In a development that may end confusion about the discoverability of prior settlements involving litigated patents, the Federal Circuit recently held in In re MSTG, Inc., 675 F.3d 1337 (Fed. Cir. 2012) that documents related to license negotiations are generally discoverable and not, as some courts had concluded, protected by a settlement negotiation privilege.

The appeal in In re MSTG, Inc. arose from litigation MSTG filed against multiple companies alleging infringement of patents covering 3G cellular technology. During the district court case, MSTG settled with all but one defendant, AT&T Mobility, which sought discovery of MSTG’s settlement negotiations with its former co-defendants. The Northern District of Illinois granted AT&T’s motion to compel and ordered MSTG to produce all “documents reflecting communications between MSTG or its attorneys . . . and either licensees or parties threatened with infringement by MSTG.” Id. at 1340 (quoting the district court’s order). In response, MSTG appealed, petitioning the Federal Circuit for a writ of mandamus vacating the district court’s order on the grounds that the documents ordered produced were privileged.

The Federal Circuit denied MSTG’s petition, holding that “settlement negotiations related to reasonable royalties and damage calculations are not protected by a settlement negotiation privilege.” Id. at 1348. In failing to recognize such a privilege, the court noted the absence of consensus among the states and other courts that such a privilege exists, a lack of evidence that Congress intended to create such a privilege, the fact that cases settle now with great frequency without the benefit of such a privilege, and finally the complication that a blanket privilege would be incompatible with Federal Rule of Evidence 408.

The Federal Circuit further ruled that the existence of a privilege for licensing negotiations—and more broadly for any evidence related to patent damages calculations—is a question controlled by Federal Circuit, not regional circuit, law:

> Just as we have applied our own law to issues of the scope of the attorney-client privilege and work product doctrine, we here apply our own law in determining whether a privilege or other discovery limitations protect disclosure of information related to reasonable royalties because that issue . . . has a significant bearing on the substantive issue of patent damages.

675 F.3d at 1341 (internal citations omitted).

The Federal Circuit stopped short of declaring settlement negotiations freely and fully discoverable. Instead, the Federal Circuit stressed that district courts have broad discretion to control discovery. The court noted that discovery may be limited by a protective order and that courts may require a “heightened showing” to justify the discovery of potentially sensitive information.

Nevertheless, the Federal Circuit decision in In re MSTG, Inc. makes clear that parties in settlement negotiations for patent cases should recognize that their communications regarding settlement may be subject to discovery and may be used in litigation, and accused infringers should seek this critical evidence of what actually constitutes a reasonable royalty on an asserted patent.

For more information about this case or any other related matter, please contact James Yoon, Stefani Shanberg, Larry Shatzer, Michael Levin, Jose Villarreal, Craig Tyler, or another member of Wilson Sonsini Goodrich & Rosati’s IP litigation practice.