Unwinding a Case: Issues That May Arise Regarding Settlement Agreements in Patent Infringement Litigation

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Introduction

Certain district court orders, such as an unfavorable claim construction or a partial summary judgment of invalidity, may have a devastating effect not only on present litigation but on any subsequent litigation involving the same patents. This paper addresses strategies a litigant, especially a patentee, should consider during settlement to mitigate the effect of an unfavorable ruling on any future litigation. In addition, the paper addresses other opportunities a litigant may have during settlement to more favorably position itself in any subsequent litigation.

I. Collateral Estoppel Based on Prior Orders

It is well-established that a patentee is bound by a claim construction or invalidity order that has been reviewed by the Federal Circuit.\(^1\) If the case settles before an order is reviewed on appeal, the preclusive effect of these prior orders in subsequent litigation is not as clear. Courts are much more likely to find the prior orders preclusive when the case settles after final judgment. If the case settles before final judgment, however, courts are split on the preclusive effect of prior orders.

A. Collateral Estoppel Standard

Collateral estoppel arises when

(1) the issues raised in both proceedings are identical;

(2) the relevant issues were actually litigated and decided in the prior proceeding;

(3) the party to be estopped had a full and fair opportunity to litigate the issues in that prior proceeding; and

(4) resolution of the issues was necessary to support a valid and final judgment on the merits.²

Collateral estoppel is governed by regional circuit law.³

The fourth collateral estoppel factor – whether the order is sufficiently final – generally controls whether collateral estoppel applies to a prior order.⁴

B. Settlement After Final Judgment

Courts typically find that prior orders in a case that settled after final judgment are preclusive.⁵ For example, the district court in Dynacore Holdings Corp. v. U.S. Philips Corp. held that a prior claim construction order supported a “valid and final judgment on the merits” and thus precluded the patentee from arguing a different claim construction in subsequent litigation.⁶

² See, e.g., Meza v. General Battery Corp., 908 F.2d 1262, 1273 (5th Cir. 1990); Central Hudson Gas & Elec. Corp. v. Empresa Naviera Santa, 56 F.3d 359, 368 (2d Cir. 1995).
³ See, e.g., RF Delaware, Inc. v. Pacific Keystone Techs., Inc., 326 F.3d 1255, 1261 (Fed. Cir. 2003) (holding that, because it is a purely procedural issue, the law of the regional circuit applies to collateral estoppel with respect to the effect of a previous ruling).
⁴ See, e.g., id. at 1261-62.
⁵ See, e.g., Invitrogen Corp. v. Clontech Labs., Inc., 429 F.3d 1052, 1069 (Fed. Cir. 2005).
Partial summary judgments of invalidity, unenforceability, and non-infringement in cases that settle after final judgment merge with the final judgment and thus also have preclusive effect in future litigation.\(^7\)

C. Settlement Before Final Judgment

If a case settles before final judgment, whether a prior order will have preclusive effect in a subsequent case depends on the type of order. Courts outside the Second Circuit generally hold that the prior claim construction orders are not preclusive. Conversely, courts applying Second Circuit law have held that prior claim construction orders are preclusive.

The preclusive effect of a partial summary judgment order is determined based on whether the order is considered final. Courts applying a flexible finality standard generally find that partial summary judgment orders are preclusive while courts applying a strict finality standard generally find that such orders are not preclusive.

1. Claim Construction Orders

Although the Federal Circuit has considered this issue, it has not decided whether claim construction orders in cases settled before final judgment have preclusive effect. In *RF Delaware,* the Federal Circuit found that a claim construction order was not final.\(^8\) However, the court expressly limited the decision to the following facts: (1) the district court did not conduct a *Markman* hearing; (2) the court did not put the parties on notice that the claim construction order

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\(^7\) See, e.g., *Hartley v. Mentor Corp.*, 869 F.2d 1469, 1473 (Fed. Cir. 1989) (applying Ninth Circuit law, holding that a partial summary judgment of invalidity merged into the final judgment and had preclusive effect).

\(^8\) 326 F.3d at 1261-62.
could have preclusive effect; and (3) the court did not enter a final order approving the proposed settlement.⁹

While a few district courts in the Second Circuit have decided that prior claim construction orders in a case that settles before final judgment are preclusive, the more recent trend is that they have no preclusive effect.

a. Courts Finding Collateral Estoppel (2nd Circuit)

In *TM Patents, L.P. v. Int’l Bus. Mach., Corp.*, 72 F.Supp.2d 370 (S.D.N.Y. 1999), the Southern District of New York held that the patentee was collaterally estopped by a prior claim construction order because it was considered a final judgment under Second Circuit law. Under Second Circuit law,

> [w]hether a ruling is sufficiently final turns on such factors as the nature of the decision (i.e., that it was not avowedly tentative), the adequacy of the hearing, and the opportunity for review. “Finality” in the context here relevant may mean little more than that the litigation of a particular issue has reached such a stage that a court sees no really good reason for permitting it to be litigated again.¹⁰

Accordingly, the court found that the prior claim construction ruling was sufficiently final to permit application of collateral estoppel because of the Supreme Court’s holding in *Markman* that claim construction is a “separate legal issue for determination by the Court” that the jury may not override.¹¹

The court expressly rejected the patentee’s argument that the claim construction order was not sufficiently final because it had not been reviewed by the Federal Circuit. Although

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⁹ *Id.; see also ICU Medical, Inc. v. Rymed Technologies, Inc.*, 2010 WL 375140, at *1 (Fed. Cir. Feb. 2, 2010) (declining petition for interlocutory review of claim construction ruling on the issue of “whether collateral estoppel or stare decisis apply to prior district courts’ claim constructions that were not expressly reviewed on appeal”).

¹⁰ *Id.* at 376 (citing *Lummus Co. v. Commonwealth Oil Ref. Co.*, 297 F.2d 80, 89 (2d Cir. 1961)).

¹¹ *Id.* at 376-77.
acknowledging that “nearly 40 percent of claim constructions are changed or overturned by the Federal Circuit,” the court found that the only reason the decision had not been reviewed on appeal was because the case had settled: “A party who cuts off his right to review by settling a disputed matter cannot complain that the question was never reviewed on appeal.”

b. Courts Rejecting Collateral Estoppel (3rd, 4th, 7th & 10th Circuits)

The majority of courts have held that prior claim construction orders are not preclusive. For example, in *Kollmorgen Corp. v. Yaskawa Elec. Corp.*, the Western District of Virginia expressly declined to follow the *TM Patents* decision and held that a prior claim construction ruling was not “essential to a final judgment” because it was never used to reach a decision on infringement.

The *Kollmorgen* court disagreed with the *TM Patents* court, observing that *Markman* “did not single-handedly redefine ‘finality’ for collateral estoppel purposes” and further criticized the court for “ignor[ing] the reality that the Federal Circuit consistently refuses to review lower court’s patent claim constructions on interlocutory appeal.” In addition, the court acknowledged that “more than forty percent of all Markman Orders are reversed by the Federal Circuit” and found that “logic dictates that for these claim constructions to have a preclusive effect, the litigants must first have an opportunity to seek Federal Circuit review.”

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12 Id. at 378. See also *Edberg v. CPI-The Alternative Supplier, Inc.*, 156 F.Supp.2d 190, 195-96 (D. Conn. 2001), aff’d on other grounds, 41 Fed.Appx. 426 (Fed. Cir. 2002) (applying collateral estoppel to prevent patentee from asserting a claim construction different from that asserted in a prior case that settled before appeal, under *TM Patents* and Second Circuit law).
14 Id. at 467-68.
15 Id.
The court also found that applying collateral estoppel to an unappealable order would have a “chilling effect” on settlements.\textsuperscript{16}

Why would a party settle a patent dispute, after a damaging Markman Order, with the knowledge that it cannot appeal the district court’s patent claim construction? Parties to a settlement will lack any incentive to settle if the virtually unreviewable Markman ruling will have a preclusive effect on other potential patent actions.\textsuperscript{17}

Other district courts have followed this trend, finding prior claim construction orders not preclusive.\textsuperscript{18}

\textbf{2. Partial Summary Judgment Orders}

The Federal Circuit has held that a prior partial summary judgment of invalidity or unenforceability has preclusive effect if it is considered final under the applicable regional circuit law.\textsuperscript{19} For a prior partial summary judgment of non-infringement to have preclusive effect, it must be considered final under the applicable regional circuit law and the infringement issues must be identical.\textsuperscript{20}

\textbf{a. Flexible Standard (2\textsuperscript{nd}, 3\textsuperscript{rd}, 6\textsuperscript{th}, 8\textsuperscript{th}, 10\textsuperscript{th} & 11\textsuperscript{th} Circuits)}

The Courts of Appeals in the Second, Third, Eighth, and Eleventh Circuits, as well as district courts in the Sixth and Tenth Circuits, have adopted a flexible finality standard. These

\textsuperscript{16} Id. at 468.
\textsuperscript{17} Id.
\textsuperscript{18} See, e.g., Shire LLC v. Sandoz, Inc., Civ A. No. 07-cv-00197-EWN-CBS, 2008 WL 4402251, at *6-8 (D. Colo. Sept. 24, 2008) (holding no preclusive effect of prior claim construction order where case settled before final judgment because prior order did not contain any analysis of the construction and two previous holdings from different district courts took opposite positions regarding issues affecting claim construction, so court found it impossible to apply collateral estoppel, even if it were appropriate); Nilssen v. Motorola, Inc., 80 F.Supp.2d 921, 923 n.4 (N.D. Ill. 2000) (finding prior claim construction in case that settled before final judgment was not binding on present court, but using prior claim construction as a starting point for construction); Graco Children’s Prods., Inc. v. Regalo Int’l, LLC, 77 F.Supp.2d 660, 663 (E.D. Pa. 1999) (holding that a prior claim construction order was not preclusive where it could not have been appealed in the prior case because the patentee had won on infringement).
\textsuperscript{19} See, e.g., Dana v. E.S. Originals, 342 F.3d 1320, 1323 (Fed. Cir. 2003).
\textsuperscript{20} See, e.g., Bayer AG v. Biovail Corp., 279 F.3d 1340, 1345 (Fed. Cir. 2002).
courts give collateral estoppel effect to interlocutory orders if they are “sufficiently firm to be accorded conclusive effect.”\textsuperscript{21} For example, in \textit{Dana v. E.S. Originals}, the Federal Circuit applied the flexible finality standard adopted by the Eleventh Circuit and held that the defendants were estopped from contesting the issues of infringement and validity because a prior court had entered partial summary judgment of infringement and validity against the defendants.\textsuperscript{22} Although the partial summary judgments were not final, appealable orders, the court held that they were final for collateral estoppel purposes because they “fully and finally resolved the matters addressed.”\textsuperscript{23}

In \textit{Lummus v. Commonwealth Oil Ref. Co.}, the Second Circuit held that finality in the context of collateral estoppel “may mean little more than that the litigation of a particular issue has reached such a stage that a court sees no really good reason for permitting it to be litigated again.”\textsuperscript{24}

The Third and Eighth Circuits have adopted this flexible view of finality.\textsuperscript{25}

District courts from the Sixth and Tenth Circuits have also applied the flexible finality standard.\textsuperscript{26}

\textsuperscript{21} \textit{Dana}, 342 F.3d at 1323 (Fed. Cir. 2003) (applying Eleventh Circuit law).
\textsuperscript{22} \textit{Dana} involved offensive collateral estoppel, where the plaintiff argued that the defendant, who was a party to previous litigation, was estopped from denying infringement and challenging validity because of the previous court’s grant of partial summary judgment of infringement and validity. \textit{Id.} at 1324. The Federal Circuit held that the “basic inquiry is the same: whether the party to be estopped had a full and fair opportunity to litigate the issue in question.” \textit{Id.}
\textsuperscript{23} \textit{Id.}
\textsuperscript{24} 297 F.2d 80, 89 (2d Cir. 1961). \textit{See also TM Patents}, 72 F.Supp.2d at 375-76 (applying the flexible Second Circuit standard in holding that a prior claim construction ruling was sufficiently final for purposes of collateral estoppel).
\textsuperscript{25} \textit{See}, e.g., \textit{Dyndul v. Dyndul}, 620 F.2d 409, 412 & n.8 (3d Cir. 1980) (explaining that the concept of finality is more flexible in the context of issue preclusion and it “may mean little more than that the litigation of a particular issue has reached such a stage that a court sees no really good reason for permitting it to be litigated again.”); \textit{John Morrell & Co. v. Local Union 304A}, 913 F.2d 544, 563 (8th Cir. 1990) (recognizing that finality standard for purposes of applying collateral estoppel does not require that the judgment be final for purposes of appeal).
\textsuperscript{26} \textit{See}, e.g., \textit{Chrimar Sys., Inc. v. Foundry Networks, Inc.}, Case No. 06-13936, slip op. (E.D. Mich. Apr. 29, 2010) (recommending that prior partial summary judgment of invalidity was sufficiently final to have preclusive effect);
b. Strict Standard (1st, 4th, 5th, 7th, & 9th Circuits)

The Courts of Appeals in the Fifth, Seventh, and Ninth Circuits, as well as district courts in the First and Fourth Circuits, follow a strict view of finality, which focuses on whether the partial summary judgment could have been appealed. These circuits have held that a partial summary judgment is not sufficiently final for collateral estoppel purposes if there is no final judgment.

For example, in *Avondale Shipyards, Inc. v. Insured Lloyd’s*, the Fifth Circuit declined to give a partial summary judgment preclusive effect, finding that because the judgment did not determine liability, it was interlocutory, not appealable, and therefore not “final” enough to support collateral estoppel. In *RF Delaware*, the Federal Circuit observed that under Fifth Circuit law, “if the parties to a suit enter into an extrajudicial settlement or compromise, there is no judgment, and future litigation is not barred by *res judicata* or collateral estoppel.”

In *Vardon Golf Co. v. Karsten Mfg. Corp.*, the Federal Circuit, applying Seventh Circuit law, held that there was no collateral estoppel because a partial summary judgment of non-infringement was interlocutory, never certified for appeal under Rule 54(b), and thus not final.

In *St. Paul Fire & Marine Ins. Co. v. F.H.*, the Ninth Circuit held that a partial summary judgment was not “sufficiently firm to be accorded conclusive effect” because it could not have been appealed and was subject to reconsideration.

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*Siemens Med. Sys., Inc. v. Nuclear Cardiology Sys., Inc.*, 945 F.Supp. 1421, 1435 (D. Colo. 1996) (finding that failure to give the prior partial summary judgment order preclusive effect “would be directly contrary to the goal of judicial economy that collateral estoppel is designed to promote”).

27 786 F.2d 1265, 1269 (5th Cir. 1986). See also *J.R. Clearwater Inc. v. Ashland Chem. Co.*, 93 F.3d 176, 179 (5th Cir. 1996) (declining to adopt more flexible “notion of finality”).

28 326 F.3d at 1261 (citing *Kaspar Wire Works, Inc. v. Leco Eng’g & Mach.*, Inc., 575 F.2d 530, 542 (5th Cir. 1978)).

29 294 F.3d 1330, 1333-35 (Fed. Cir. 2002).

30 55 F.3d 1420, 1425 (9th Cir. 1995). See also *Luben Industries, Inc. v. United States*, 707 F.2d 1037, 1040 (9th Cir. 1983) (holding that non-appealable interlocutory opinion did not have collateral estoppel effect).
District courts in the First and Fourth Circuits have applied the strict standard and held that a prior partial summary judgment is not preclusive where there was no final judgment and no opportunity to appeal.\textsuperscript{31}

D. Other Collateral Estoppel Factors

Although the finality factor is often the decisive factor in a collateral estoppel analysis, the remaining factors must also be met for collateral estoppel to apply. As discussed above, for a partial summary judgment of non-infringement to be preclusive, the infringement issues must be identical.\textsuperscript{32}

In addition, the Supreme Court in Blonder-Tongue Labs. Inc. v. University of Ill. Foundation observed that a patentee may avoid collateral estoppel by showing he did not have a “fair opportunity procedurally, substantively, and evidentially to pursue his claim the first time,” for example by showing that the patentee did not have ample “incentive to litigate . . . to the finish” against the defendant.\textsuperscript{33} The “full and fair opportunity to litigate” requirement applies to prior findings of non-infringement, unenforceability, and claim construction.\textsuperscript{34}

The Federal Circuit, relying on Blonder-Tongue, has stated in dicta that a patentee may avoid collateral estoppel based on a previous finding not reviewed by the Federal Circuit by

\textsuperscript{32} See, e.g., Bayer, 279 F.3d at 1345.
\textsuperscript{33} 402 U.S. 313, 333, 349-50 (1971) (holding that a prior finding of invalidity precludes the patentee from relitigating the validity of the patent where the “patentee has had a full and fair chance to litigate the validity of his patent”).
\textsuperscript{34} See Bayer, 279 F.3d at 1345 (applying “full and fair opportunity” requirement to collateral estoppel of non-infringement); General Electro Music Corp. v. Samick Music Corp., 19 F.3d 1405, 1413 (Fed. Cir. 1994) (“The principle of Blonder-Tongue … respecting collateral estoppel also applies to unenforceability.”); Abbott Labs. v. Impax Labs., Inc., 2003 WL 1563426, at *4 (N.D. Ill. Mar. 26, 2003) (applying Blonder-Tongue to collateral estoppel issues regarding claim construction).
arguing that it “did not have a full and fair opportunity to litigate the issue.”35 The Federal Circuit was careful to stress that it expressed no opinion on whether a patentee would be successful in avoiding collateral estoppel on this basis, finding that the issue “must be resolved if and when the question arises in a future case.”36

E. Conclusion

1. Prior case settled after final judgment
   - Likely collateral estoppel, if other factors met

2. Prior case settled before final judgment
   a. Claim Construction Order
      i. Subsequent Case Pending in 2nd Circuit
         - Likely collateral estoppel, if other factors met
      ii. Subsequent Case Pending Outside 2nd Circuit Jurisdiction
         - Likely no collateral estoppel
   b. Partial Summary Judgment
      i. Subsequent Case Pending in 2nd, 3rd, 6th, 8th, 10th & 11th Circuits (Flexible Finality Standard)
         - Likely collateral estoppel, if other factors met
      ii. Subsequent Case Pending in 1st, 4th, 5th, 7th & 9th Circuits (Strict Finality Standard)
         - Likely no collateral estoppel

36 Id.
II. Vacatur

A patentee who anticipates a collateral estoppel challenge in subsequent litigation should consider vacatur.\textsuperscript{37}

Generally, if the district court grants vacatur, the prior orders have no preclusive effect.\textsuperscript{38} They may, however, be considered persuasive authority.\textsuperscript{39}

A. Vacatur Standards

1. Exceptional Circumstances

Courts in every circuit but the Ninth Circuit apply the “exceptional circumstances” test to determine whether to grant vacatur, regardless of whether the case settled before or after final judgment.\textsuperscript{40} Although there is no list of factors courts consistently apply to determine whether exceptional circumstances exist, courts have granted vacatur where not vacating would bankrupt the defendant or cause loss of jobs, where the law or the application of the law was uncertain to the order requested to be vacated, and where vacatur would conserve judicial resources.

\textit{See, e.g.,}

- 1\textsuperscript{st} Circuit: \textit{United States v. 6 Fox Street}, 480 F.3d 38, 45-46 (1\textsuperscript{st} Cir. 2007); \textit{Freedom Wireless, Inc. v. Boston Communications Group, Inc.}, No. CV-00-12234 EFH, 2006 WL 4451477, at *2 (D. Mass. Oct. 11, 2006) (granting vacatur because the settlement applied to multiple complex, multi-party suits and would conserve the court’s and parties’ resources in furtherance of the public interest);

\textsuperscript{37} See, e.g., \textit{Dana}, 342 F.3d at 1328-29 (Dyk, J. concurring) (suggesting that to prevent interim decisions from having preclusive effect in later litigation, parties to settlement agreement could move to vacate the decision as part of the settlement).
\textsuperscript{38} See, e.g., \textit{United States v. Munsingwear}, 340 U.S. 36, 40 (1950) (holding that vacatur “clears the path for future relitigation of the issues between the parties and eliminates a judgment”).
\textsuperscript{39} \textit{Cisco Sys., Inc. v. Telcordia Techs., Inc.}, 590 F.Supp.2d 828, 831 (E.D. Tex. 2008) (noting that a vacated order “may be used for whatever authority this court or another court may deem appropriate” and has “non-binding persuasive value”).
\textsuperscript{40} Federal Rule of Civil Procedure 54(b) applies to requests for vacatur where a case has settled before final judgment. Rule 60(b) applies to requests for vacatur where a case has settled after final judgment.
The Ninth Circuit applies an equitable balancing test to determine whether to grant vacatur before or after final judgment.\textsuperscript{41}

\textsuperscript{41} See Persistence Software, Inc. v. Object People, Inc., 200 F.R.D. 626, 627 (N.D. Cal. 2001) (applying equitable balancing test to vacatur before final judgment); American Games, Inc. v. Trade Products, Inc., 142 F.3d 1164, 1169-70 (9th Cir. 1998) (applying equitable balancing test to vacatur after final judgment).
Under the equitable balancing test, the court weighs the “competing values of finality of judgment and right to relitigation of unreviewed disputes.” For example, in Persistence Software, the Northern District of California granted an unopposed motion for vacatur of a partial summary judgment of invalidity because the order was interlocutory and based on an evidentiary issue that could be cured in subsequent litigation.

B. Getting the Court to Vacate

1. Condition Settlement on Vacatur

Regardless of whether the court applies the exceptional circumstances or equitable balancing test, a patentee increases the likelihood of obtaining vacatur if settlement is conditioned upon the grant of vacatur. Conditioning settlement on the grant of vacatur gives the district court a strong incentive to grant vacatur because the case will settle, thus preserving the court’s and parties’ resources.

For example, in Freedom Wireless, the District of Massachusetts found exceptional circumstances and granted vacatur of a claim construction order after the parties agreed to a global settlement. The district court relied heavily on the fact that settlement was conditioned on the grant of vacatur: (1) without vacatur, the settlement would fall through because the patentee had “strong incentives” to appeal the claim construction decision due to its potential to “detrimentally affect” future litigation; (2) without settlement, the defendant’s loss of business “could result in a significant loss of Massachusetts jobs and a reduction or termination of the services [defendant] now offers to its carrier customers;” and (3) the settlement would apply to

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42 American Games, 142 F.3d at 1169-70.
43 200 F.R.D. at 627 (applying equitable balancing test).
44 See, e.g., Freedom Wireless, 2006 WL 4451477 at *1-*2; see also cases cited above at Section II.A.1.
45 2006 WL 4451477 at *1-*2
many “complex, multi-party lawsuits,” thus conserving the court’s and parties’ time, money, and other resources in furtherance of the public interest.  

In *United States Gypsum Co. v. Pacific Award Metals, Inc.*, the court applied the equitable balancing test and granted a joint motion to vacate a prior claim construction order and summary judgment of non-infringement because the orders were interlocutory and because settlement was conditioned on the grant of vacatur.

2. **Vacatur Granted Although Settlement Not Conditioned on Vacatur**

Although conditioning settlement on the grant of vacatur is no guarantee that a prior order will be vacated, only two cases could be found in which the court granted vacatur where the settlement was not conditioned on the grant of vacatur.

In *Cisco*, the court granted a joint motion to vacate a claim construction order, finding that the “strong public interest in the settlement of [the] litigation and the conservation of judicial resources” outweighed the benefit of the “limited collateral estoppel effect of the orders.”

In the *Persistence Software* decision, discussed above, the court granted an unopposed motion for vacatur of a partial summary judgment of invalidity because the order was interlocutory and based on an evidentiary issue that could be cured in subsequent litigation.

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46 Id.
48 590 F.Supp.2d at 831 (applying exceptional circumstances test).
49 200 F.R.D. at 627.
3. Conditioning Settlement on Request for Vacatur is Generally Not Enough

Because conditioning settlement on a request for vacatur (as opposed to the grant of vacatur) does not serve the same interest of conserving judicial resources, it is usually not enough to justify vacatur.⁽⁵⁰⁾

For example, in *Ericsson*, the Northern District of Texas denied vacatur finding no exceptional circumstances but acknowledged that if settlement had been conditioned upon grant of vacatur, the court’s interest in conserving its own judicial resources and the parties’ interest in conserving their resources could justify vacatur.⁽⁵¹⁾

*See also, e.g.*, 

- *Avid Identification Sys., Inc. v. Philips Semiconductors Inc.*, Case No. 2:04-cv-183 (TJW), 2009 WL 383232, at *2 (E.D. Tex. Feb. 11, 2009) (denying vacatur of prior inequitable conduct order where settlement was conditioned upon request for vacatur) (*patent case*).


- *Bartholic v. Scripto-Tokai Corp.*, 140 F.Supp.2d 1098, 1122 (D.Colo. 2000) (denying vacatur of order where settlement provided that parties would not oppose motion for vacatur because defendant relied merely on settlement and judicial economy, which the Supreme Court held were insufficient to show exceptional circumstances).

- *Infineon Technologies North America Corp. v. Mosaid Technologies, Inc.*, No. C 02-5772 JF (RS), 2007 WL 420194, at *3 (N.D. Cal. Feb. 5, 2007) (denying joint motion to vacate claim construction order where settlement was conditioned upon parties’ joint motion for vacatur but not on grant of vacatur because denial of vacatur would allow other courts to decide for themselves whether collateral estoppel should apply) (*patent case*).


Likewise, if settlement is conditioned upon neither the grant of nor the request for vacatur, courts have denied vacatur.

*See, e.g.*, 

• *Jewelers Vigilance Committee, Inc. v. Vitale Inc.*, 177 F.R.D. 184, 187-88 (S.D.N.Y. 1998) (denying vacatur because the settlement would not save substantial judicial resources where settlement was not conditioned upon request or grant of vacatur).

• *PolyMASC Pharmaceuticals plc v. Alza Corp.*, 73 U.S.P.Q.2d 1319, 1320 (D. Del. 2004) (denying vacatur of claim construction order, finding that lack of appellate review did not justify vacatur because patentee voluntarily abandoned its legal right to appeal) (*patent case*).


• *The Chamberlain Group, Inc. v. Interlogix, Inc.*, No. 01-C-6157, 2004 WL 1197258, at *2 (N.D. Ill. May 28, 2004) (denying vacatur of summary judgment order construing claim; finding no exceptional circumstances where patentee voluntarily abandoned its appeal rights in favor of settlement and observing that a subsequent court could determine the preclusive effect of the unvacated claim construction order) (*patent case*).

• *Nilssen v. Motorola, Inc.*, Nos. 93 C 6333, 96 C 5571, 2002 WL 31369410, at *3 (N.D. Ill. Oct. 21, 2002) (denying vacatur of prior summary judgment orders because rulings sought to be vacated included rulings by “three different judges spanning over nine years of litigation” and thus vacating these rulings would require “many of these already decided issues to be re-examined”) (*patent case*).

• *Allan Block Corp. v. County Materials Corp.*, Civil No. 05-2879 (JNE/JJG), 2009 WL 2163526, at *1 (D. Minn. July 15, 2009) (denying vacatur of prior summary judgment order of invalidity because defendant reserved its right to appeal invalidity if the court denied vacatur) (*patent case*).

• *Visto Corp. v. Sproqit Tech., Inc.*, No. C-04-0651 EMC, 2006 WL 3741946, at *6-*7 (N.D. Cal. Dec. 19, 2006) (denying vacatur of claim construction order where covenant not to sue was not conditioned upon motion for or grant of vacatur) (*patent case*).52

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52 *But see Persistence Software*, 200 F.R.D. at 627 (granting vacatur although settlement conditioned on neither request for nor grant of vacatur).
4. Conditioning Settlement on Grant of Vacatur Does Not Guarantee Vacatur

Vacatur has been denied, despite settlement being conditioned on the grant of vacatur, where the court has spent substantial time deciding the orders requested to be vacated or where settlement did not provide a sufficient reduction in judicial resources to overcome the “general presumption against vacatur.”

See also, e.g.,

- **Vertex Surgical, Inc. v. Paradigm Biodevices, Inc.**, 648 F.Supp.2d 226, 230 (D. Mass. 2009) (denying vacatur even though settlement was conditioned upon grant of vacatur because the court found settlement “hardly exceptional”).


- **Kufner v. Jefferson Pilot Financial Ins. Co.**, 2009 WL 2448186, at *1 (W.D.Mich. 2009) (denying vacatur even though settlement was conditioned upon grant of vacatur because vacatur would erase the court’s decision and deny “future litigants the benefit of the substantial time and resources invested by the parties and this Court in considering the merits of the issues presented”).

- **Allen-Bradley Co. v. Kollmorgen Corp.**, 199 F.R.D. 316, 318-20 (E.D. Wis. 2001) (denying vacatur of claim construction order even though settlement was conditioned on the court’s grant of vacatur because judicial economy would not be served where the claim construction hearing and subsequent order required “the expenditure of extensive judicial resources,” including “seven days of court time” and “many additional hours” on research and writing the opinion) (patent case).

Even where the district court denies vacatur, a patentee may still avoid collateral estoppel in subsequent litigation, however, if the other collateral estoppel factors are not met.

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54 See Section I.D. above; **Aqua Marine**, 247 F.3d at 1221; **Kollmorgen**, 147 F.Supp.2d at 465.
C. Waiver if Fail to Request Vacatur

A patentee who does not move for vacatur may waive its right to later contest collateral estoppel. In Munsingwear, the Supreme Court held that a party adverse to a decision should move for vacatur or else it fails to “avail itself of the remedy it ha[s] to preserve its rights.”55 In addition, the Federal Circuit in Hartley held that a partial summary judgment of invalidity was preclusive where the patentee did not ask the district court to vacate the order.56

D. Conclusion

A patentee who anticipates a collateral estoppel challenge in future litigation should consider vacatur. Although courts are reluctant to grant vacatur, conditioning settlement on vacatur will increase the likelihood of obtaining vacatur. Moreover, if a patentee does not at least move for vacatur, a court may find that it has waived any argument that collateral estoppel should not apply.

III. Waiver of Future Validity Challenges

As a patentee, securing an agreement during settlement that the defendant waives any rights to challenge or aid in challenging the validity or enforceability of the patents-in-suit in the future is useful, especially, for example, if the patentee plans to charge the defendant’s new products with infringement in a subsequent case.

55 340 U.S. at 40.
56 869 F.2d at 1473. See also Chrimar Sys., Case No. 06-13936, slip op. at 6 (recommending that prior finding of invalidity was sufficiently final under Sixth Circuit law to have preclusive effect in part because parties failed to request vacatur).
A. Waiver is Enforceable

In *Flex-Foot, Inc. v. CRP, Inc.*, the Federal Circuit held that waivers of future validity challenges are enforceable.\(^{57}\) The parties in *Flex-Foot* had settled a prior suit. In the prior settlement agreement, the defendant specifically agreed “not to challenge or cause to be challenged, directly or indirectly, the validity or enforceability” of the patents-in-suit and waived “any and all invalidity and unenforceability defenses in any future litigation, arbitration, or other proceeding.”\(^{58}\)

In later litigation, the defendant argued that it should be allowed to challenge validity despite its earlier agreement because of the public policy against enforcement of invalid patents.\(^{59}\) The Federal Circuit disagreed, finding that the public policy in encouraging settlement agreements outweighed the policy against enforcement of invalid patents:

> the important policy of enforcing settlement agreements and res judicata must themselves be weighed against the federal patent laws' prescription of full and free competition in the use of ideas that are in reality a part of the public domain.\(^{60}\)

Balancing these concerns, the court concluded that where an accused infringer voluntarily dismisses its invalidity defenses with prejudice in favor of settlement, and does so in a “clear and unambiguous manner,” the accused infringer will be estopped from contesting validity in any future proceeding.\(^{61}\)

\(^{57}\) 238 F.3d 1362, 1370 (Fed. Cir. 2001).
\(^{58}\) *Id.* at 1364.
\(^{59}\) *Id.* at 1368.
\(^{60}\) *Id.*
\(^{61}\) *Id.* at 1370.
The court also explained that the waiver of future validity challenges in favor of settlement does not violate public policy. To the contrary, the court found that public policy requires upholding and enforcing such agreements:

[T]here is a strong public interest in settlement of patent litigation and that upholding the terms of a settlement encourages patent owners to agree to settlements – thus fostering judicial economy. . . . Settlement agreements must be enforced if they are to remain effective as a means for resolving legal disagreements. Upholding the terms of settlement agreements encourages patent owners to agree to settlements and promotes judicial economy.\(^\text{62}\)

As a result, the court held that the defendant was contractually estopped from challenging the validity of the patents in the subsequent case.\(^\text{63}\)

**B. Waiver Must Be Specific and is Narrowly Construed**

For a waiver to be effective, the language in the agreement must manifest the defendant’s intent to waive future validity challenges.

In *Diversey Lever, Inc. v. Ecolab, Inc.*, the Federal Circuit found that a settlement provision in a consent judgment sufficiently expressed an intent to waive future validity challenges where the defendant agreed it would “not directly or indirectly aid, assist or participate in any action contesting the validity of [the patents], except as required by Court Order or subpoena” and the defendant declared that the patents were “valid and enforceable.”\(^\text{64}\)

In contrast, in *Foster v. Hallco Mfg. Co., Inc.*, the Federal Circuit remanded the case to the district court to determine whether the consent decree showed the requisite intent to waive future validity challenges in subsequent litigation on different products.\(^\text{65}\)

\(^{62}\) *Id.* at 1369-70.

\(^{63}\) *Id.* at 1370.

\(^{64}\) 191 F.3d 1350, 1352 (Fed. Cir. 1999).

\(^{65}\) 947 F.2d 469, 480-81 (Fed. Cir. 1991).
In *Foster*, the consent decree acknowledged that the patents were “valid and enforceable in all respects” and that the consent decree was “binding upon and constitute[d] res judicata between the parties.”66 The alleged infringer argued that the language in the consent decree that the patents were “valid and enforceable in all respects” did not bar it from challenging the validity of the patents in a new suit asserted against different products because this language was limited by the general rules of res judicata and was thus restricted to the causes of action asserted and the products at issue in the prior litigation.67

The Federal Circuit agreed and found that for res judicata “to apply here, the devices in the two suits must be essentially the same.”68 While the Federal Circuit commented that the language in the consent decree seemed insufficient to support a finding that the parties intended to preclude validity and enforceability in future litigation of a different claim, it remanded for further findings on this issue.69 Thus, under *Foster*, a mere acknowledgement of the patent’s validity is insufficient to waive a future validity challenge if the accused product in subsequent litigation is not “essentially the same” as the accused product from the prior litigation.70

In *Ecolab, Inc. v. Paraclipse, Inc.*, the Federal Circuit confirmed the conclusion implicit in *Foster*.71 The court, applying *Foster*, held that acknowledgement of validity, by itself, did not provide a clear intent of waiver of future challenges to the patent’s validity because the accused

66 Id. at 481.
67 Id.
68 Id. at 481.
69 Id. at 482-83.
70 See id.
71 285 F.3d 1362, 1376-77 (Fed. Cir. 2002).
product in the present suit was not “essentially the same” as the accused product that was the subject of the consent judgment.  

C. Conclusion

A patentee should consider obtaining a waiver of future validity challenges during settlement, especially if it plans to charge the defendant’s new products with infringement in a future litigation. If the defendant agrees to waive future validity challenges, it is important to use adequate language in the agreement.

Examples of language found sufficient to waive future validity challenges are below.

Defendant agrees not to challenge or cause to be challenged, directly or indirectly, the validity or enforceability of the patents-in-suit in any court or other tribunal, including the United States Patent and Trademark Office. As to the patents-in-suit only, Defendant waives any and all invalidity and unenforceability defenses in any future litigation, arbitration, or other proceeding. This waiver applies to any product made, used, or sold by Defendant or any of its assignees, successors or those who act for or in concert with any of them at any time during the life of either of the patents-in-suit.

(modeled after language from Flex-Foot, 238 F.3d at 1364.)

The patents-in-suit are valid and enforceable. Furthermore, Defendant will not directly or indirectly aid, assist or participate in any action contesting the validity of either of the patents-in-suit, except as required by Court Order or subpoena.

(modeled after language from Diversey Lever, 91 F.3d at 1351-52).

IV. Impact of Royalties Paid in Previous Settlement Agreements on Damages Issues

Another issue to consider during settlement is the impact agreed royalty rates and settlement negotiations surrounding those rates may have on damages issues in subsequent litigation.

72 Id.; see also Advanced Cardiovascular Systems, Inc. v. SciMed Life Systems, Inc., 989 F. Supp. 1237, 1245-46 (N.D. Cal. 1997) (holding that provision in settlement agreement stating that patents-in-suit were valid and enforceable was insufficient to preclude future challenges to validity and enforceability because accused product in second case was different from product in first case).
A. **ResQNet Decision**

In the past, the Federal Circuit has not favored admitting prior licenses that result from litigation as evidence to support a reasonable royalty damages analysis.\(^73\) For example, in *Hanson*, the Federal Circuit held that since 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,’” since “[l]icense fees negotiated in the face of a threat of high litigation costs ‘may be strongly influenced by the desire to avoid full litigation.’”\(^74\)

In February, in a per curiam decision, *ResQNet.com, Inc. v. Lansa, Inc.*, the Federal Circuit modulated its position on litigation-related licenses.\(^75\) In *ResQNet*, the court vacated the district court’s damages award because it “used licenses with no relationship to the claimed invention to drive the royalty rate up to unjustified double-digit levels.”\(^76\) The licenses were unreliable because the district court had made no “factual findings that accounted for the technological and economic differences” between the licenses and the infringed patent.\(^77\) Significantly, the Federal Circuit stated that the “most reliable license in this record” arose out of the settlement of previous litigation on the same patent.\(^78\) The court recognized, however, that “[o]n other occasions, this court has acknowledged that the hypothetical reasonable royalty calculation occurs before litigation and that litigation itself can skew the results of the hypothetical negotiation.”\(^79,80\)

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\(^73\) See, e.g., *Hanson v. Alpine Valley Ski Area, Inc.*, 718 F.2d 1075, 1078-79 (Fed. Cir. 1983).
\(^74\) *Id.*.
\(^75\) 594 F.3d 860, 870-72 (Fed. Cir. 2010).
\(^76\) *Id.* at 870.
\(^77\) *Id.* at 873.
\(^78\) *Id.* at 872.
\(^79\) *Id.*
\(^80\) Judge Newman dissented from the damages opinion, finding that the district court’s opinion properly took into account the differences between the licenses and the infringed patent in setting the royalty rate. Judge Newman also criticized the court for relying primarily on the settlement license.
There has been only one Federal Circuit decision discussing litigation-related licenses since *ResQNet*. In *Wordtech Systems, Inc v. Integrated Networks Solutions, Inc.*, the Federal Circuit reversed the district court’s denial of a new trial and remanded for a new trial on damages because none of the licenses relied upon by the patentee, some of which were settlement licenses, supported the jury’s damages award.\footnote{Id. at 880.}

Addressing *ResQNet*, the court stated:

Similarly, in *ResQNet.com, Inc. v. Lansa, Inc.* (decided after argument in this case), we overturned a running royalty verdict based on seven licenses, “five of which had no relation to the claimed invention,” and the other two of which arose from litigation. We stressed that comparisons of past patent licenses to the infringement must account for the “technological and economic differences” between them.\footnote{Id. at *9 (internal citations omitted).}

The court did not address whether the settlement licenses were admissible, but reiterated that “litigation itself can skew the results of the hypothetical negotiation,” citing *ResQNet*.\footnote{Id. at *10.}

These cases stand for the proposition that any damages analysis based on previous licenses must “account for the technological and economic differences” between the previous licenses and the infringed technology. Moreover, after *ResQNet*, it appears that previous litigation-related licenses may be relied upon in a reasonable royalty analysis if the party relying on the licenses can show there is some basis for comparison of these licenses, economically and technically, to the infringed technology.

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\footnote{Case No. 2009-1454, 2010 WL 2384958, at *9-*10 (Fed. Cir. Jun. 16, 2010); see id. at *10 (“[A] past royalty range of 3-12% fails to explain a 26.3% hypothetically negotiated rate.”).}

\footnote{Id. at *9 (internal citations omitted).}

\footnote{Id. at *10.}
B. District Courts

Prior to the ResQNet decision, the majority of district courts excluded licenses made under the threat of litigation.\(^\text{84}\)

After ResQNet, only one court – the Eastern District of Texas – has addressed the Federal Circuit’s ResQNet decision in relation to licenses that result from litigation.

1. Admissibility of Settlement Licenses

In DataTreasury Corp. v. Wells Fargo & Co., Judge Folsom denied a motion in limine by defendants to preclude the plaintiff from offering evidence of litigation-related license agreements.\(^\text{85}\) In denying the motion, the court observed that “ResQNet may have changed the legal landscape regarding admissibility of litigation-related licenses.”\(^\text{86}\)

The court rejected defendants’ argument that the licenses were unreliable because they arose out of litigation, holding that concerns regarding the reliability of the licenses were “better directed to weight, not admissibility.”\(^\text{87}\) The defendants attempted to distinguish ResQNet because it did not address admissibility in a jury trial.\(^\text{88}\) The court found, however, that although


\(^{86}\) Id. at *1. In addition to allowing the licenses as evidence, the court further held that the defendants were entitled to discovery regarding the negotiations surrounding the licenses. Id. at *2.

\(^{87}\) Id.

\(^{88}\) Id.
*ResQNet* was a bench trial, the licenses were considered by the trial court sitting as trier of fact, just as the jury would do in this case.\(^8^9\)

In contrast, in *Fenner Investments, Ltd. v. Hewlett-Packard Co.*, Judge Love granted a motion in limine to preclude settlement licenses from being admitted in a jury trial, concluding that “*ResQNet* is distinguishable and does not compel the admission of evidence and testimony relating to settlement agreements in prior litigation.”\(^9^0\)

The court stated that the admissibility of the litigation-related licenses was not decided in *ResQNet* because the licenses were already part of the record, observing that *ResQNet* “has not altered the admissibility of agreements entered into under the threat of litigation.”\(^9^1\) The court also explained that *ResQNet* was a bench trial and thus jury confusion was not an issue in that case, stating that “courts routinely exclude settlement licenses because the potential prejudice and jury confusion substantially outweigh whatever probative value they may have.”\(^9^2\) Finally, the court distinguished *ResQNet* because it addressed a different *Georgia-Pacific* factor than the one at issue in the present case.\(^9^3\)

### 2. Discoverability of Settlement Negotiations

In *Tyco Healthcare Group LP v. E-Z-EM, Inc.*, Judge Ward granted a motion to compel documents that the defendants claimed were protected by the “settlement negotiations” privilege.\(^9^4\) The court acknowledged that in the past it had adopted a bright-line rule that settlement negotiations between adversaries were privileged while the resulting license

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\(^8^9\) Id.

\(^9^0\) Case No. 6:08-cv-273, 2010 WL 1727916, at *3 (E.D. Tex. Apr. 28, 2010).

\(^9^1\) Id. at *3.

\(^9^2\) Id.


agreement was discoverable, but found that the Federal Circuit’s decision in *ResQNet* “causes the Court to shift its approach toward the discoverability of settlement negotiations.” The court observed that in *ResQNet*,

The Federal Circuit has explained that prior license agreements that result from litigation can be the “most reliable” to the hypothetical negotiation damages analysis and, when performing a reasonable royalty calculation, the Court should consider “the panoply of ‘events and facts that occurred thereafter and could not have been known to or predicted by the hypothesized negotiators.’” *ResQNet* (citations omitted). A prior, related settlement agreement, where it exists, may be central to the fact-finder’s determination of damages using a hypothetical negotiations analysis. The court further observed that

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

As a result, the court ordered discovery of the settlement negotiations underlying the license.

**C. Conclusion**

When settling a patent case, the patentee should be aware that the royalty agreed to in a litigation-related license or covenant not to sue may be admissible as evidence of a reasonable royalty in later litigation asserting the same or comparable patents or technology. In

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95 *Id.*
96 *Id.*
97 *Id.*
99 Attempting to avoid any impact on future litigation by settling the case with a covenant not to sue combined with a payment instead of a license would likely fail. The Federal Circuit has held that a covenant not to sue is, in effect, a license agreement. See, e.g., *Spindelfabrik Suessen-Schurr, Stahlecker & Grill GmbH v. Schubert & Salzer Maschinenfabrik Aktiengesellschaft*, 829 F.2d 1075, 1081 (Fed. Cir. 1987).
100 See, e.g., *DataTreasury*, 2010 WL 903259, at *1-2*; see also *ResQNet.com*, 594 F.3d at 870-72.
addition, in jurisdictions admitting settlement licenses, the communications surrounding these negotiations will likely be discoverable.\footnote{See Tyco, 2010 WL 774878, at *2.}

V. Enforcement of Disputes Regarding Settlement Agreement

In Kokkonen v. Guardian Life Ins. Co. of America, the Supreme Court held that unless another basis for federal jurisdiction exists, such as diversity jurisdiction, a federal district court ordinarily does not have subject matter jurisdiction over enforcement of a settlement agreement.\footnote{511 U.S. 375, 380-82 (1994) (holding that enforcement of a settlement agreement “is more than just a continuation or renewal of the dismissed suit, and hence requires its own basis for jurisdiction”).}

The Court explained, however, that the

situation would be quite different if the parties’ obligation to comply with the terms of the settlement agreement had been made part of the order of dismissal – either by separate provision (such as a provision “retaining jurisdiction” over the settlement agreement) or by incorporating terms of the settlement agreement in the order. In that event, a breach of the agreement would be a violation of the order, and ancillary jurisdiction to enforce the agreement would therefore exist.\footnote{Id. at 382.} The Court further held that the “judge’s mere awareness and approval of the terms of the settlement agreement do not suffice to make them part of his order.”\footnote{Id.} Thus, under Kokkonen, the parties have an opportunity during settlement to ensure that the same district court hears any future disputes regarding enforcement of the settlement.

A. Application of Kokkonen

To ensure that enforcement disputes are heard in the same court, the dismissal order should specify that the district court retains jurisdiction over the settlement agreement or should
incorporate the terms of the settlement agreement.\textsuperscript{105} Regional circuit law controls whether a federal court has jurisdiction to enforce a settlement agreement.\textsuperscript{106}

The Seventh Circuit has taken the strictest view of \textit{Kokkonen}. In \textit{Blue Cross & Blue Shield Ass’n v. American Express Co.}, the Seventh Circuit held that a district court cannot simply incorporate the terms of the settlement agreement by reference or specify that it is retaining jurisdiction in its dismissal order.\textsuperscript{107} Instead, the terms of the settlement agreement must be spelled out in the dismissal order, thus making it an injunction under Federal Rule of Civil Procedure 65(d).\textsuperscript{108}

Because of confidentiality or other issues, parties may not want the terms of the settlement agreement set forth in the dismissal order. In that case, the Seventh Circuit has suggested that the district court dismiss the case without prejudice so it can retain jurisdiction over the settlement agreement, but specify that the parties are precluded from reopening issues resolved by the judgment.\textsuperscript{109}

The Eighth Circuit has taken a more relaxed view of \textit{Kokkonen}. In \textit{Jenkins v. Kansas City Missouri School Dist.}, the Eighth Circuit held that the terms of the settlement agreement were implicitly incorporated in the dismissal order where the district court approved of the settlement agreement in a subsequent opinion:

\begin{quote}
[A] district court need not use explicit language or any magic form of words to effect a valid incorporation of an agreement into an order.\textsuperscript{110}
\end{quote}

\begin{flushleft}
\textsuperscript{105} See \textit{Kokkonen}, 511 U.S. at 382.
\textsuperscript{106} See \textit{Interspiro USA, Inc. v. Figgie Int’l, Inc.}, 18 F.3d 927, 930 (Fed. Cir. 1994).
\textsuperscript{107} 467 F.3d 634, 636-37 (7th Cir. 2006).
\textsuperscript{108} Id; see also \textit{Dupuy v. McEwen}, 495 F.3d 807, 809 (7th Cir. 2007) (holding that a statement in the dismissal order that the court “retains jurisdiction to enforce the settlement agreement” was insufficient to give the district court jurisdiction over the settlement agreement after the case was dismissed); \textit{Hope School, Inc. v. Woodside Township}, Case No. 05-cv-3153, 2009 WL 1707958 (C.D. Ill. Jun. 12, 2009) (summarizing Seventh Circuit law).
\textsuperscript{109} \textit{Shapo v. Engle}, 463 F.3d 641, 646 (7th Cir. 2006).
\textsuperscript{110} 516 F.3d 1074, 1082 (8th Cir. 2008).
\end{flushleft}
Although mere reference to the settlement agreement is not enough, a dismissal order stating that the case will be dismissed “pursuant to a confidential settlement agreement” is sufficient to retain jurisdiction.111

The remaining circuits allow a district court to retain jurisdiction over a settlement agreement if the dismissal order expressly specifies that the district court retains jurisdiction over the settlement agreement or expressly incorporates the terms of the settlement agreement by reference. In these circuits, simply referring to the settlement or stating that a case is dismissed pursuant to the terms of the settlement, is insufficient to incorporate the terms into the order.

For example, the Second Circuit in *Scelsa v. City University of New York* held that a dismissal order stating the “action is dismissed with prejudice and without costs to any party, except as set forth in the Settlement Agreement” was insufficient to incorporate the terms of the settlement agreement into the order.112

In *Caudill v. N. Am. Media Corp.*, the Sixth Circuit held that a dismissal order stating the case was dismissed “pursuant to the terms of the Settlement” was insufficient to incorporate the terms of the settlement agreement into the dismissal order.113

In *Hospitality House, Inc. v. Gilbert*, the parties filed an agreed motion to dismiss the case pursuant to a settlement agreement, which was attached to the motion to dismiss.114 The dismissal order, however, did not refer to the settlement agreement, but only referred to the agreed motion to dismiss.115 The Fifth Circuit held that the district court’s dismissal order did not incorporate the settlement agreement because “Kokkonen requires a district court to clearly

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111 *Schaefer Fan Co. v. J&D Mfg.*, 265 F.3d 1282, 1286-87 (Fed. Cir. 2001) (applying Eighth Circuit law); *Miener v. Mo. Dep’t of Mental Health*, 62 F.3d 1126, 1128 (8th Cir. 1995) (holding that a “dismissal order’s mere reference to the fact of settlement does not incorporate the settlement agreement”).

112 76 F.3d 37, 41 (2d Cir. 1996).

113 200 F.3d 914, 917 (6th Cir. 2000).

114 298 F.3d 424, 430 (5th Cir. 2002).

115 Id. at 430-31.
indicate its intention within the dismissal order itself by expressly incorporating the agreement’s terms.”

In *Hagestad v. Tragesser*, the Ninth Circuit held that the court had not retained jurisdiction over the settlement agreement because the dismissal order did not expressly reserve jurisdiction or incorporate the terms of the settlement agreement where the dismissal order merely recited that “this action is dismissed with prejudice.”

*See also, e.g.,*

- 1st Circuit: *F.A.C., Inc. v. Cooperativa de Seguros de Vida de P.R.*, 449 F.3d 185, 190 (1st Cir. 2006) (holding that the court’s order must expressly retain jurisdiction or expressly incorporate the terms of a settlement agreement, not merely make a “bare reference to ‘a settlement agreement’”).
- 2nd Circuit: *Torres v. Walker*, 356 F.3d 238, 245 n.6 (2d Cir. 2004) (requiring not only that the district court’s order incorporate the terms of the settlement agreement but also “some evidence that a district court intended to place its ‘judicial imprimatur’ on the settlement”).
- 3rd Circuit: *In re Phar-Mor, Inc. Securities Litigation*, 172 F.3d 270, 273-74 (3rd Cir. 1999) (holding that provision stating that the case was dismissed “pursuant to the terms of the Settlement” was not sufficiently specific to incorporate the terms of the settlement agreement into the dismissal order); but see *Interspiro*, 18 F.3d at 930 (Federal Circuit applying Third Circuit law, holding that dismissal order stating that the parties have settled the case “pursuant to” a settlement agreement “effectively incorporate[d] the terms of the settlement agreement” and thus the federal district court had jurisdiction to hear the plaintiff’s motion to enforce the settlement agreement).
- 4th Circuit: *Smyth ex rel. Smyth v. Rivero*, 282 F.3d 268, 283 (4th Cir. 2002) (“Where a court merely recognizes the fact of the parties’ agreement and dismisses the case because there is no longer a dispute before it, the terms of the agreement are not made part of the order and consequently will not serve as a basis of jurisdiction.”); *see also Columbus-America Discovery Group v. Atlantic Mut. Ins. Co.*, 203 F.3d 291, 299 (4th Cir. 2000) (leading case in Fourth Circuit on *Kokkonen*).

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116 Id. at 431. *See also Kawasaki Heavy Industries, Ltd. v. Bombardier Recreational Prods., Inc.*, Case No. 5:06-cv-222, slip op. at 3-6 (E.D. Tex. Sept. 16, 2009) (holding dismissal order that did not mention the parties’ settlement agreement or otherwise preserve jurisdiction over the settlement agreement was insufficient to give the district court jurisdiction).

117 49 F.3d 1430, 1433 (9th Cir. 1995).
• 9th Circuit: *O’Connor v. Colvin*, 70 F.3d 530, 532 (9th Cir. 1995) (holding that statement in dismissal order that it is “based on” a settlement, without more, does not incorporate the settlement agreement into the dismissal order).

• 10th Circuit: *McKay v. United States*, 207 Fed.Appx. 892, 894-95 (10th Cir. 2006) (holding that a dismissal order referring to a settlement agreement and stating that dismissal was appropriate because the terms and conditions of the agreement had been fully performed was insufficient for the court to retain jurisdiction because it did not order the parties to comply with the terms of the agreement and it did not condition dismissal upon future compliance); see also *Morris v. City of Hobart*, 39 F.3d 1105, 1110-11 (10th Cir. 1994) (leading case in Tenth Circuit on *Kokkonen*).

• 11th Circuit: *Square D Co. v. Miami Breaker, Inc.*, 2008 WL 3540525, at *1-*2 (S.D. Fla., Aug. 12, 2008) (holding district court did not have jurisdiction to enforce terms of settlement agreement because language in dismissal order that it was “based thereupon” a settlement agreement was insufficient for court to retain jurisdiction over settlement agreement); see also *In re T² Medical, Inc.*, 130 F.3d 990, 994-95 (11th Cir. 1997) (holding that district court’s order that expressly retained jurisdiction for enforcement was insufficient to retain jurisdiction for modification of settlement agreement).

B. Contempt Proceeding

A potential advantage of incorporating the settlement terms into the dismissal order is that the settlement agreement can be enforced by initiating a contempt proceeding for disobeying the court’s order.118 Contempt proceedings are decided by the court as a continuation of the prior lawsuit and thus may provide a faster and less costly alternative to enforcing the settlement agreement than bringing a new breach of contract lawsuit.119

C. Conclusion

The parties have an opportunity during settlement to ensure that the same district court hears any future disputes regarding enforcement of the settlement agreement. If the litigation is pending in any circuit but the Seventh Circuit, the dismissal order may expressly state that the

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118 See, e.g., *D. Patrick, Inc. v. Ford Motor Co.*, 8 F.3d 455, 460 (7th Cir. 1993) (acknowledging that if dismissal order simply retains jurisdiction to enforce the settlement agreement, a party may not be able to use a contempt proceeding for enforcement); *Kokkonen*, 511 U.S. at 381 (acknowledging that if terms of settlement are incorporated into court’s order, a breach of the settlement would be a breach of the court’s order).

court retains jurisdiction over enforcement of the settlement agreement or expressly incorporate the terms of the settlement agreement by reference. If the litigation is pending in the Seventh Circuit, however, then the terms of the settlement agreement must be spelled out in the dismissal order.