *Folb v. Motion Picture Indus. Pension & Health Plans*, 16 F. Supp. 2d 1164, 1171 (C.D. Cal. 1998) (“Rule 408 only protects disputants from disclosure of information to the trier of fact, not from discovery by a third party.”); *Computer Assocs. Intern., Inc. v. American Fundware, Inc.*, 831 F. Supp. 1516, 1531 (D. Colo. 1993) (FRE 408 “is a preclusionary rule, not a discovery rule. It is meant to limit the introduction of evidence of settlement negotiations at trial and is not a broad discovery privilege. . . . Information which may not be admissible at trial under the rule is still discoverable so long as that information may lead to the discovery of other admissible evidence.”); *U.S. v. American Soc. of Composers, Authors and Publishers*, 1996 WL 157523, at \*1 (S.D.N.Y. 1996) (“Rule 408 is not, by definition, the source of a privilege. The rule limits the admissibility of settlement terms or proposals and of other representations made in the course of settlement discussions, but it does not purport to preclude discovery of such agreements or statements. Indeed, it could scarcely do so in view of the fact that it authorizes the use of such information at trial for a number of purposes. It also follows that the substance of settlement negotiations is not per se irrelevant to a proceeding in federal court.”).

115. See *Unsettling Development*, *supra* note 14, at 39–40.

116. See Dolly Wu, *Patent Litigation: What About Qualification Standards for Court Appointed Experts?*, 2010 B.C. INTELL. PROP. & TECH. F. 91501, at \*48 (2010); Michael H. King & Steven M. Evans, *Selecting An Appropriate Damages Expert in a Patent Case: An Examination of the Current Status of Daubert*, 38 AKRON L. REV. 357, 367; see, e.g., *i4i Ltd. P’ship v. Microsoft Corp.*, 598 F.3d 831, 854–56 (Fed. Cir. 2010) (allowing the expert to testify what a reasonable royalty would be as long as it meets “minimum standards of relevance and reliability”).

117. *Unsettling Development*, *supra* note 14, at 39.

rebut the expert.<sup>118</sup> Therefore, the discoverability of settlement negotiation documents has a major impact on patent litigation. The next section shows that, while the *ResQNet* decision held that settlement licenses are admissible, it has further hindered Rule 408's effectiveness.

#### D. THE *RESQNET* REFORMULATION AND SUBSEQUENT CONFUSION

In *ResQNet*, instead of excluding settlement licenses based on evidentiary or probative grounds, the Federal Circuit disrupted this equilibrium and held instead that the most “reliable” measure of damages for patent infringement may be the settlement licenses of the patent-in-suit from other related third-party litigations.<sup>119</sup> In coming to this decision, the Federal Circuit noted that the district court, in calculating the damages, had “relied on speculative and unreliable evidence divorced from proof of economic harm linked to the claimed invention [which] is inconsistent with sound damages jurisprudence.”<sup>120</sup> While the Federal Circuit acknowledged “that litigation itself can skew the results of the hypothetical negotiation,” the court nevertheless held that the district court should not have “rel[ie]d on unrelated licenses” and “that the most reliable license in [the] record arose out of litigation.”<sup>121</sup> While some courts have distinguished themselves from *ResQNet* by emphasizing the “in this record” language,<sup>122</sup> the case has led many other courts to reverse course and consider settlement licenses in the context of the *Georgia-Pacific* factors.<sup>123</sup>

More significantly, *ResQNet* left unanswered the question of whether the settlement-related documents underlying these licenses should be discoverable.<sup>124</sup> On this issue, courts, even in the same district, have reached conflicting and competing conclusions. In *Software Tree, LLC v. Red Hat, Inc.*, Magistrate Judge Love of the Eastern District of Texas noted that “*ResQNet*

118. *Id.*; see, e.g., *Century Wrecker Corp. v. E.R. Buske Mfg. Co., Inc.*, 898 F. Supp. 1334, 1340–41 (N.D. Iowa 1995) (allowing the presentation of otherwise inadmissible settlement agreements to rebut an expert’s conclusions about reasonable royalty).

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

120. *Id.* at 868.

121. *Id.* at 872.

122. 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) (noting that *ResQNet* court’s decision is based on the first *Georgia-Pacific* factor and that “litigation-related licenses were part of the record” unlike the facts of its case); *Bascom Global Internet Servs. v. AOL LLC*, No. CV 08-1765, 2011 U.S. Dist. LEXIS 100609, at \*7 (E.D.N.Y. Sept. 8, 2011) (“Unlike the settlement agreement at issue in the instance matter, in *ResQNet.com, Inc.*, the litigation-related license agreements were voluntarily produced, were part of the record and their admissibility was not before the court.”).

123. *After ResQNet*, *supra* note 8, at 194.

124. See *supra* note 12.

has not upset this district's case law regarding discoverability of settlement negotiations" and held settlement-related negotiation documents as privileged.<sup>125</sup> Meanwhile in *Tyco Healthcare Group LP v. E-Z-EM, Inc.*, Judge Ward, also of the Eastern District of Texas, indicated that "*ResQNet* suggests that the underlying negotiations are relevant to the calculation of a reasonable royalty using the hypothetical negotiation damages model," and because of this, he ordered the defendant to produce the settlement negotiation documents.<sup>126</sup> Finally in *Clear with Computers, LLC, v. Bergdorf Goodman, Inc.*, Judge Davis of the Eastern District of Texas came down in the middle by noting that "allowing discovery will be the exception, not the rule, and in most cases discovery of the negotiations will not be warranted."<sup>127</sup> With three separate positions that essentially span the entire spectrum coming from the same district,<sup>128</sup> the discoverability of settlement negotiations became a quagmire for patent practitioners and litigants.

The only higher court decision that provided some guidance on whether settlement-related documents are privileged came from a non-patent case from the Sixth Circuit. In *Goodyear Tire & Rubber Co. v. Chiles Power Supply, Inc.*,<sup>129</sup> the Sixth Circuit held that these types of document should be privileged. In establishing a privilege, the court heavily relied on the "public interest" prong of the *Jaffee* factors.<sup>130</sup> The court indicated that "there exists a strong public interest" in "[t]he ability to negotiate and settle a case without trial [which] fosters a more efficient, more cost-effective, and significantly less burdened judicial system."<sup>131</sup> Furthermore, the court explained that "[w]ithout a privilege, parties would more often forego negotiations for the relative formality of trial. Then, the entire negotiation process collapses upon itself, and the judicial efficiency it fosters is lost."<sup>132</sup> Therefore, the court concluded that "any communications made in furtherance of settlement are privileged."<sup>133</sup> While significant, *Goodyear* was not uniformly accepted by the

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125. *Software Tree, LLC v. Red Hat, Inc.*, No. 6:09-CV-097, 2010 WL 2788202, at \*4 (E.D. Tex. June 24, 2010).

126. *Tyco Healthcare Group LP v. E-Z-EM, Inc.*, No. 2:07-CV-262 (TJW), 2010 WL 774878, at \*2 (E. D. Tex. Mar. 2, 2010).

127. *Clear With Computers, LLC v. Bergdorf Goodman, Inc.*, 753 F. Supp. 2d 662, 664 (E.D. Tex. 2010).

128. This lack of uniformity in approach is perhaps especially troubling given the Eastern District of Texas' well-known patent-heavy docket.

129. *Goodyear Tire & Rubber Co. v. Chiles Power Supply, Inc.*, 332 F.3d 976 (6th Cir. 2003).

130. *Id.* at 980.

131. *Id.*

132. *Id.*

133. *Id.* at 983.

district courts in patent cases because the underlying issue was not patent-related.<sup>134</sup> In response, the Federal Circuit finally cleared up the confusion in *MSTG* by holding that settlement negotiations related to patent damages and reasonable royalty are discoverable.<sup>135</sup> As the following sections will show, while the Federal Circuit may have erred in its *Jaffee* analysis, it came to the right conclusion in *MSTG*.

## II. THE *IN RE MSTG* DECISION

Although the recent *MSTG* decision provided much needed certainty, how it will affect NPE-related litigation remains to be seen. Before constructing a decision tree framework to analyze the effects of *MSTG* on the patent ecosystem, this Note first provides, in Section II.A, the facts and procedural history of the *MSTG* case and then explains, in Section II.B, the rationale behind the Federal Circuit's *Jaffee* analysis.

### A. FACTS AND PROCEDURAL HISTORY

In 2008, MSTG Inc. (“MSTG”) filed patent lawsuits against AT&T Mobility, LLC (“AT&T”) and several other cellular phone manufacturers and service providers for the alleged infringement of U.S. Patent Nos. 5,920,511, 6,198,936, and 6,438,113 (collectively “patents-in-suit”), covering third-generation mobile telecommunications technologies.<sup>136</sup> MSTG eventually settled with all of the defendants except for AT&T.<sup>137</sup> As a part of these settlements, most defendants were provided with licenses for the patents-in-suit as well as other MSTG-owned patents.<sup>138</sup>

Subsequently in the lawsuit, disagreement over the evidence needed for the calculation of reasonable royalty arose between MSTG and AT&T.<sup>139</sup> Based on *ResQNet*, AT&T sought discovery into the settlement agreements MSTG had reached with the other defendants.<sup>140</sup> In response, MSTG provided AT&T with the licensing and option agreements (collectively

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134. *See supra* notes 125–127 and accompanying text.

135. *In re MSTG*, 675 F.3d 1337, 1348 (Fed. Cir. 2012).

136. *Id.* at 1339.

137. *Id.*

138. *Id.* (With one defendant, MSTG entered into an option agreement that enabled the defendant to license the patents for a specific rate in the future. During the lawsuit, MSTG also entered into a licensing agreement with a technology consortium, providing the consortium with sub-licensing rights to all of its members, some of whom were defendants in the lawsuit).

139. *Id.*

140. *Id.*

“settlement agreements”) it had entered into with the other defendants.<sup>141</sup> However, when AT&T sought additional information regarding the negotiations for these settlement agreements, MSTG objected, reasoning that the negotiation documents were irrelevant to the reasonable royalty analysis.<sup>142</sup>

When AT&T filed a motion to compel the production of these documents, a magistrate judge initially rejected the motion.<sup>143</sup> However, MSTG subsequently served an expert report that, in part, stated the royalty rates within these settlement agreements could not be comparable to the reasonable royalty between AT&T and MSTG.<sup>144</sup> Although there was no evidence suggesting that the expert had access to the negotiation documents, he did, however, “rel[y] on deposition testimony of an MSTG executive that [stated] the agreements reflected litigation-related compromises.”<sup>145</sup> Thereafter, AT&T sought reconsideration of its motion to compel.<sup>146</sup> In light of the expert’s reliance on an MSTG executive’s testimony, the magistrate judge granted AT&T’s reconsideration motion and noted “that the negotiation documents ‘might contain information showing that the grounds [the expert] relied on to reach his conclusion are erroneous.’”<sup>147</sup>

The district court subsequently affirmed the reconsideration order, agreeing with the magistrate judge’s analysis.<sup>148</sup> The district court explained that, because MSTG’s expert had relied—even if only indirectly—on these negotiation documents, it would only be fair if MSTG made these documents available for further analysis.<sup>149</sup> MSTG then petitioned the Federal Circuit for a writ of mandamus to block the district court’s affirmation.<sup>150</sup>

#### B. THE FEDERAL CIRCUIT’S ANALYSIS

On petition for writ of mandamus, the Federal Circuit considered whether “communications related to reasonable royalties and damages are protected from discovery based on a settlement negotiation privilege.”<sup>151</sup> The

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141. *In re MSTG*, 675 F.3d at 1339.

142. *Id.*

143. *Id.* at 1339–40.

144. *Id.* at 1340.

145. *Id.*

146. *Id.*

147. *In re MSTG*, 675 F.3d at 1340 (quoting *MSTG, Inc. v. AT&T Mobility LLC*, No. 08 C 7411, slip op. at 4, 2011 WL 841437 (N.D. Ill. Mar. 8, 2011)).

148. *Id.*

149. *Id.*

150. *Id.* at 1341.

151. *Id.* at 1339.

court also considered whether “the district court clearly abused its discretion by ordering [the production of the negotiation documents.]”<sup>152</sup> The court ultimately denied the petition by holding that negotiation “communications are not privileged, and that the district court did not clearly abuse its discretion.”<sup>153</sup>

In its analysis, the Federal Circuit first noted that the “[d]iscovery of privileged material is not permissible,” but that “Rule 501 of the Federal Rules of Evidence authorizes federal courts to define new privileges.”<sup>154</sup> The court further explained that in order to assert a new privilege under Rule 501, the United States Supreme Court in *Jaffee*, “ha[d] identified several factors to be considered.”<sup>155</sup> The Federal Circuit proceeded to analyze the settlement negotiation privilege under these factors and ultimately found that the factors “do not support recognition of a settlement privilege.”<sup>156</sup> Furthermore, the court indicated that the discoverability of settlement negotiation documents would be better governed by FRCP Rule 26 because it “‘limit[s] the frequency or extent of discovery otherwise allowed.’”<sup>157</sup> The following sections provide a detailed explanation of the Federal Circuit’s *Jaffee* analysis in *MSTG*.

#### 1. *The First Jaffee Factor: A Survey of States’ Policy Decisions*

First, the Federal Circuit explained that “‘the policy decisions of the States bear on the question whether federal courts should recognize a new privilege or amend the coverage of an existing one.’”<sup>158</sup> The court indicated that when a “broad consensus” exists among the States for a privilege, a federal court should also recognize that privilege or else it “‘would frustrate the purpose of the state legislation . . . .’”<sup>159</sup> Here, the court found that while a mediation privilege exists broadly in the states, it should not be confused with a settlement negotiation privilege.<sup>160</sup> The court distinguished mediation from settlement negotiations by noting the latter operates “between two sides without the assistance of a third-party mediator.”<sup>161</sup> Therefore, because the court indicated that “there is no state consensus as to a settlement

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152. *Id.*

153. *In re MSTG*, 675 F.3d at 1339.

154. *Id.* at 1342.

155. *Id.* (citing *Jaffee v. Redmond*, 518 U.S. 1 (1996)).

156. *Id.*

157. *Id.* (quoting Fed. R. Civ. P. 26(b)(2)(C)).

158. *Id.* at 1343 (quoting *Jaffee v. Redmond*, 518 U.S. 1, 12–13 (1996)).

159. *In re MSTG*, 675 F.3d at 1343 (quoting *Jaffee v. Redmond*, 518 U.S. 1, 13 (1996)).

160. *Id.*

161. *Id.*

negotiation privilege,” this factor weighed against implementing a privilege, as the “failure to recognize a federal settlement privilege will not ‘frustrate the purposes’ of any state legislation.”<sup>162</sup>

2. *The Second Jaffee Factor: Congressional Considerations*

Second, the Federal Circuit indicated that courts must take Congressional considerations into account when creating a new privilege.<sup>163</sup> With respect to the settlement negotiation privilege, the court found that “[i]n adopting Rule 408 . . . , Congress directly addressed the admissibility of settlements and settlement negotiations but in doing so did not adopt a settlement privilege.”<sup>164</sup> The Federal Circuit further explained that “[t]he rule is clear by its text and history that it covers . . . settlements and negotiations involving a third party.”<sup>165</sup> Moreover, in rejecting such a privilege under Rule 501, the court also quoted the Supreme Court in noting that “‘Congress has considered the relevant competing concerns but has not provided the privilege itself.’”<sup>166</sup> Therefore, the Federal Circuit found that “[a]dopting a settlement privilege would . . . strike [a] balance differently from the one Congress has already adopted.”<sup>167</sup>

3. *The Third Jaffee Factor: Advisory Committee’s Recommendations*

Third, the Federal Circuit examined whether the settlement negotiation privilege is one listed in the recommendations made by the Advisory Committee of the Judicial Conference in formulating the FRE.<sup>168</sup> The court found that the privilege is not included within “the nine specific privileges recommended by the Advisory Committee, cutting against MSTG’s argument [in favor of finding a privilege.]”<sup>169</sup>

4. *The Fourth Jaffee Factor: The Existence of Exceptions*

Fourth, the court focused on whether the settlement negotiation privilege would unnecessarily create too many exceptions.<sup>170</sup> Here, the court found that Rule 408 itself describes many situations in which settlement negotiations would be admissible.<sup>171</sup> Therefore, the court noted that this

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162. *Id.* (quoting *Jaffee v. Redmond*, 518 U.S. 1, 13 (1996)).

163. *Id.*

164. *Id.*

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

166. *Id.* (quoting *University of Pennsylvania v. E.E.O.C.*, 493 U.S. 182, 189 (1990)).

167. *Id.*

168. *Id.* at 1345.

169. *Id.*

170. *Id.*

171. *In re MSTG*, 675 F.3d at 1345–46.

privilege would be encumbered by “numerous exceptions,” which “would distract from the effectiveness, clarity, and certainty of the privilege,”<sup>172</sup> thus weighing against the creation of a privilege.

5. *The Fifth Jaffee Factor: The Advancement of a Public Good*

Fifth, the Federal Circuit found that a new privilege must “effectively advance a public good.”<sup>173</sup> Here, the Federal Circuit essentially rejected the argument made in *Goodyear*.<sup>174</sup> The court indicated that the “need for confidence and trust alone . . . is an insufficient reason to create a new privilege.”<sup>175</sup> The court noted that “the Supreme Court has rejected new privileges under Rule 501 even though recognition of a privilege would foster a relationship based on trust and confidence.”<sup>176</sup> The court further indicated that “disputes are routinely settled without the benefit of a settlement privilege.”<sup>177</sup> Therefore, “an across-the-board recognition of a broad settlement negotiation privilege is not necessary to achieve settlement.”<sup>178</sup>

6. *Alternative Method: Using Rule 26 to Limit Discovery*

Apart from the *Jaffee* factors, the Federal Circuit also indicated that FRCP Rule 26 may be a more suitable way of limiting the discoverability of settlement negotiation documents.<sup>179</sup> The court noted that discovery is not unlimited and that courts must balance the benefits against the burdens of the process.<sup>180</sup> Citing the Advisory Committee notes to Rule 26, the court explained, “discovery could be limited [by the district courts] where competing confidentiality interests are at stake.”<sup>181</sup> Although this consideration was provided in the context of a tax return as a hypothetical, the court indicated that “[u]nder this authority, discovery in other areas has been limited [when] broad discovery would undermine other important interests in confidentiality.”<sup>182</sup> Therefore, the court reasoned that the discoverability of settlement negotiations “can more appropriately be achieved by limiting the scope of discovery” rather than by adding a new

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172. *Id.* at 1346.

173. *Id.* at 1345.

174. *See supra* notes 129–133 and accompanying text.

175. *In re MSTG*, 675 F.3d at 1345.

176. *Id.*

177. *Id.*

178. *Id.*

179. *Id.* at 1346.

180. *Id.*

181. *In re MSTG*, 675 F.3d at 1346–47 (citing Fed. R. Civ. P. 26 Advisory Committee Notes).

182. *Id.* at 1347.

privilege.<sup>183</sup> However, the court left unanswered the question of what limits “can appropriately be placed on discovery of settlement negotiations.”<sup>184</sup>

### III. DISCUSSION

While *MSTG* provided some much needed certainty to the discoverability of settlement-related documents, it is still too early to tell from an empirical standpoint what effects the case will have on NPE-related litigation. However, because of the serious strain that NPE-related litigation puts on the judicial system,<sup>185</sup> it is essential to understand how *MSTG* might affect NPEs’ future litigation strategies. Among the *Jaffee* factors, the “Advancement of a Public Good” factor provides the best lens for the analyzing whether *MSTG* will advance the judicial public good by either reducing the number of NPE-related filings or shortening the process of NPE-related litigation.

Through the use of a decision tree framework, this Part analyzes how *MSTG* might alter NPEs’ strategies. Section III.A discusses why the Federal Circuit erred in its *Jaffee* analysis and should have only considered the “Advisory Committee’s Recommendations” and the “Advancement of a Public Good” factors in making its decision. Section III.B then constructs a decision tree framework to analyze *MSTG*’s potential “Public Good” impact. Using this decision tree framework, Section III.C demonstrates how the discoverability of settlement-related documents may affect NPEs’ strategies in three different ways, depending on the litigious behavior of the NPE. Finally, Section III.D summarizes this analysis and argues why the “Advancement of a Public Good” factor, like the “Advisory Committee’s Recommendations” factor, should have weighed toward the discoverability of settlement negotiation documents in NPE-related litigation.

#### A. A CRITIQUE OF THE FEDERAL CIRCUIT’S *JAFFEE* ANALYSIS IN *MSTG*

Given that not all of the *Jaffee* factors are dispositive to patent law or the issue being addressed in the case, the Federal Circuit should have only relied on the “Advisory Committee’s Recommendations” and the “Advancement of a Public Good” factors in making its decision.

##### 1. *The First Jaffee Factor: A Survey of States’ Policy Decisions*

Because issues related to patent damages and royalty disputes fall within the jurisdiction of Federal law, only Federal decisions and policies should

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183. *Id.*

184. *Id.*

185. *See supra* notes 2 and 3.

have any bearing on the question of whether settlement-related documents should be privileged in a patent case.<sup>186</sup> Furthermore, FRE Rule 501's Advisory Committee notes indicate that "a federally developed common law based on modern reason and experience shall apply *except where the State nature of the issues renders deference* to State privilege law."<sup>187</sup> Therefore because the "nature" of patent damages is based on Federal law,<sup>188</sup> the court's survey of States' policies should not have been dispositive to the patent case at hand.<sup>189</sup>

## 2. *Second Jaffee Factor: Congressional Considerations*

Contrary to the Federal Circuit's analysis, a close reading of FRE Rule 408's Advisory Committee notes reveals a narrow rationale for Congress' decision in allowing the discoverability of settlement-related documents. Specifically, the 1974 Advisory Committee Enactment notes explain that "[t]his amendment adds a sentence to insure that evidence . . . is not rendered inadmissible merely because it is presented in the course of compromise negotiations if the evidence is otherwise discoverable. A party should not be able to immunize from admissibility documents *otherwise discoverable* merely by offering them in a compromise negotiation."<sup>190</sup> Considered redundant, the second sentence above containing the words "otherwise discoverable" was deleted by the 2006 amendment to Rule 408.<sup>191</sup> The Advisory Committee notes indicated that its "intent . . . to prevent a party from trying to *immunize admissible information* . . . through the pretense of

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186. See generally Christopher A. Cotropia, "Arising Under" Jurisdiction and Uniformity in Patent Law, 9 MICH. TELECOMM. & TECH. L. REV. 253, 257 (2003) ("If regional circuits and state courts begin to apply their own patent law . . . certain patent law issues that were once decided by the Federal Circuit will be reopened. Such reopened patent law issues may not even be decided at the federal level . . . [, and t]he Supreme Court will be placed, as it was before the creation of the Federal Circuit, in the position of being the only Court that can assure uniformity in the field of patent law, a field Congress has already recognized is uniquely suited for, and indeed needy of, homogeneity."); see *Aero Prods. Int'l, Inc. v. Intex Recreation Corp.*, 466 F.3d 1000, 1016 (Fed. Cir. 2006) (noting that Federal Circuit law applies when it "involves a matter unique to patent law"); see, e.g., *Fiskars, Inc. v. Hunt Mfg. Co.*, 279 F.3d 1378, 1381 (Fed. Cir. 2002) ("Because resolution of this issue necessarily requires an understanding of the distinctive characteristics of patent damages law, we apply Federal Circuit law in our review.").

187. Fed. R. Evid. 501, 1974 Advisory Committee Enactment Notes (emphasis added).

188. This is not to say there are not patent issues that are rooted in state law, but those issues are not at risk in *MSTG*. See, e.g., Robert A. Matthews, Jr., Annotated Patent Digest, § 35:7 (2012) (noting that "[s]tate contract law, not federal patent law, governs the enforcement of agreements assigning patents . . .").

189. See *supra* Section II.B.1.

190. Fed. R. Evid. 408, 1974 Advisory Committee Enactment Notes (emphasis added).

191. Fed. R. Evid. 408, 2006 Advisory Committee Notes.

disclosing it during compromise negotiations” is operable even without the sentence.<sup>192</sup>

These statements suggest that Congress allowed the discoverability of settlement negotiations-related documents because it was afraid that litigants would prevent access to certain critical information by disguising otherwise admissible documents as negotiations documents, even if these documents were unrelated to a settlement negotiation.<sup>193</sup> The Federal Circuit took these statements to mean that Congress did not want to protect *any* information, including those that *are* pertinent to a settlement, from discovery.<sup>194</sup> A close reading of the Advisory Committee Notes reveals that this is simply not the case, as Congress did not consider the question of whether *pertinent* information to a settlement negotiation should be discoverable.<sup>195</sup> Because Congress focused narrowly on the discoverability of documents that *are not relevant* to settlement negotiations, this factor should not have been dispositive to the *MSTG* case because *MSTG* alleged that the documents AT&T sought *were relevant* to *MSTG*’s prior settlement negotiations.

### 3. *Third Jaffee Factor: Advisory Committee’s Recommendations*

The Federal Circuit properly analyzed this factor because the settlement privilege is not one of the Advisory Committee’s nine recommended privileges.<sup>196</sup>

### 4. *Fourth Jaffee Factor: The Existence of Exceptions*

While it is true that privileging settlement-related documents might lead to some exceptions, the Federal Circuit’s alternative method of using FRCP Rule 26 to limit the scope of discovery would also undoubtedly create numerous exceptions as well. If Rule 26 is used to determine what settlement negotiation documents should be discoverable, each district court would be required to perform its own case-dependent inquiry.<sup>197</sup> As district courts come to different conclusions, it could lead to a complicated landscape that makes it impractically difficult for litigants to figure out when these documents might become discoverable. In fact, it was this type of court-to-court confusion caused by *ResQNet* that led the Federal Circuit to rule on the

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192. Fed. R. Evid. 408, 2006 Advisory Committee Notes (emphasis added).

193. Fed. R. Evid. 408, 2006 Advisory Committee Notes (“A party should not be able to immunize from admissibility documents otherwise discoverable merely by offering them in a compromise negotiation.”).

194. See *supra* Section II.B.2.

195. See Fed. R. Evid. 408, 1974 Advisory Committee Enactment Notes.

196. See *supra* Section II.B.3.

197. See *supra* Section II.B.6.

settlement-related documents privilege in the first place.<sup>198</sup> Because the proposed Rule 26 solution would be no better at minimizing exceptions, this *Jaffee* factor should not have been dispositive either.

5. *Fifth Jaffee Factor: The Advancement of a Public Good*

In *MSTG*, the Federal Circuit dismissed this *Jaffee* factor by noting that the “need for confidence and trust alone . . . is an insufficient reason to create a new privilege.”<sup>199</sup> However, the Supreme Court in *Jaffee* emphasized that “an asserted privilege must also ‘serv[e] public ends.’ ”<sup>200</sup> The Supreme Court then carefully analyzed this factor from two different angles: the advancement of a public good that would result from the establishment as well as the denial of the privilege.<sup>201</sup> In *MSTG*, while the Federal Circuit explained that “disputes are routinely settled without the benefit of a settlement privilege,”<sup>202</sup> unlike the Supreme Court in *Jaffee*, it never carefully analyzed the public good benefits that would result from the denial of the privilege. Therefore the Federal Circuit should have performed a more in-depth analysis of this factor similar to what the Supreme Court did in *Jaffee*.

6. *The Relative Importance of the Jaffee Factors to the MSTG decision*

As the above analysis shows, only the “Advancement of a Public Good” and the “Advisory Committee’s Recommendations” *Jaffee* factors should have been dispositive to the *MSTG* decision. Because the settlement negotiations privilege is not among the nine privileges that were contemplated by the Advisory Committee, the Recommendations factor would indicate that the privilege should not be established. However, it is less clear whether the privilege should have been established under the “Advancement of a Public Good” analysis. While the Federal Circuit concluded that “confidence and trust” is not enough to establish a privilege, it did not address how the denial of the privilege would advance a public good. By setting up a decision tree framework, the following section expounds on this *Jaffee* “public good” analysis in relation to the NPE-style of litigation present in the *MSTG* case. Through this process, this Note seeks to understand if the absence of a settlement negotiations privilege can benefit the judicial system.

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198. See *supra* Section I.B.

199. In re *MSTG*, 675 F.3d at 1345.

200. *Jaffee v. Redmond*, 518 U.S. 1, 12 (1996) (quoting *Upjohn Co. v. United States*, 449 U.S. 383, 389 (1981)).

201. See *id.*

202. In re *MSTG*, 675 F.3d at 1345.

B. DECISION TREE FRAMEWORK FOR ANALYZING *MSTG*'S EFFECTS ON NPES' STRATEGIES<sup>203</sup>

In order to analyze the effects of *MSTG*, this Note constructs a decision tree framework that models the typical enforcement path that an NPE may take.<sup>204</sup> Within this framework, there are three critical decision points: (1) an alleged infringer's decision on whether to negotiate and accept a pre-litigation licensing agreement with an NPE, (2) an NPE's decision on whether to sue an alleged infringer, and (3) a "joint-decision" between an NPE and an alleged infringer on whether to settle. However, because the scope of this Note is limited to the NPE's perspective, *MSTG* is primarily analyzed to see how it would affect the NPE's strategies related to the second and third decisions: (1) whom to sue and (2) when to settle.

1. Overview of the Model

Figure 1: Decision Tree Framework

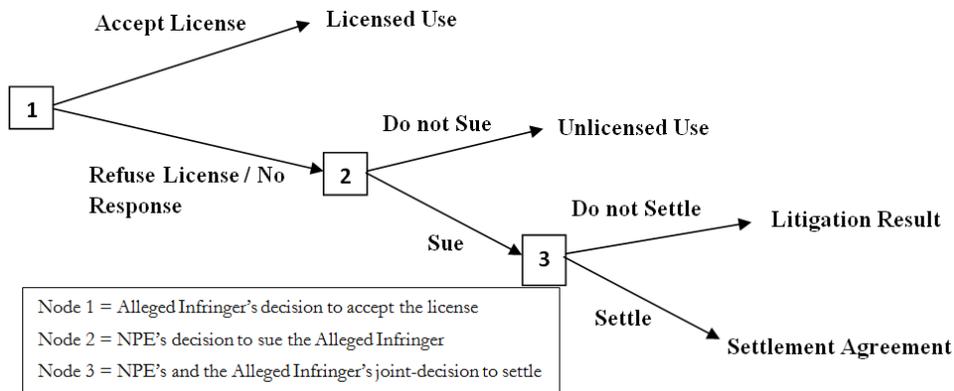


Figure 1 presents this Note's decision tree framework. An NPE usually begins an enforcement action by demanding a licensing agreement from the alleged infringer under the threat of litigation.<sup>205</sup> At this point ("Decision Node 1"), the alleged infringer has two choices: (1) it could respond to the demand letter and negotiate with the NPE for a license to the patent, or (2) it

203. Cf. This Author was inspired by the framework set forth by Peter S. Menell & Ben Depoorter, *Copyright Fee Shifting: A Proposal to Promote Fair Use and Fair Licensing*, 102 CALIF. L. REV. (forthcoming) at 21, available at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2159325](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2159325).

204. See *Forum Shopping*, *supra* note 37; Anders Sundelin, *Business Models of Non-Practicing Entities*, THE BUSINESS MODEL DATABASE (May 15, 2011), <http://tbmdb.blogspot.com/2011/05/business-models-of-non-practicing.html>.

205. See Victoria E. Luxardo, *Towards a Solution to the Problem of Illegitimate Patent Enforcement Practices in the United States: An Equitable Affirmative Defense of "Fair Use" in Patent*, 20 EMORY INT'L L. REV. 791, 794 (2006) [hereinafter *Illegitimate Patent*].

could ignore the demand letter and refuse a licensing agreement. If the parties reach an agreement, the NPE would receive some payoff amount, and the alleged infringer could continue to practice the patent without having to worry about potential litigation costs.

If the alleged infringer chooses to ignore the demand letter or does not come to an agreement with the NPE, then it would be up to the NPE to decide (“Decision Node 2”) whether it should initiate a lawsuit against this particular alleged infringer. If the NPE chooses not to initiate a lawsuit against the alleged infringer, both the NPE and the alleged infringer would absorb some minimal costs associated with the process up until this point, but neither would have to expend any litigation costs.

However, if the NPE decides to sue this particular alleged infringer, then eventually in the litigation process, there would be a joint decision between the NPE and the alleged infringer on whether they should settle the lawsuit (“Decision Node 3”). While this is a joint decision, either side could unilaterally drive the settlement process, such as by proposing better terms.<sup>206</sup> Therefore, this Note strictly analyzes this decision node from the NPE’s perspective. If the NPE successfully induces the settlement with the alleged infringer, the NPE would receive, and the alleged infringer would pay, a settlement value.

If the NPE does not, or fails to, incentivize the settlement process, the payoff for the NPE would depend on whether the patent is valid and whether there was infringement. If both questions are answered in the affirmative, then the damages phase would begin.

## 2. *Decision Node 2: The NPE’s Decision on Whether to Sue*

The NPE’s decision on whether to sue a particular alleged infringer is largely a monetary one, based on cost considerations for current and future litigations. Like any business, most NPEs<sup>207</sup> seek to maximize their profit by minimizing their costs. Therefore, the two key questions that an NPE would have to address at this node are: (1) whether the revenue generated by this particular litigation would be greater than the costs associated with that litigation and (2) whether this particular litigation would adversely affect any future lawsuits against other possible infringers.

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206. See PETER S. MENELL ET AL., PATENT CASE MANAGEMENT JUDICIAL Guide § 2.7.8 (2d ed. 2012) (Chart 2.10 lists other considerations including “the amount demanded,” the possibility of “strategic alliances,” and others.).

207. See *supra* Section I.A.1 for a discussion of why certain individual patent holders are driven more by a desire for recognition and justice than profits.

This framework suggests that if the expected cost for a specific litigation is greater than the predicted revenue, then the NPE should not proceed with that particular lawsuit. However, if a particular litigation seemed likely to improve the NPE's outcomes in future lawsuits, the NPE should continue with the lawsuit against that particular infringer.

3. *Decision Node 3: The NPE and the Alleged Infringer's Joint-Decision on Whether to Settle*

As previously noted,<sup>208</sup> while Decision Node 3 is a joint decision between the NPE and the alleged infringer, this Note limits its analysis of this node to the NPE's perspective of whether to settle. In deciding whether to settle, parties to a patent litigation generally consider two primary factors: (1) litigation costs and complexity and (2) the existence of prior licensing agreements.<sup>209</sup>

a) *Litigation Costs and Complexity*

Normally, the more complex the case is, the more costly the litigation would be, and the more likely it is for both sides to reach a settlement.<sup>210</sup> Because patent cases tend to be very complicated,<sup>211</sup> both the discovery process—to understand the technologies at issue—and the litigation process—to simplify the technology to a level that a lay jury can understand—can be extraordinarily expensive.<sup>212</sup> Therefore, even if an NPE

208. See *supra* Section III.B.1.

209. See Jonathan L. Moore, *Particularizing Patent Pleading: Pleading Patent Infringement in a Post-Twombly World*, 18 TEX. INTELL. PROP. L. J. 451, 460 (2010) [hereinafter *Patent Pleading*]; Damon C. Andrews, *Why Patentees Litigate*, 12 COLUM. SCI. & TECH. L. REV. 219, 226, 229–30, 232 (2011) [hereinafter *Why Litigate*]; John R. Allison et al., *Patent Quality and Settlement Among Repeat Patent Litigants*, 99 GEO. L.J. 677, 705 (2011) [hereinafter *Patent Quality*]; Deepak Somaya, *Strategic Determinants of Decisions Not to Settle Patent Litigation*, 24 STRATEGIC MGMT. J. 17, 19–20 (2003); Telephone Interview with Roger Chin, Partner, Latham & Watkins (Oct. 7, 2012); Telephone Interview with Julie Holloway, Partner, Latham & Watkins (Oct. 5, 2012).

210. Cf. *Patent Pleading*, *supra* note 209, at 463–64 (“The significant costs associated with patent infringement litigation have several real-world effects on the behavior of both patentees and alleged infringer. Because of these costs, an alleged infringer has an incentive to quickly settle an infringement claim, typically by purchasing a license to use the patented technology, rather than take the case to trial.”).

211. See *Patent Pleading*, *supra* note 209 (“[Patent cases] involve two layers of complexity: highly technical legal doctrines and procedures, plus the application of these substantive principles to complex technologies. . . . Such underlying complexity, both procedurally and substantively, is pervasive throughout patent litigation.”).

212. Cf. PETER S. MENELL ET AL., PATENT CASE MANAGEMENT JUDICIAL GUIDE § 2.7 (2d ed. 2012) (“The vast majority of patent cases (about 96 percent) settle, but typically not until late in the case. In the meantime, the litigation can be extremely expensive for the

has a “watertight case” against an alleged infringer, it will still settle if the potential costs of litigation outweigh the expected damages award.<sup>213</sup> However, there is one caveat. Because NPEs litigate the same set of patents against several defendants,<sup>214</sup> they are also concerned with each lawsuit’s impact on potential future litigations. Therefore, even if the expected value of the litigation at hand is negative, if the current litigation can make future litigations more profitable, then the NPE may not settle.

b) The Existence of Prior Licensing Agreements

The more pre-litigation licensing agreements that the patent holder has on the patent-in-suit, the more likely the patent holder will settle the case.<sup>215</sup> This result comes from the asymmetrical harm that the patent holder might suffer if the patent were found to be invalid in trial.<sup>216</sup> Here, the *Medimmune, Inc. v. Genentech, Inc.*<sup>217</sup> decision makes it difficult for patent holders to prevent invalidity challenges against the licensed patent.

In *Medimmune*, the Supreme Court held that a licensee is “not required . . . to break or terminate its . . . licensing agreement before seeking a declaratory judgment in federal court that the underlying patent is invalid, unenforceable, or not infringed.”<sup>218</sup> This decision effectively shifted the litigation risk away from the licensees; they do not have to breach the licensing terms in order to

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parties. According to an industry survey, each side can expect to spend from \$1.5 to \$3 million in fees through the close of discovery, and between \$2.5 and \$5 million in total through trial.”).

213. See *Why Litigate*, *supra* note 209, at 226 (“Even if a [NPE] believes [it] has a watertight case against an alleged infringer and is able to proceed beyond the dismissal phase of a lawsuit, there are nevertheless numerous reasons that [it] might be better off settling a patent dispute. . . . Whether directly or indirectly, these several reasons boil down to one fundamental, underlying factor—cost.”).

214. See *Of Trolls*, *supra* note 17, at 1579 (“NPEs also typically target multiple defendants and seek settlements.”).

215. Cf. Rochelle Cooper Dreyfuss & Lawrence S. Pope, *Dethroning Lear? Incentives to Innovate After Medimmune*, 24 BERKELEY TECH. L.J. 971, 982 (2009) [hereinafter *Dethroning Lear*].

216. See *Lear, Inc. v. Adkins*, 395 U.S. 653, 667 (“It is generally the rule that licensees may avoid further royalty payments, regardless of the provisions of their contract, once a third party proves that the patent is invalid.”); John W. Schlicher, *Patent Licensing, What to Do After Medimmune v. Genentech*, 89 J. PAT. & TRADEMARK OFF. SOC’Y 364, 386 (2007) (“[T]he law has said that a licensee is excused from its royalty obligation if the patent under which it is licensed, and for which it is paying royalties, is found invalid in a final judgment in any action between the patent owner and some other entity.”); *Dethroning Lear*, *supra* note 215 (“[A] declaration of patent invalidity is good against the world, and not just against the challenger. Accordingly, an adverse decision will destroy the entire income stream flowing from the patent.”).

217. *Medimmune, Inc. v. Genentech, Inc.*, 549 U.S. 118 (2007).

218. *Id.* at 136.

get standing for a declaratory judgment action, thus incentivizing licensees to challenge a patent's validity.<sup>219</sup> An invalidity ruling could destroy all payment obligations that licensees have to a patent holder for that specific patent.<sup>220</sup> Additionally, even if a particular licensee chose not to challenge a patent, it might still be relieved of its payment obligations if another plaintiff prevailed on a showing of invalidity because such a finding is "good against the world."<sup>221</sup> Therefore, if a patent holder's licensing agreements to a particular patent-in-suit were to increase substantially, this could lead the patent holder to become more concerned with an invalidity finding and more willing to favor a definitive settlement outcome that would not endanger the patent's validity status.<sup>222</sup>

While the mere presence of multiple licensing agreements may appear to indicate the strength of a patent's validity, this is not necessarily true. NPEs' enforcement models are dependent on alleged infringers' fear of costly, dragged-out litigation.<sup>223</sup> To this end, NPEs often acquire "promising patent[s], regardless of whether the firm believes the patent[s] are] actually valid."<sup>224</sup> In fact, many licensing agreements are the result of "nuisance fee economics in the patent system: where defendants pay not because of the economic value of the patent but in order to avoid the cost of determining liability and resolving a patent demand."<sup>225</sup>

### C. APPLICATION OF THE DECISION TREE FRAMEWORK ON DIFFERENT TYPES OF NPEs

Section III.C applies the decision tree framework to the three different groups of NPEs previously identified in Section I.A, *supra*. As the analysis shows, *MSTG* will only affect the behavior of "patent troll" NPEs by potentially making them less litigious and more willing to settle with those against whom they litigate.

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219. See *Dethroning Lear*, *supra* note 215.

220. *Patent Quality*, *supra* note 209.

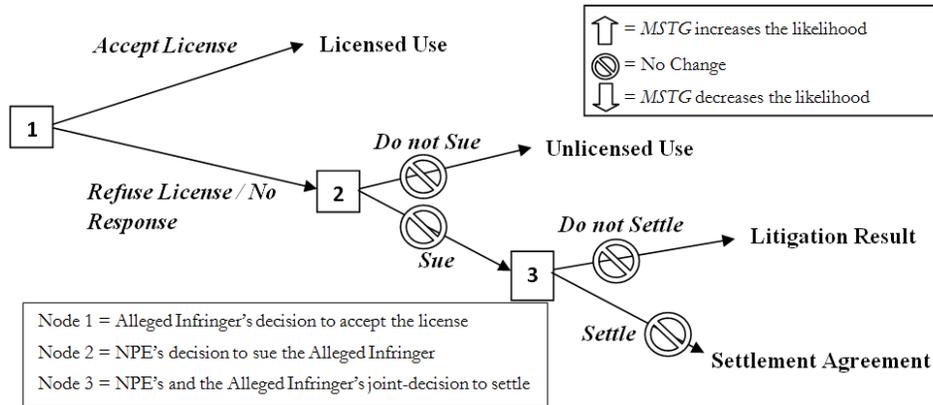
221. See *supra* note 216.

222. See *Dethroning Lear*, *supra* note 215 ("Knowing the risk, patent holders are much more likely to settle improvidently.").

223. See, e.g., *Illegitimate Patent*, *supra* note 205.

224. *Illegitimate Patent*, *supra* note 205.

225. Colleen V. Chien, *Startups and Patent Trolls*, at 6 (September 2012) (Santa Clara Univ. Legal Studies Research Paper No. 09-12), available at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2146251](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2146251) [hereinafter *Startups*].

1. *Litigation-at-all-costs* NPEsFigure 2: *MSTG*'s Influence on *Litigation-at-all-costs* NPEs

For this group of NPEs, as Figure 2 shows, *MSTG* is unlikely to influence their strategies on whether to sue or settle, primarily because they are motivated by public vindication and justice more than money.<sup>226</sup>

a) Node 2: *Litigation-at-all-costs* NPEs' Decision on Whether to Sue

*MSTG* is unlikely to influence the decision of these NPEs on whether to sue a particular alleged infringer. As noted previously,<sup>227</sup> prior to *MSTG*, NPEs in this category were already highly litigious and selective in determining whom they sue. Although the decision to sue a particular alleged infringer is largely a monetary one, these NPEs see litigation not just as a process to obtain revenues, but also as a forum to vindicate their role as the rightful owner of the patent.<sup>228</sup> Moreover, the discoverability of settlement negotiation documents is unlikely to affect these NPEs' decision of whom to sue because they tend to target a few specific companies that have "wronged" them<sup>229</sup> and usually push all of their litigations to trial verdicts.<sup>230</sup> Thus, *MSTG* is unlikely to change these NPEs' litigation strategies.

226. See *supra* Section I.A.1.

227. See *id.*

228. See *id.*

229. See, e.g., *Flash of Genius*, *supra* note 24 (describing Robert Kearns as an inventor who was "not particularly interested in money. He want[ed] justice.").

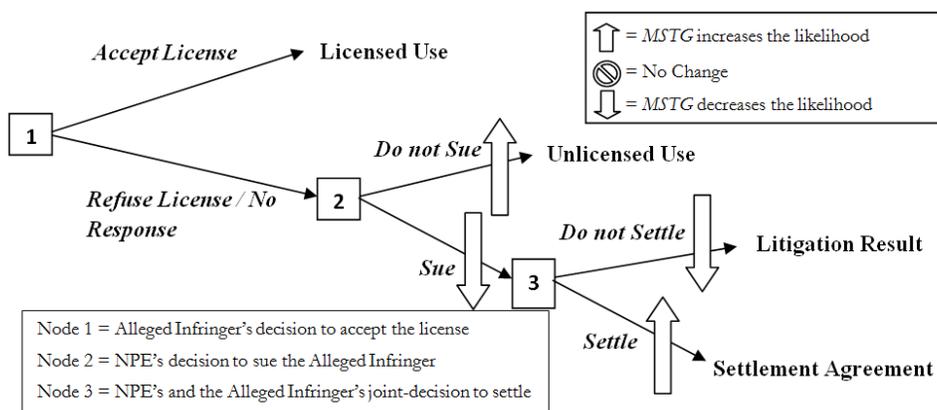
230. See *supra* Section I.A.1.

b) Node 3: Litigation-at-all-costs NPEs' Decision on Whether to Settle

Because these NPEs see the trial process as a way of vindicating their patent rights for reason unrelated to monetary compensation, they most likely had relatively few settlement agreements even prior to *MSTG*.<sup>231</sup> Therefore, while *MSTG* might increase these NPEs' litigation costs in terms of additional discovery requests, these individuals are still unlikely to alter their settlement strategy.

2. *Litigation-as-a-Business-Model NPEs*

Figure 3: *MSTG's Influence on Litigation-as-a-Business-Model NPEs*



These NPEs tend to see their patent enforcement actions as part of a revenue-generating business model.<sup>232</sup> Because monetary considerations play a significant role in their strategic decisions,<sup>233</sup> *MSTG*, as Figure 3 shows, is likely to make these NPEs less willing to sue small-scale alleged infringers and more willing to settle with those large-scale alleged infringers that they do sue.<sup>234</sup>

a) Node 2: Litigation-as-a-Business-Model NPEs' Decision on Whether to Sue

Prior to *MSTG*, the only settlement-related documents that these NPEs' opponents could discover were settlement licenses.<sup>235</sup> Even then, NPEs could have a court deny the defendants' request by focusing on the "in this

231. *See id.*

232. *See supra* Section I.A.2.

233. *See id.*

234. *See infra* Section III.C.2.

235. *See supra* Section I.D.

record” language from *ResQNet*.<sup>236</sup> Therefore, the risk that one of the NPEs’ defendants could uncover another defendant’s settlement details was minimal.<sup>237</sup> However, *MSTG* increased this risk by unambiguously concluding that these settlement-related documents are not privileged.<sup>238</sup> Hence, these NPEs are likely to become more selective in their litigation strategies, possibly forgoing lawsuits against small-scale alleged infringers, as small settlements are likely to result from those lawsuits. Additionally, and perhaps more importantly, if large-scale allegedly infringing defendants uncover these settlement-related documents, they could drive down their own reasonable royalty per the first *Georgia-Pacific* factor.<sup>239</sup>

Since these NPEs rely on patent enforcement as a part of their business strategy,<sup>240</sup> these NPEs might try to monetize their patents through pre-litigation licenses rather than suing smaller alleged infringers. However, per the first *Georgia-Pacific* factor, these licensing agreements could still play a role in the calculation of a reasonable royalty.<sup>241</sup> But, NPEs could obscure the negotiated value of a given patent by bundling that patent with an assortment of other patents that it owns and licensing that bundle.<sup>242</sup> Because their business model is driven by patent ownership,<sup>243</sup> it would not be difficult for these NPEs to come up with additional patents needed for bundling purposes. Then, by the logic of *ResQNet*, if NPEs ensure that this bundle of patents differs significantly from the allegedly infringing product they would

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236. See *supra* note 122 and accompanying text.

237. See Philip Green & Rachel Clark Hughey, *Evaluating Reasonable Royalties After ResQNet*, LAW360 (Oct. 14 2010), <http://www.merchantgould.com/resources/images/1273.pdf> (“Nowhere did the Federal Circuit indicate that past litigation settlements are automatically considered in connection with evaluating reasonable royalties. Nevertheless, language in the court’s decision created sufficient uncertainty that district courts have struggled with issues surrounding the relevance or admissibility of litigation settlement agreements.”).

238. *In re MSTG, Inc.*, 675 F.3d 1337, 1348 (Fed. Cir. 2012), *reh’g denied*, 468 Fed. App’x. 994 (Fed. Cir. 2012).

239. See *supra* note 88 (stating that the first *Georgia-Pacific* factor is “[t]he royalties received by the patentee for the licensing of the patent in suit, proving or tending to prove an established royalty.”); here, the assumption is that these royalties are lump-sum agreements, which is most likely the case. See *infra* Notes 255–56 and accompanying text.

240. See *supra* Section I.A.2.

241. See, e.g., ROBERT A. MATTHEWS, JR., ANNOTATED PATENT DIGEST § 30:104.25 (2012) (“The first and second *Georgia Pacific* factors consider comparable licenses the patentee or accused infringer may have had with others.”).

242. See *infra* Notes 244–45 and accompanying text.

243. See *supra* Section I.A.2.

be litigating against, these licenses would not be considered in the reasonable royalty calculation.<sup>244</sup>

Judge Newman alluded to this possibility in her *ResQNet* dissent, noting that the majority “create[d] a new rule whereby no licenses involving the patented technology can be considered, in determining the value of the infringement . . . if the licenses include subject matter in addition to that which was infringed by the defendant.”<sup>245</sup> Therefore, *MSTG* is likely to cause this group of NPEs to become more selective in the alleged infringers that they choose to sue, while also encouraging these NPEs to come up with bundled licenses to offer smaller alleged infringers.

b) Node 3: Litigation-as-a-Business-Model NPEs’ Decision on Whether to Settle

Prior to *MSTG*, this group’s settlement strategy was purely a profit maximizing exercise between reducing litigation costs and increasing settlement revenue.<sup>246</sup> However, because *MSTG* could cause this group of NPEs to sue significantly fewer defendants and to enter into more pre-litigation licensing agreements, litigation-as-a-business-model NPEs now have a much stronger incentive to protect their patents’ validity than before.<sup>247</sup> Therefore, these NPEs would be more likely to engage in the settlement process and thereby avoid the risk of an invalidity finding, which could destroy the net value of all of their established pre-litigation licensing agreements.<sup>248</sup> Furthermore, these NPEs would worry less about the discoverability of these settlement-related documents in the future as they would be targeting large-scale alleged infringers that are of similar stature, making all of the settlement data rather similar and creating a relatively consistent reasonable royalty calculation.<sup>249</sup>

On the other hand, these NPEs might be less willing to settle because each settlement they enter into would create additional litigation costs for subsequent litigations.<sup>250</sup> However, as explained above, the discoverability of these settlement negotiations is not as significant of a concern as before, since the alleged infringers that NPEs would be litigating against are likely to

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244. See *ResQNet.com, Inc. v. Lansa, Inc.*, 594 F.3d 860, 871 (Fed. Cir. 2010) (“The re-bundling licenses simply have no place in this case.”).

245. *Id.* at 876 (Newman, J., dissenting).

246. See *supra* Section I.A.2.

247. See *supra* Section III.B.3.

248. See *id.*

249. See *supra* Section III.C.2.

250. See *supra* Section III.B.3.

be similar in financial status.<sup>251</sup> Furthermore, because NPEs would likely initiate fewer lawsuits than before,<sup>252</sup> their overall litigation costs would likely decrease.<sup>253</sup> Moreover, NPEs would be motivated to settle to avoid the litigation risk of an invalidity finding of the patent-in-suit because such a finding would jeopardize all pre-existing licensing deals the NPE had negotiated with other entities.<sup>254</sup>

Conversely, *MSTG* might not affect NPEs' settlement strategies because NPEs could contract for pre-litigation lump-sum agreements instead of licensing agreements. Because of the one-time payment nature of lump-sum agreements, NPEs utilizing this strategy would not have to worry about an invalidity finding that might stop continued payment obligations.<sup>255</sup> However, it is unlikely that these NPEs would be able to convince all small-scale alleged infringers to enter into lump-sum licensing agreements. Some of these alleged infringers might attempt to minimize their production of products associated with the patent-in-suit and would therefore prefer a royalty-bearing licensing agreement over a lump-sum agreement. Furthermore, some smaller companies might lack the upfront capital needed to pay a lump-sum settlement.<sup>256</sup> In these situations, NPEs have been known to make "zero dollar settlement with an escalating royalty upon meeting a certain revenue threshold."<sup>257</sup>

Thus, the discoverability of settlement-related documents is likely to encourage these NPEs into negotiating bundled pre-litigation licenses with smaller alleged infringers rather than suing them. In turn, an increase in the number of pre-litigation licenses might incentivize these NPEs to favor the settlement process more than before to avoid jeopardizing their patents' validity.

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251. *See supra* Section III.C.2.

252. *See supra* Section III.C.2.

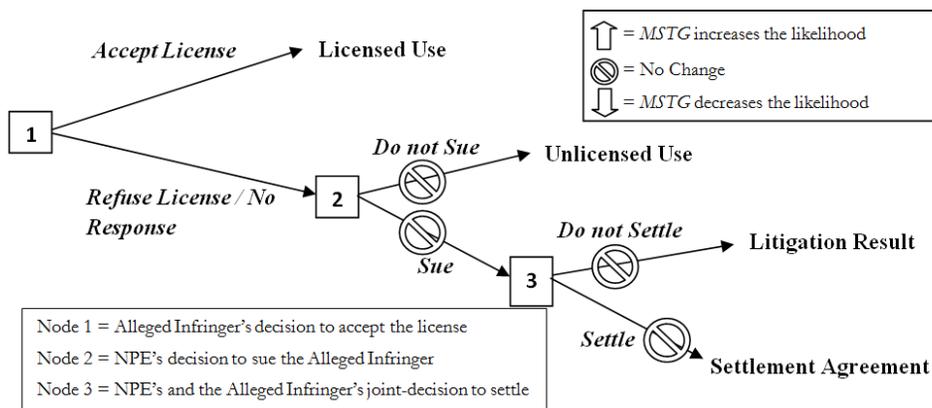
253. This prediction is contingent on the assumption that all of the monetary resources that would have been used on smaller infringers are not redirected in litigation against larger infringers.

254. *See supra* Section III.B.3.

255. *See Patent Quality, supra* note 209 ("[O]ur experience has been that settlements of patent lawsuits more commonly involve lump-sum payments rather than ongoing royalties. As a result, a serial patent plaintiff that has settled a number of its cases may feel more comfortable litigating the rest because it probably will not be forced to give the money back even if it loses.").

256. *See Dethroning Lear, supra* note 215, at 992 ("Small companies, and especially startups, will often not be in a position to pay out the full cost of the license at the beginning of the relationship.").

257. *Startups, supra* note 225, at 11.

3. *Non-Litigious NPEs*Figure 4: *MSTG's* Influence on Non-Litigious NPEs

For this group of NPEs, as Figure 4 shows, the *MSTG* decision is unlikely to affect their decision on whether to sue or to settle. This group of NPEs is not very litigious to begin with because they are not dependent on the legal enforcement of their patents.<sup>258</sup> Because *MSTG* deals with evidentiary law,<sup>259</sup> it would mainly impact NPEs' litigation and settlement strategies, which is generally inapplicable to this group of NPEs.

D. IMPLICATIONS OF *MSTG* AND RELATED AIA JOINDER RULE DEVELOPMENTS

As discussed above,<sup>260</sup> the discoverability of settlement-related documents will likely only affect the behavior of the specific subset of NPEs known as "patent trolls" by discouraging them from suing smaller infringers and by encouraging them to settle with those larger alleged infringers against whom they do litigate. As patent troll-related litigation has become one of the major problems facing the patent legal system today,<sup>261</sup> *MSTG* could be a helpful tool in freeing judicial resources and reducing overly expansive litigation practices by incentivizing litigation-as-a-business-model NPEs to seek profits outside of the judicial system through private licensing discussions and agreements.<sup>262</sup> By making settlement negotiations-related

258. See *supra* Section I.A.3.

259. See *In re MSTG, Inc.*, 675 F.3d 1337, 1339 (Fed. Cir. 2012), *reh'g denied*, 468 Fed. App'x. 994 (Fed. Cir. 2012) ("We are asked to decide first, as a matter of first impression, whether such communications related to reasonable royalties and damages are protected from discovery based on a settlement negotiation privilege . . .").

260. See *supra* Section III.C.

261. See, e.g., *Diminishing Trolling*, *supra* note 23.

262. See *supra* Section III.B.3.

documents discoverable, *MSTG* is also likely to decrease the number of defendants that the litigation-as-a-business-model NPEs would sue.<sup>263</sup> Furthermore, *MSTG* is also advantageous in that it is a selective remedy: specifically targeting the strategies of patent troll-like NPEs, while leaving the other types of NPEs untouched.<sup>264</sup>

Currently, the majority of these NPE-related lawsuits are against small companies.<sup>265</sup> Due to these defendants' small size and limited resources, these lawsuits often threaten companies' survival while also causing emotional and other non-monetary harm to its founders and employees.<sup>266</sup> Small companies play a major role in the economy, and these types of lawsuits can hinder job growth and prevent new innovations from reaching the marketplace.<sup>267</sup> Therefore by reducing this type of litigation, *MSTG* may also indirectly lead to additional public good advancements outside of the legal system.<sup>268</sup>

Hence, returning to the *Jaffee* factors, this analysis demonstrates that the "Advancement of a Public Good" factor strongly supports the discoverability of settlement negotiations-related documents. Because this factor and the "Advisory Committee's Recommendations" factor are the only dispositive *Jaffee* factors in the case<sup>269</sup> and because both factors support the same outcome, the Federal Circuit, while in error in its analysis, nevertheless came to the right conclusion by not establishing a settlement negotiations privilege under FRE Rule 501.

Moreover, the new joinder restrictions, a result of the AIA's passage, further support the "Advancement of a Public Good" analysis in favor of the *MSTG* decision. Under the new AIA joinder rule, a patent holder may not join a group of alleged infringers in the same enforcement action based only on the claim that they infringed on the same patent.<sup>270</sup> This modification might have significant consequences for NPEs, whose typical enforcement

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263. *See id.*

264. *See supra* Section III.C.

265. *See Startups, supra* note 225, at 1–2 ("Although large companies tend to dominate patent headlines, most unique defendants to troll suits are small. Companies with less than \$100M annual revenue represent at least 66% of unique defendants and the majority of them make much less than that: at least 55% of unique defendants . . . make under \$10M per year.").

266. *See Startups, supra* note 225, at 2 ("The characteristics of small companies can make it harder to absorb a [patent troll] demand.").

267. *See, e.g., Startups, supra* note 225, at 1 ("How patent demands impact startups is critical because they are a vital source of innovation and new jobs.").

268. *See supra* Section III.C.2.

269. *See supra* Section III.A.

270. Leahy-Smith America Invents Act, Pub. L. No. 112-29, sec. 19(d), § 299, 125 Stat. 284, 332–33 (2011).

model involves the joining of several alleged infringers to the same lawsuit based solely on the allegation that they infringed on the same patent-in-suit.<sup>271</sup> This result could lead NPEs to file more lawsuits than they would have before,<sup>272</sup> leading to additional strain on judicial resources. However, each new case that they file would increase the risk that their patents might be found invalid, which could in turn lead to collateral estoppel effects.<sup>273</sup> With the discoverability of settlement-related documents likely to lead these litigation-as-a-business-model NPEs to enter into more pre-litigation licensing agreements than before,<sup>274</sup> *MSTG* will heighten the litigation risk of engaging in multiple lawsuits. Therefore, in the new AIA world, *MSTG* could help to deter NPEs from congesting the judicial system, leading to an additional “Advancement of a Public Good.”

#### IV. CONCLUSION

In *MSTG*, the Federal Circuit cleared up the confusion caused by its *ResQNet* decision and held that “settlement negotiations related to reasonable royalties and damage calculations are not protected by a settlement negotiation privilege.”<sup>275</sup> Through a decision tree analysis, this Note suggests that *MSTG* will have the most impact on the strategies of a subset of NPEs, pejoratively known as “patent trolls,” by potentially making them less litigious and more willing to settle. Furthermore, with the AIA bringing a more restrictive joinder rule that could force NPEs to file even more individual cases, *MSTG* might also lessen this filing incentive and further help to reduce the strain on judicial resources. This “Advancement of a Public Good” factor analysis, along with the fact that the settlement negotiations privilege is not one of the original “Advisory Committee’s Recommendations,” indicate that, even though the Federal Circuit might have erred in its *Jaffee* analysis, the court’s decision to not establish a

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271. *Diminishing Trolling*, *supra* note 23, at 4.

272. Mark A. Lemley, *Things You Should Care About in the New Patent Statute*, at 3 (September 2011) (Stanford Public Law Working Paper No. 1929044), available at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1929044](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1929044).

273. *See Slaying Trolls*, *supra* note 33, at 690 (“Thus if a patent is found invalid, the patentee may be estopped from claiming that the patent is valid in a later suit against a different defendant so long as the patentee had a full and fair opportunity to litigate the claim in the earlier suit and collateral estoppel is fair given the circumstances.”).

274. These pre-litigation licensing agreements’ payment obligations would stop at a finding of invalidity. *See supra* Section III.C.2.

275. *In re MSTG, Inc.*, 675 F.3d 1337, 1348 (Fed. Cir. 2012), *reh’g denied*, 468 Fed. App’x 994 (Fed. Cir. 2012).

settlement negotiations privilege may well help to reduce abusive NPE lawsuits.

