

# Against Settlement of (Some) Patent Cases\*

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*For decades now, there has been a pronounced trend in civil litigation away from adjudication and toward settlement. This settlement phenomenon has spawned a vast critical literature beginning with Owen Fiss's seminal work, *Against Settlement*. Fiss opposes settlement because it achieves peace rather than justice, and because settlements often are coerced due to power and resource imbalances between the parties. Other critics have questioned the role that courts play (or ought to play) in settlement proceedings and have argued that the secondary effects of settlement—especially the lack of decisional law—are damaging to our judicial system. Still, despite these criticisms, settlement remains the norm in civil litigation today.*

*This Article considers the settlement phenomenon in the context of patent litigation. In recent years, courts have seen an explosion of patent litigation. Consistent with the general trend in civil lawsuits, most of those patent suits have been settled. While scholars have studied and debated “reverse payment” or “pay for delay” patent settlements in depth, what is missing from the literature is a comprehensive treatment of the normative questions raised by the widespread settlement of conventional patent cases. Do conventional patent settlements necessarily promote the public good? Should courts encourage these patent disputes to settle? Are there certain types of patent cases that should be adjudicated rather than settled?*

*This Article sets out to answer these questions. It begins by contextualizing the antisettlement arguments of Fiss and other scholars within the framework of patent litigation. The Article then identifies some of the unique problems that patent settlements create, namely that settlement*

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\* The title of this Article pays homage to Owen Fiss's famous essay *Against Settlement*, 93 YALE L.J. 1073 (1984).

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allows potentially invalid patents to remain in force in contravention of the public good. Next, the Article canvasses the case law and literature, and it concludes that the judiciary systematically encourages patent litigants to settle. The final part of the Article argues that, from a social welfare perspective, settlement is not the best way to resolve all patent disputes. Rather, the Article proposes, trial judges should serve as protectors of the public interest. It then concludes by recommending various factors to inform the decision whether a particular patent case should be settled or be adjudicated, and by offering suggestions for how trial courts might influence outcomes in patent litigation.

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## I. INTRODUCTION

Many colorful metaphors are used to depict patent litigation. Some call it the “sport of kings,”<sup>1</sup> whereas others refer to it as the “business of sharks.”<sup>2</sup> The plot of patent litigation includes trolls, thickets, junk patents, holdups, and turf battles. Patent litigation is not like other civil litigation, or so the story goes. It is a bet-the-company endeavor where the parties and their lawyers are at war.

While obviously hyperbolic, the message of this rhetoric is clear: patent litigation is complex, expensive, and unpredictable. Its high stakes and high costs mean that patent suits are usually settled rather than adjudicated to judgment. Studies indicate that somewhere between 65–68% of patent cases are settled at the district court level, and more settle on appeal.<sup>3</sup> Of the remaining patent cases, a significant portion are resolved through nonmerit dispositions (such as jurisdictional dismissals), leaving only about 15% of patent cases decided on the merits—most of which are summary judgments as opposed to judgments rendered after trial.<sup>4</sup>

That most patent disputes settle is not especially surprising in light of the precipitous decline in the number of trials in all types of federal civil litigation over the past fifty years. Today, barely 1% of federal civil cases are tried by a judge or a jury, as compared to the 1960s, when that number was close to 12%.<sup>5</sup> Indeed, even though the

1. James Bessen & Michael J. Meurer, *Lessons for Patent Policy from Empirical Research on Patent Litigation*, 9 LEWIS & CLARK L. REV. 1, 2 (2005).

2. 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, 1573 (2009).

3. See Jay P. Kesan & Gwendolyn G. Ball, *How Are Patent Cases Resolved? An Empirical Examination of the Adjudication and Settlement of Patent Disputes*, 84 WASH. U. L. REV. 237, 272 & n.216, 273–74 (2006) (finding that 65% of patent cases “definitively or probably” settled in 1995 and that 68% of such cases “definitively or probably” settled in 2000); see also Marc Galanter & Mia Cahill, *“Most Cases Settle”: Judicial Promotion and Regulation of Settlements*, 46 STAN. L. REV. 1339, 1340 (1994) (estimating that two-thirds of all civil suits settle).

4. Kesan & Ball, *supra* note 3, at 273–74.

5. See Marc Galanter & Angela Frozena, *The Continuing Decline of Civil Trials in American Courts* 3 (2011) (paper presented at Pound Civil Justice Institute 2011 Forum for State Appellate Court Judges), available at <http://perma.cc/U3J8-U7HD> (finding that 11–12% of federal cases were terminated during or after trial during the 1960s, compared to the 1% of cases terminated in such a manner in 2010).

total number of civil matters disposed of by the federal courts has increased sixfold over this time period,<sup>6</sup> there are actually fewer civil trials now than there were in 1962.<sup>7</sup>

This shift away from trial and toward settlement has been the subject of vigorous debate among scholars. Advocates of alternative dispute resolution (“ADR”) argue that settlement is the preferred means of disposition because it allows for more flexible and creative outcomes, and simultaneously saves time and resources for parties and courts.<sup>8</sup> Settlement critics, the most notable being Owen Fiss, oppose settlement because it achieves peace rather than justice, is often coerced, and deprives society of much-needed decisional law.<sup>9</sup> And finally, a third camp of scholars accepts settlement as an alternative to adjudication but believes the judiciary’s role in settlement should be limited.<sup>10</sup>

This Article considers the settlement phenomenon in the context of patent litigation. The past decade has witnessed an explosion of patents, patent litigation, and patent settlements. Concomitant with this rise of patent activity came widespread discontent with our patent system, culminating in the passage of the America Invents Act (“AIA”)—the most comprehensive patent reform legislation in more than fifty years.<sup>11</sup> The AIA provides some hoped-for correctives for various shortcomings of our patent system, including low patent quality, high litigation costs, and inconsistency with foreign patent law.<sup>12</sup> What the AIA does not address—and what few scholars have explored—is how settlement has contributed to the current crisis of confidence in our patent system. This Article seeks to fill that gap.

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6. ADMIN. OFFICE OF THE U.S. COURTS, JUDICIAL BUSINESS OF THE U.S. COURTS, 2011 ANNUAL REPORT OF THE DIRECTOR 15 (2012), *available at* <http://perma.cc/DR5V-LLQH>, (indicating that federal courts disposed of 303,158 civil cases in 2011); Marc Galanter, *The Vanishing Trial: An Examination of Trials and Related Matters in Federal and State Courts*, 1 J. EMPIRICAL L. STUD. 459, 462–63 (2004) (indicating that U.S. district courts disposed of 50,320 civil matters in 1962).

7. ADMIN. OFFICE OF THE U.S. COURTS, *supra* note 6, at 20 (indicating that there were 5,357 federal civil trials in 2011); Galanter, *supra* note 6, at 462 (indicating that there were 5,802 federal civil trials in 1962).

8. *See infra* Part II.A (discussing positions of settlement advocates).

9. *See infra* Part II.B (laying out the antisettlement arguments of Fiss and other scholars).

10. *See infra* Part II.C (explaining the role of courts in civil settlement).

11. Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat. 284 (2011) (codified as amended at 35 U.S.C. (2012)). Another important motivating force behind the AIA was the need for international harmonization of our patent laws. *See* Robert P. Merges, *Priority and Novelty Under the AIA*, 27 BERKELEY TECH. L.J. 1023, 1046 (2012).

12. *See* Leahy-Smith America Invents Act (including provisions addressing patent quality, litigation costs, and inconsistency with foreign patent law).

To be clear, there is a rich body of scholarship dedicated to settlement in patent cases. There are empirical studies demonstrating that most patent cases settle,<sup>13</sup> and that certain types of patent cases are more inclined toward settlement.<sup>14</sup> Moreover, the topic of whether “reverse payment” or “pay for delay” patent settlements violate antitrust laws has been well mined.<sup>15</sup> But the focus of this Article is different. It considers and reflects upon the normative questions raised by *conventional* patent settlements, in other words, typical settlements where the accused infringer pays the patent owner to settle. Specifically, the Article asks whether patent settlements promote the patent system’s purpose of furthering innovation for the benefit of society,<sup>16</sup> or whether the public would be better served by adjudication in some patent cases.

As a starting point to answer these questions, the Article looks to the vast critical literature on civil settlement. Mapping the antisettlement arguments of Fiss and other scholars onto a patent-litigation model leads to the conclusion that many patent settlements contravene the public good.<sup>17</sup> Not only are patent settlements frequently coerced, they also come at the expense of judicial precedent, which is particularly valuable in the patent context since an invalidity judgment estops the patentee from ever asserting that patent again.<sup>18</sup> A related concern is that patent settlements may achieve peace between the parties, but not justice. When patent litigants settle, the

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13. Kesan & Ball, *supra* note 3, at 273–74.

14. John R. Allison et al., *Patent Quality and Settlement Among Repeat Patent Litigants*, 99 GEO. L.J. 677, 689 (2011).

15. See, e.g., Michael A. Carrier, *Unsettling Drug Patent Settlements: A Framework for Presumptive Illegality*, 108 MICH. L. REV. 37, 39–40 (2009) (analyzing these issues); Christopher M. Holman, *Do Reverse Payment Settlements Violate the Antitrust Laws?*, 23 SANTA CLARA COMPUTER & HIGH TECH. L.J. 489, 493 (2007) (analyzing the antitrust implications of reverse payment settlements); Herbert Hovenkamp et al., *Anticompetitive Settlement of Intellectual Property Disputes*, 87 MINN. L. REV. 1719, 1720 (2003) (suggesting a “way to reconcile the interests of IP law and antitrust law in evaluating IP settlements”). Given that the Supreme Court decided its first case involving a reverse payment just last year, see *FTC v. Actavis, Inc.*, 133 S. Ct. 2223, 2227 (2013), scholars will continue to explore this subject for the foreseeable future. See, e.g., Herbert Hovenkamp, *Anticompetitive Patent Settlements and the Supreme Court’s Actavis Decision*, 15 MINN. J.L. SCI. & TECH. 3, 3 (2014) (discussing the breadth of the *Actavis* opinion); Michael A. Carrier, *The U.S. Supreme Court Issues First Ruling on Antitrust Liability of Reverse-Payment Drug Patent Settlements (Actavis)*, E-COMPETITIONS BULL., July 17, 2013, at 1, available at <http://perma.cc/PH6B-CP28> (analyzing the *Actavis* opinion).

16. U.S. CONST. art. I, § 8, cl. 8.

17. See *infra* Part IV (contextualizing antisettlement arguments within a patent litigation framework).

18. See *Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found.*, 402 U.S. 313, 350 (1971) (holding that, once a patent is invalidated, nonmutual collateral estoppel prevents the patent owner from ever asserting it again).

accused infringer usually agrees to pay the patent owner, stipulates to the patent's validity, and promises not to challenge the patent in the future.<sup>19</sup> Even assuming such an agreement is in the best interests of the parties, it may undermine the public's interest by allowing a potentially invalid patent to remain intact.<sup>20</sup>

Yet despite these social welfare implications, courts at all levels encourage settlement of patent litigation. Courts achieve this through several means: individual trial judges pressure parties to settle, courts order parties to mandatory settlement conferences, and the Federal Circuit has developed a prosettlement jurisprudence that permeates the patent law.<sup>21</sup> Like ADR advocates, courts contend that settlement is the best way to resolve patent litigation because it promotes the public good by conserving valuable judicial time and resources.<sup>22</sup>

The answer to the question whether patent settlements serve the public interest, I believe, lies somewhere between these two positions. This Article therefore suggests that certain patent cases should be settled while others should be adjudicated to judgment.<sup>23</sup> I argue, in other words, "against settlement" of some patent cases. Of course, this sort of proposal raises obvious questions. Which patent cases should fall into the settlement camp and which should be adjudicated? Who should decide? How can private parties be prevented from settling a dispute? And even assuming some parties were forced to litigate, would the benefits really outweigh the costs?

This Article proceeds in six parts. Part II considers the vanishing of trials and the rise of settlement as the predominant means for resolving civil litigation in our federal courts. It introduces the long-running debate among scholars about the relative values of settlement and adjudication, highlighting Owen Fiss's famous essay *Against Settlement*.<sup>24</sup> This Part concludes with a discussion of the federal judge's evolving role from passive arbiter to case manager,

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19. See *infra* Part V.C (summarizing Federal Circuit case law that allows patent owners to force accused infringers to agree to "no-challenge" provisions in settlement agreements).

20. See, e.g., Michael A. Carrier, *Post-Grant Opposition: A Proposal and a Comparison to the America Invents Act*, 45 U.C. DAVIS L. REV. 103, 105 (2011) ("Inventions covered by valid patents could foster innovation. In contrast, invalid patents threaten to increase prices and limit competition without any countervailing benefits.").

21. See *infra* Part V (noting different steps courts have taken to foster patent settlements).

22. See, e.g., John H. Langbein, *The Disappearance of Civil Trial in the United States*, 122 YALE L.J. 522, 560 (2012) (discussing the role of "caseload pressures" in judicial promotion of settlement).

23. See *infra* Part VI (proposing that the trial judge act as protector of the public interest in deciding which patent cases should settle and which should be adjudicated).

24. Owen M. Fiss, *Against Settlement*, 93 YALE L.J. 1073, 1073 (1984).

noting concerns about judges who actively encourage—or sometimes even pressure—parties to settle.<sup>25</sup>

Part III turns to patents and surveys the landscape regarding patent litigation outcomes. After documenting the proliferation of patent litigation in the past decade or so, this Part summarizes various empirical data about how patent cases are resolved. Focusing on two particular studies, a number of conclusions are drawn. First, the vast majority of patent suits settle, whereas only a small percentage of cases proceed to trial.<sup>26</sup> Second, the patent cases most likely to settle involve the most litigated patents, defined as having been the subject of eight or more lawsuits.<sup>27</sup> Finally, and most relevant to the thesis of this Article, when cases involving the most litigated patents are adjudicated rather than settled, the patents are very likely to be invalidated.<sup>28</sup>

With these statistics in mind, Part IV explores the normative implications of the patent settlement phenomenon. It begins with the unremarkable proposition that the public is the intended primary beneficiary of the patent system, as the Constitution itself contemplates.<sup>29</sup> Part IV then contextualizes the antisettlement arguments of Fiss and other scholars within a patent litigation framework to evaluate whether patent settlements promote the public good. Considered from this social welfare perspective, settlement is not always the best way to resolve patent disputes because, among other reasons, it allows potentially invalid patents to remain in force.<sup>30</sup>

Part V turns to the role of the judiciary in patent settlements. Although certain patent settlements contravene the public interest, all evidence indicates that there is a strong judicial bias toward settlement of patent cases.<sup>31</sup> This Part explains why courts prefer patent cases to settle, and it catalogues the various mechanisms courts use to facilitate settlement outcomes.<sup>32</sup> Above all, it emphasizes the Federal Circuit's prosettlement case law, which infiltrates

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25. See *infra* Part II.C (discussing different approaches that federal courts take to settlement).

26. Kesan & Ball, *supra* note 3, at 272–74.

27. Allison et al., *supra* note 14, at 682, 689.

28. *Id.* at 687.

29. See U.S. CONST. art. I, § 8, cl. 8 (noting that patents are to “promote the Progress of Science and useful Arts”).

30. See *infra* Part IV (concluding that patent settlements create societal problems specifically by allowing potentially invalid patents to remain in force).

31. See, e.g., Herbert Hovenkamp, *Antitrust and Innovation: Where We Are and Where We Should Be Going*, 77 ANTITRUST L.J. 749, 753 (2011) (noting courts’ “strong preference that intellectual property disputes be settled”).

32. See *infra* Part IV (noting various means used by courts to achieve patent settlements).

doctrines ostensibly unrelated to patent law, including personal jurisdiction and discovery.<sup>33</sup> With this jurisprudential backdrop in place, it is the rare district judge who questions whether settlement of a particular patent case serves the public interest.

Part VI sets out a proposal for more adjudication and less settlement of patent cases. It argues that adjudication of certain types of patent cases will promote the public good by eradicating invalid patents. To that end, it suggests that, in patent litigation, trial judges serve as protectors of the public interest. Trial judges are well suited for this role because they regularly consider the public interest in deciding other patent law issues, such as whether to grant injunctive relief.<sup>34</sup> Next, this Part identifies three classes of patent suits that ought to be adjudicated rather than settled and then lays out some suggestions for how trial judges might encourage parties to litigate appropriate patent cases. These suggestions range from the modest (e.g., courts should stop pressuring patent litigants to settle) to the somewhat radical (e.g., courts could treat patent suits as “quasi-class actions,” thereby requiring court approval of any settlement agreement). This is not intended as an exhaustive list, but it provides courts with ideas for influencing litigation outcomes.

Finally, Part VII anticipates potential objections to this Article’s proposal—namely, that encouraging adjudication of patent suits will increase the workload for our already overburdened federal courts. While I concede that may be true in the short term, the long term effects of my proposal will actually reduce patent litigation in federal courts.

## II. CIVIL LITIGATION AND THE SETTLEMENT PHENOMENON

Historically, civil suits filed in federal court often ended with a trial. The 1980s marked the beginning of a sea change, however, and now federal civil trials are exceedingly rare.<sup>35</sup> While some of these untried cases are resolved through pretrial motions, the vast majority are settled out of court. Settlement advocates praise this trend because it not only saves money, time, and resources but also avoids

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33. See *In re MSTG, Inc.*, 675 F.3d 1337, 1339, 1345 (Fed. Cir. 2012) (holding that decision whether settlement negotiations are discoverable must take into account the policy of encouraging settlements); *Red Wing Shoe Co. v. Hockerson-Halberstadt, Inc.*, 148 F.3d 1355, 1360–61 (Fed. Cir. 1998) (holding that sending cease-and-desist letters to a forum state does not subject patent owner to personal jurisdiction because a contrary rule would deter settlement of patent disputes).

34. See, e.g., *eBay, Inc. v. MercExchange, LLC*, 547 U.S. 388, 391 (2006) (including public interest as a factor to consider in deciding whether to grant permanent injunction).

35. Galanter, *supra* note 6, at 462.



the dichotomy between winners and losers created by adjudication.<sup>36</sup> Yet from the beginning, critics like Owen Fiss have viewed this settlement phenomenon “as an evil, in social justice terms,”<sup>37</sup> because it favors parties with greater resources and achieves peace instead of justice.<sup>38</sup>

### A. *The “Vanishing Trial”*<sup>39</sup>

As a society, we tend to think of trial as the paradigm for civil dispute resolution.<sup>40</sup> Aggrieved individuals go to court and ask a neutral arbiter to decide whether they were wronged and if some sort of relief is justified. To that end, a trial is held where evidence is presented, the truth is revealed, a verdict is rendered, and justice is served.<sup>41</sup>

There was a time when this paradigm better reflected reality—when a good number of tort, contract, and civil rights disputes were resolved by trial.<sup>42</sup> But that is no longer true. In 1962, federal courts conducted 5,802 civil trials (including both jury and bench trials), which constituted 11.5% of all dispositions.<sup>43</sup> Within just twenty years, however, that number was cut almost in half, with only 6.1% of cases ending in a trial.<sup>44</sup> And today, civil trials have all but disappeared, with federal courts disposing of barely 1% of all civil cases through trial.<sup>45</sup> So what is the explanation for this dramatic decline?

One reason civil trials are vanishing is because federal courts are much more likely to dispose of suits through pretrial motions than

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36. John Bronsteen, *Against Summary Judgment*, 75 GEO. WASH. L. REV. 522, 522–23 (2007).

37. Robert A. Baruch Bush & Joseph P. Folger, *Mediation and Social Justice: Risks and Opportunities*, 27 OHIO ST. J. ON DISP. RESOL. 1, 6 (2012).

38. Fiss, *supra* note 24, at 1075–76.

39. Galanter, *supra* note 6, at 459.

40. Janet Cooper Alexander, *Do the Merits Matter? A Study of Settlements in Securities Class Actions*, 43 STAN. L. REV. 497, 498 (1991).

41. Galanter & Cahill, *supra* note 3, at 1341 (“The popular wisdom about civil justice perceives courts as resolving cases by adjudication . . .”); David P. Leonard, *The Use of Character to Prove Conduct: Rationality and Catharsis in the Law of Evidence*, 58 U. COLO. L. REV. 1, 4–5 (1986) (discussing “society’s dominant paradigm of the modern trial, the paradigm of rational truth-seeking”).

42. Galanter, *supra* note 6, at 462–63. In 1936, one-fifth of all federal civil cases were resolved through trial. See Stephen C. Yeazell, *The Misunderstood Consequences of Modern Civil Process*, 1994 WIS. L. REV. 631, 633 n.3 (discussing a 19% rate during 1936).

43. Galanter, *supra* note 6, at 462. Although state court trials are also in sharp decline, this Article will focus on the phenomenon in federal court because federal courts have exclusive jurisdiction over patent disputes. See 28 U.S.C. § 1338(a) (2012).

44. Galanter, *supra* note 6, at 417.

45. Galanter & Frozena, *supra* note 5, at 1, 6–7.

in the past.<sup>46</sup> Two important factors have contributed to this paradigm shift. The first was the 1938 promulgation of the Federal Rules of Civil Procedure, which introduced the concept of broad discovery and allowed litigants to learn crucial facts and assess the prospects of a case before trial.<sup>47</sup> The second occurred in the mid-1980s when the Supreme Court decided a trilogy of cases that invigorated the summary judgment motion.<sup>48</sup> Thus, over the past twenty-five years, defendants have effectively used information gathered during discovery to move for summary judgment and dispose of cases before trial.<sup>49</sup>

More recently, the Supreme Court has revamped the law on pleading, making it much more difficult for plaintiffs to survive a motion to dismiss for failure to state a claim.<sup>50</sup> This heightened pleading standard provides defendants with another tool to avoid the risks of trial.<sup>51</sup> Even better for defendants, a successful motion to dismiss saves the costs of protracted and expensive discovery.<sup>52</sup> It is no

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46. Arthur R. Miller, *McIntyre in Context: A Very Personal Perspective*, 63 S.C. L. REV. 465, 469 (2012) (discussing the “procedural changes effected by the Supreme Court that have resulted in the earlier and earlier disposition of litigation and impaired a citizen’s opportunity for a meaningful adjudication of his or her grievances”); Yeazell, *supra* note 42, at 632–33 (“Civil process based on the Federal Rules of Civil Procedure has largely replaced trial with motions.”).

47. See Langbein, *supra* note 22, at 522 (noting the shifts in pretrial procedure caused by the Federal Rules of Civil Procedure); Yeazell, *supra* note 42, at 632–39 (discussing the role of the Federal Rules of Civil Procedure in the decline of trials).

48. Miller, *supra* note 46, at 470; see *Celotex Corp. v. Catrett*, 477 U.S. 317, 322–23 (1986) (holding that summary judgment is warranted if the moving party can show that the opposing party lacks sufficient evidence to establish an essential element of its case); *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 254–56 (1986) (articulating a “reasonable jury” standard for granting summary judgment); *Matsushita Elec. Indus. Co. v. Zenith Radio Corp.*, 475 U.S. 574, 585–88 (1986) (holding that a party whose claim is rendered implausible by factual circumstances must make a greater evidentiary showing to survive summary judgment).

49. See Miller, *supra* note 46, at 469–70 (noting the “earlier disposition of litigation” resulting from procedural shifts brought about by Supreme Court decisions). Although summary judgment is theoretically party neutral, in practice, defendants are the real beneficiaries of summary judgment. Bronsteen, *supra* note 36, at 523 n.10; see also Stephen B. Burbank, *Vanishing Trials and Summary Judgment in Federal Civil Cases: Drifting Toward Bethlehem or Gomorrah?*, 1 J. EMPIRICAL LEGAL STUD. 591, 616 (2004) (finding that in each fiscal year from 2000 to 2003, a majority of the motions for summary judgment granted by judges in the Eastern District of Pennsylvania favored defendants).

50. See *Ashcroft v. Iqbal*, 556 U.S. 662, 678–79 (2009) (affirming the *Twombly* standard for satisfying Federal Rule of Civil Procedure 8(a)(2)); *Bell Atlantic Corp. v. Twombly*, 550 U.S. 544, 570 (2007) (holding that a plaintiff must plead “enough facts to state a claim to relief that is plausible on its face” to satisfy Federal Rule of Civil Procedure 8(a)(2)).

51. See Miller, *supra* note 46, at 472–73 (discussing the impact of the heightened pleading standard formulated in *Twombly* and *Iqbal*).

52. See, e.g., Thomas A. Lambert, *The Roberts Court and the Limits of Antitrust*, 52 B.C. L. REV. 871, 917 (2011) (discussing the cost savings produced by the *Twombly* standard).

wonder that motions to dismiss are being filed and granted at a higher rate than before.<sup>53</sup>

Yet the primary cause of the “vanishing trial” is settlement. It is an axiom of civil litigation that most cases settle.<sup>54</sup> While this has always been true, the trend toward settlement has gathered significant momentum in the past quarter century, thanks in large part to support from legal academics in two distinct fields: ADR and law and economics.<sup>55</sup> ADR advocates argue that settlements achieve higher-quality solutions than adjudication because they “can be tailored to the parties’ polycentric needs” and leave parties more satisfied than the “binary, win/lose results” of trial.<sup>56</sup> Law and economics scholars, by contrast, favor settlement as a cost-effective alternative to adjudication.<sup>57</sup> In addition to saving the parties’ time and money, settlement benefits courts by easing crowded dockets and preserving limited judicial resources.<sup>58</sup>

Not everyone extols the virtues of settlement, however. This settlement phenomenon has spawned a vast critical literature, with many commentators, including a few jurists, wading into the debate.<sup>59</sup> While scholars like Owen Fiss oppose settlement altogether, most have taken a more moderate stance by focusing their criticism on certain aspects of the trend away from adjudication.

### *B. Criticism of the Settlement Phenomenon*

Civil disputes have always been settled out of court. What has changed in the past half century, though, is the number of settlements

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53. Raymond H. Brescia, *The Iqbal Effect: The Impact of New Pleading Standards in Employment and Housing Discrimination Litigation*, 100 KY. L.J. 235, 241 (2011); Patricia W. Hatamyar, *The Tao of Pleading: Do Twombly and Iqbal Matter Empirically?*, 59 AM. U. L. REV. 553, 582, 615 (2010).

54. Galanter & Cahill, *supra* note 3, at 1339; *see also* J. Maria Glover, *The Federal Rules of Civil Settlement*, 87 N.Y.U. L. REV. 1713, 1718–25 (2012) (discussing various factors that have contributed to the decline of civil trials).

55. Bronsteen, *supra* note 36, at 522–23.

56. *E.g.*, Carrie Menkel-Meadow, *For and Against Settlement: Uses and Abuses of the Mandatory Settlement Conference*, 33 UCLA L. REV. 485, 487 (1985); *see also* Andrew W. McThenia & Thomas L. Shaffer, *For Reconciliation*, 94 YALE L.J. 1660, 1664 (1985) (“Settlement is a process of reconciliation in which the anger of broken relationships is to be confronted rather than avoided, and in which healing demands not a truce but confrontation.”).

57. *See* George L. Priest & Benjamin Klein, *The Selection of Disputes for Litigation*, 13 J. LEGAL STUD. 1, 4 (1984) (describing the economic determinants of settlement).

58. *See infra* Part V (demonstrating that courts consistently encourage settlement of patent disputes).

59. *See infra* Section II.B (summarizing scholarly criticism of the settlement phenomenon).

on both a relative and absolute scale.<sup>60</sup> With the growth and increasing prominence of settlement has come greater scrutiny.

Owen Fiss provided one of the earliest and most influential critiques of the ADR movement in his famous essay *Against Settlement*. At bottom, Fiss opposes settlement because it achieves peace rather than justice.<sup>61</sup> In his view, the primary purpose of civil litigation is not to resolve discrete private disputes but to serve the public good by explicating common values and norms.<sup>62</sup> When cases settle, “[t]his duty is not discharged.”<sup>63</sup> By way of example, Fiss posits that, if *Brown v. Board of Education* had settled, there would be peace between the parties; yet a settlement would not have achieved justice, meaning racial equality.<sup>64</sup>

Fiss also condemns settlement because the distribution of power and resources between the parties often is unequal.<sup>65</sup> Poorer parties may not have access to the information they need to accurately predict the outcome of litigation, so they will be at a disadvantage in the bargaining process.<sup>66</sup> In these circumstances, civil litigants are coerced to settle much like indigent criminal defendants are forced to plea bargain.<sup>67</sup> And when settlement is coerced, justice is not served.<sup>68</sup>

While Fiss has been the boldest critic of settlement, he certainly is not alone. Settlement draws fierce criticism for removing litigation from the public realm and depriving society of much-needed

60. See Galanter & Frozena, *supra* note 5, at 1 (noting the decline over the past fifty years in the percentage of civil cases ending in trial); Galanter, *supra* note 6, at 459 (noting the decline in both the percentage and absolute number of cases ending in trial).

61. Fiss, *supra* note 24, at 1085–86.

62. *Id.* at 1085; see also Owen M. Fiss, *The History of an Idea*, 78 *FORDHAM L. REV.* 1273, 1277 (2009) (“Justice is a public good, objectively conceived, and is not reducible to the maximization of the satisfaction of the preferences of the contestants, which, in any event, are a function of the deplorable character of the options available to them.”); David Luban, *Settlements and the Erosion of the Public Realm*, 83 *GEO. L.J.* 2619, 2639 (1995) (“To the extent that out-of-court settlements are based on bargaining power and negotiation skills, facts lose their importance to the outcome, and the outcome will resemble legal justice only coincidentally.”); Rex R. Perschbacher & Debra Lyn Bassett, *The End of Law*, 84 *B.U. L. REV.* 1, 14 (2004) (“The view of ‘law’ as little more than a process for resolving disputes removes its normative content and force, and diminishes law’s significance in ordering society.”).

63. Fiss, *supra* note 24, at 1085.

64. See *id.* (“The settlement of a school suit might secure the peace, but not racial equality.”).

65. *Id.* at 1076 (“[S]ettlement is . . . a function of the resources available to each party to finance the litigation, and those resources are frequently distributed unequally.”).

66. *Id.*

67. *Id.* at 1075.

68. *Id.*

decisional law.<sup>69</sup> Decisional law is vital because it guides courts on similar issues, influences future conduct, and contributes to social debate.<sup>70</sup> Without judicial precedent, laws and policies remain in flux, behavioral outcomes cannot be predicted, and the potential for repetitive litigation increases.<sup>71</sup> So ironically, “adjudication may often prove superior to settlement for securing peace because the former, unlike the latter, creates rules and precedents.”<sup>72</sup>

Another reason scholars have denounced settlement is because it is shrouded in secrecy.<sup>73</sup> Unlike adjudication, the outcome of which is available to the general public, settlements are usually confidential, so that only the parties know the terms of the agreement.<sup>74</sup> Defendants often demand secrecy and are willing to pay a high price for it in order to avoid negative publicity and future lawsuits.<sup>75</sup> Plaintiffs too may rely on confidentiality provisions to prevent the disclosure of sensitive information or to keep the amount of the settlement private.<sup>76</sup> Though secrecy may serve the litigants well, the public pays the price. A secret settlement in a products liability case, for instance, could conceal crucial health and safety information from the public.<sup>77</sup> Moreover, by keeping settlements confidential, parties

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69. Luban, *supra* note 62, at 2622–23; Jules Coleman & Charles Silver, *Justice in Settlements*, 4 SOC. PHIL. & POL'Y 102, 114–19 (1986); Jill E. Fisch, *Rewriting History: The Propriety of Eradicating Prior Decisional Law Through Settlement and Vacatur*, 76 CORNELL L. REV. 589, 589 (1991); Perschbacher & Bassett, *supra* note 62, at 21.

70. Luban, *supra* note 62, at 2622; Judith Resnik, *Courts: In and Out of Sight, Site, and Cite*, 53 VILL. L. REV. 771, 804 (2008); W. Mark C. Weidemaier, *Judging-Lite: How Arbitrators Use and Create Precedent*, 90 N.C. L. REV. 1091, 1123 (2012).

71. Luban, *supra* note 62, at 2622–23; Perschbacher & Bassett, *supra* note 62, at 19.

72. Luban, *supra* note 62, at 2623.

73. See, e.g., Laurie Kratky Dore, *Secrecy by Consent: The Use and Limits of Confidentiality in the Pursuit of Settlement*, 74 NOTRE DAME L. REV. 283, 285 (1999) [hereinafter Dore, *Secrecy by Consent*] (noting that settlements are often conditioned upon confidentiality agreements that prohibit disclosure of the terms and amount of the settlement); Erik S. Knutsen, *Keeping Settlements Secret*, 37 FLA. ST. U. L. REV. 945, 946 (2010) (“The vast majority of cases that settle require as a condition of settlement that the litigating parties keep some aspect of the settlement a secret.”); Luban, *supra* note 62, at 2648–49 (arguing that “the widespread practice of secret settlements carves out an unacceptable area of exceptions to democratic publicity”); see also Laurie Kratky Dore, *Public Courts Versus Private Justice: It’s Time to Let Some Sun Shine in on Alternative Dispute Resolution*, 81 CHI.-KENT L. REV. 463, 463 (2006) (“Since the early to mid-1990s, the issue of secrecy in litigation has attracted nationwide attention and has generated a literal mountain of commentary.”).

74. The obvious exception to this is class action settlements, which must be approved by the court and made available to the public. See FED. R. CIV. P. 23(e).

75. Knutsen, *supra* note 73, at 951.

76. *Id.* at 952–53.

77. See Bill Lockyer, *Sunshine in the Courts: The Need to Limit Secrecy Agreements that Hide Information on Hazards*, 20 Prod. Safety & Liab. Rep. (BNA) No. 47, pt. II, at 40, 43 (Nov. 27, 1993) (discussing secret settlements involving breast implants, heart valves, and asbestos).

are able to pass losses onto the consuming public or take other actions that shift the burden to innocent third parties.<sup>78</sup>

Critics also contend that settlement should be curbed because it can leave parties dissatisfied with the outcome of their lawsuit. A commonly heard cliché is that successful settlements make everyone unhappy.<sup>79</sup> Yet in many cases, party dissatisfaction is not a sign of a fair, mutually derived compromise but instead reflects “the parties’ relative stamina and vulnerability to the pressures of a prolonged dispute.”<sup>80</sup> In other words, despite serious reservations about a settlement’s terms, parties will nevertheless agree because they feel extreme logistical pressure to end the case.<sup>81</sup>

### C. Judicial Encouragement of Settlement

In addition to settlement critics, there is a group of scholars who accept that settlement will play some role in our civil justice system<sup>82</sup> but question the participation of federal judges in that process. Traditionally, civil litigation was “party-initiated” and “party-controlled,”<sup>83</sup> and judges were expected to remain passive and disengaged in order to ensure fairness and impartiality.<sup>84</sup> That began to change as federal dockets exploded and judges took on new case management responsibilities.<sup>85</sup>

Unlike their predecessors, “managerial judges” are not simply neutral adjudicators. They participate in every phase of the litigation, acting as schedulers, planners, mediators, and negotiators.<sup>86</sup> The managerial judge’s main objective is to control the calendar and

78. Luban, *supra* note 62, at 2626.

79. Carrie Menkel-Meadow, *Ethics and the Settlements of Mass Torts: When the Rules Meet the Road*, 80 CORNELL L. REV. 1159, 1211 n.221 (1995); Dev. K. Sethi, *Mediation & Settlement Conferences: A Practical View from the Plaintiff’s Perspective*, ARIZ. ATT’Y, Oct. 2007, at 36, 39 (“You know it’s a good settlement when everyone walks away unhappy.”).

80. Howard S. Erlanger et al., *Participation & Flexibility in Informal Process: Cautions from the Divorce Context*, 21 LAW & SOC’Y REV. 585, 592 (1987).

81. Galanter & Cahill, *supra* note 3, at 1353 (“[W]e have heard a litany of complaints from insurers and corporate and governmental defendants, telling us how they were forced into nuisance settlements or very large settlements that were not deserved.”).

82. Dore, *Secrecy by Consent*, *supra* note 73, at 294 (“Even the staunchest defenders of adjudication . . . grudgingly acknowledge that settlement will remain a permanent fixture of the litigation landscape.”); Glover, *supra* note 54, at 1725 (“Settlement is here to stay.”).

83. Abram Chayes, *The Role of the Judge in Public Law Litigation*, 89 HARV. L. REV. 1281, 1283 (1976).

84. Judith Resnik, *Managerial Judges*, 96 HARV. L. REV. 374, 376 (1982).

85. *Id.* at 378; Marc Galanter, *The Emergence of the Judge as a Mediator in Civil Cases*, 69 JUDICATURE 257, 257 (1986); Menkel-Meadow, *supra* note 56, at 490.

86. Resnik, *supra* note 84, at 379.

docket,<sup>87</sup> and the surest way to accomplish that is by persuading litigants to settle.<sup>88</sup>

To this end, federal judges take myriad approaches to settlement.<sup>89</sup> At one end of the spectrum are judges who become intimately involved in settling the cases assigned to them for trial.<sup>90</sup> These judges intervene to facilitate settlement, either subtly “through the use of cues/suggestions,” or aggressively “through the use of direct pressure.”<sup>91</sup> For example, one federal judge admits to taking the following tack at the pretrial conference in personal injury cases: “I look at the doctors’ reports—just the last paragraph, where they show the extent of injury . . . I tell [the lawyers], ‘this case is worth \$20,000 for the settlement,’ and I tell them why; and I tell them further to go tell their clients that I said so.”<sup>92</sup> Interventionist judges might also conduct settlement conferences, broker deals, or even have the final say on whether the settlement is acceptable.<sup>93</sup>

Other federal judges take a more hands-off approach to settlement. This type of jurist discusses settlement with the parties at certain pretrial conferences as required by the Federal Rules.<sup>94</sup> She may also ask the parties to keep her apprised of developments regarding settlement, gently prod the parties to continue settlement discussions if they reach an impasse, or set a firm trial date.<sup>95</sup> But that’s probably it. That said, the usual reason these judges remain

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87. Kimba Wood & Charles Brieant, *On Judging Today in District Courts*, FED. LAW., May 2007, at 20, 22 (“The modern judge is quickly becoming a slave to statistics.”).

88. *Id.*; Michael Moffitt, *Three Things to Be Against (“Settlement” Not Included)*, 78 FORDHAM L. REV. 1203, 1210 (2009) (“The most conspicuous of settlement’s contributions to modern litigation is its capacity to reduce the number of cases demanding judicial resources and attention.”).

89. Peter Robinson, *An Empirical Study of Settlement Conference Nuts and Bolts: Settlement Judges Facilitating Communication, Compromise and Fear*, 17 HARV. NEGOT. L. REV. 97, 98 (2012).

90. Galanter, *supra* note 6, at 462.

91. Galanter & Cahill, *supra* note 3, at 1342; Perschbacher & Bassett, *supra* note 62, at 25 (“Judges may use heavy-handed pressure to urge parties to settle.”).

92. J. Skelly Wright, *The Pretrial Conference*, 28 F.R.D. 37, 145 (1962).

93. Peter H. Schuck, *The Role of Judges in Settling Complex Cases: The Agent Orange Example*, 53 U. CHI. L. REV. 337, 337 (1986); Jack B. Weinstein, *Comments on Owen M. Fiss, Against Settlement (1984)*, 78 FORDHAM L. REV. 1265, 1268 (2009) (arguing that settlement in the Agent Orange case was essential).

94. See FED. R. CIV. P. 16(a) (stating that one purpose of the pretrial conference is to facilitate settlement).

95. See Galanter & Cahill, *supra* note 3, at 1340–41 (arguing that judges promote settlement at pretrial conferences).

hands-off is not because they are per se opposed to settlement; rather, they view ADR as outside the scope of judicial expertise.<sup>96</sup>

Whatever their level of involvement, virtually all federal judges agree that settlement is a good thing to be encouraged and facilitated.<sup>97</sup> Yet allowing judges to promote settlement raises a number of concerns.<sup>98</sup> For one, it provides greater opportunities for federal district judges—who are already quite powerful—to abuse their positions of authority.<sup>99</sup> Not only do these judges dictate the pretrial schedule and control all phases of the litigation, but they can exert extreme pressure on parties to settle.<sup>100</sup> As a supposedly neutral authority figure, parties tend to afford undue weight to a judge's assessment of the strengths or weaknesses of a claim.<sup>101</sup> In this way, judges are able to coerce settlements. What is more, these settlement

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96. *Id.* at 1344 (explaining that judges stay out of settlement based on perception of their own negotiating skills); Brian J. Shoot & Christopher T. McGrath, “Don’t Come Back Without a Reasonable Offer”—*Surprisingly Little Direct Authority Guides How Judges Can Move Parties*, N.Y. ST. B.A. J., May 2004, at 28, 33:

[M]ost of the judges who adopt a ‘hands-off’ posture to settlements do so not as a result of legal or ethical misgivings, but instead for the simpler reason that they do not *like* to do so and do not see ‘brokering’ or mediating as part of the job description of a New York Supreme Court justice.

97. Robinson, *supra* note 89, at 98; Galanter, *supra* note 85, at 261; Galanter & Cahill, *supra* note 3, at 1346. A few federal judges have gone on the record questioning the conclusion that settlement is always the best result. *See, e.g.*, James E. Gritzner, *In Defense of the Jury Trial: ADR Has Its Place, But It Is Not the Only Place*, 60 DRAKE L. REV. 349, 349–54 (2012) (arguing that we should curb the increasing trend towards ADR); Robert F. Peckham, *The Federal Judge as a Case Manager: The New Role in Guiding a Case from Filing to Disposition*, 69 CALIF. L. REV. 770, 773 (1981) (“While few judges wish to force unwilling parties to settle, many judges believe that the promotion of informed and fair settlements is one of the most important aims of pretrial management.”); Wood & Briant, *supra* note 87, at 22 (“I submit to you that we have lost something when we have become too preoccupied with case management, caseload numbers, and institutional pressures to settle cases, which may be counterproductive with respect to the administration of justice.”).

98. *See, e.g.*, Resnik, *supra* note 84, at 424–31 (arguing that “the growth of federal judges’ interest in [judicial] management has coincided with their articulation of due process values, their emphasis on the relationship between procedure and just decisionmaking”).

99. *Id.* at 425–26; David Shapiro, *Federal Rule 16: A Look at the Theory and Practice of Rulemaking*, 137 U. PA. L. REV. 1969, 1995 (1989) (“Judges are human and humans tend to abuse power when they have it; Rule 16 is surely no exception.”); Yeazell, *supra* note 42, at 647 (“[C]ontrol of litigation has moved further down the legal food chain—from appellate to trial courts . . .”).

100. *See* Lucy V. Katz, *Compulsory Alternative Dispute Resolution and Voluntarism: Two-Headed Monster or Two Sides of the Coin?*, 1993 J. DISP. RESOL. 1, 16 (stating that judicial pressure to settle can be “intense”); Blake D. Morant, *The Declining Prevalence of Trials as a Dispute Resolution Device: Implications for the Academy*, 38 WM. MITCHELL L. REV. 1123, 1127 (2012) (noting that some courts sanction parties who fail to accept a settlement or reach a settlement by a court-imposed deadline); Schuck, *supra* note 93, at 359–61 (suggesting that judges may coerce parties into settlement through overreaching).

101. Perschbacher & Bassett, *supra* note 62, at 25.



discussions usually take place off the record, so judicial acts taken in furtherance of settlement are sheltered from public scrutiny and beyond the reach of appellate review.<sup>102</sup>

An equally weighty concern that the judiciary's involvement in settlement creates is the threat it poses to impartiality.<sup>103</sup> The Supreme Court has consistently held that a judge must be impartial, meaning he has no prior involvement or interest in the dispute.<sup>104</sup> In the pursuit of settlement, however, judges become "involved" in cases: they gather information about the claims and defenses while interacting with the litigants on a regular basis.<sup>105</sup> Consequently, judges may develop intense feelings of admiration or antipathy for the parties and their lawyers, and they may form false impressions about the merits of the case.<sup>106</sup> This can become a real problem if the parties fail to settle; by the time the case reaches trial, the judge may favor one side and therefore no longer be an impartial decisionmaker.

Academic criticisms aside, settlement remains the norm in federal civil litigation today. Lawsuits are filed in order to facilitate settlement, and cases that go to trial are aberrations. Patent litigation, which has been on the rise in recent years, is no exception to the general trend.

### III. THE SETTLEMENT PHENOMENON IN PATENT LITIGATION

The purpose of our patent system, as set forth in the Constitution, is to benefit the public by "promot[ing] the Progress of Science and useful Arts."<sup>107</sup> Patents promote innovation by rewarding inventors of new and useful technologies with limited periods of exclusivity to practice (or license) their inventions.<sup>108</sup> In the event this right of exclusivity is violated, a patent owner may enforce his rights in federal court by suing for infringement.<sup>109</sup>

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102. *Id.*; Resnik, *supra* note 84, at 425–26.

103. Resnik, *supra* note 84, at 426–31.

104. *See, e.g.*, *Ward v. Village of Monroeville*, 409 U.S. 57, 59 (1972) (holding that a city mayor cannot serve as an impartial judge because of the possible conflict with his executive interests); *Goldberg v. Kelly*, 397 U.S. 254, 271 (1970) (holding that an impartial decisionmaker is "essential").

105. *See* Resnik, *supra* note 84, at 427; Shapiro, *supra* note 99, at 1995–96.

106. Resnik, *supra* note 84, at 425 (explaining that some of the impressions the judge forms could be based on a lawyer's inaccurate, incomplete, or misleading statements during settlement talks).

107. U.S. CONST. art. I, § 8, cl. 8.

108. *See* 35 U.S.C. § 154 (2012) (outlining a patent term of twenty years).

109. *Id.* § 271. Federal courts have exclusive jurisdiction over patent cases. *Id.* § 1338.

Unlike other areas of complex civil litigation, patent suits involve a fairly uniform set of claims. In virtually all patent cases, the patent owner alleges patent infringement, and the alleged infringer denies that charge and also claims the patent is invalid, meaning the U.S. Patent and Trademark Office (“PTO”) erred in deciding that the invention was patentable.<sup>110</sup> While there can be some variation in the posture of the suit—for example, it is sometimes the alleged infringer who initiates the litigation as a declaratory judgment action rather than the patent owner as an infringement action—the same issues are at stake in most patent cases.<sup>111</sup>

Typically in patent litigation, both parties have something to lose. If the alleged infringer is held liable, the potential remedies include an injunction, treble damages, and even attorneys’ fees in some cases.<sup>112</sup> On the flip side, the patent owner faces the possibility that the court will render its patent(s) invalid.<sup>113</sup> With so much at stake, patent litigation (much like other types of civil litigation) usually resolves through settlement.<sup>114</sup> In the past, when patent litigation affected limited industries, the dangers that patent settlements posed were minimal. But there has been an explosion of patent litigation and, consequently, patent settlements in recent years.<sup>115</sup>

### A. *The Rise of Patent Litigation*

There was a time when patents and the litigation surrounding patents were considered somewhat obscure, affecting only narrow sectors of the economy. But that has changed. Today, patents matter

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110. See Lisa A. Dolak, *Power or Prudence: Toward a Better Standard for Evaluating Patent Litigants’ Access to the Declaratory Judgment Remedy*, 41 U.S.F. L. REV. 407, 410 (2007) (“[M]ost commonly, infringement defendants request judgment on the ground that the patent at issue is invalid, unenforceable, and/or not infringed.”). Issued patents are presumed valid, but their validity can be challenged in federal court. See 35 U.S.C. § 282.

111. See, e.g., Chester S. Chuang, *Offensive Venue: The Curious Use of Declaratory Judgment to Forum Shop in Patent Litigation*, 80 GEO. WASH. L. REV. 1065, 1065 (2012) (noting that alleged infringers often file declaratory judgment actions to forum shop).

112. See Tom Ewing & Robin Feldman, *The Giants Among Us*, 2012 STAN. TECH. L. REV. 1, 119 (discussing the need to calculate risk of damages and injunctions in deciding whether to litigate).

113. See *Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found.*, 402 U.S. 313, 350 (1971) (holding that, once a patent is invalidated, nonmutual collateral estoppel prevents the patent owner from ever asserting it again).

114. See Kesan & Ball, *supra* note 3, at 272 (“[T]he vast majority of cases settle.”); Marketa Trimble, *When Foreigners Infringe Patents: An Empirical Look at the Involvement of Foreign Defendants in Patent Litigation in the U.S.*, 27 SANTA CLARA COMPUTER & HIGH TECH. L.J. 499, 519 (2011) (“[M]ost patent cases end in settlement . . .”).

115. JAMES BESSEN & MICHAEL J. MEURER, *PATENT FAILURE* 127 (2008).

to companies across the globe in a cross section of industries. The number of patents issued by the PTO increased fivefold between 1963 and 2011.<sup>116</sup> Even more dramatic is the rise in patent litigation, with ten times more patent suits filed in U.S. federal courts in 2006 than in 1990.<sup>117</sup> Indeed, the rate of patent lawsuits is rising faster than any other type of civil litigation.<sup>118</sup>

There are various explanations for this rise. One is that the more patents the PTO issues, the more lawsuits that will be filed.<sup>119</sup> Yet other less apparent factors have contributed to the increase of patent litigation as well. Some point the finger at patent-assertion entities, whose business model is based exclusively on procuring and enforcing patents.<sup>120</sup> Others blame plaintiffs' lawyers who turned to patent litigation in the face of a successful tort reform movement.<sup>121</sup> Whatever the cause, the end result is that there are thousands of patent cases filed in federal court every year. The next Section discusses how those cases are usually resolved.

### *B. How Patent Cases Are Resolved*

The empirical evidence indicates that very few civil cases filed in federal court these days end in trial. In 2011, for example, just over 1% of federal civil actions were tried before a judge or a jury.<sup>122</sup> That does not mean the rest of the cases settled, however. Rather, a significant portion of cases are disposed of through pretrial motions to dismiss and for summary judgment.<sup>123</sup> Still, at the end of the day, it remains true that most civil cases are settled.<sup>124</sup>

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116. ELEC. INFO. PRODS. DIV. & PATENT TECH. MONITORING TEAM, U.S. PATENT & TRADEMARK OFFICE, U.S. PATENT STATISTICS [hereinafter U.S. PATENT STATISTICS], available at <http://perma.cc/5WQL-RXSP>; see also Michael D. Frakes & Melissa F. Wasserman, *Does Agency Funding Affect Decisionmaking?: An Empirical Assessment of the PTO's Granting Patterns*, 66 VAND. L. REV. 67, 70 (2013) (arguing that the PTO's fee structure biases the agency toward granting patents).

117. BESSEN & MEURER, *supra* note 115, at 127–28.

118. Andrew Beckerman-Rodau et al., *The New Private Ordering of Intellectual Property: The Emergence of Contracts as the Drivers of Intellectual Property Rights*, 4 J. BUS. & TECH. L. 5, 31 n.69 (2009).

119. See BESSEN & MEURER, *supra* note 115, at 127–28 (discussing the steady increase in patent litigation); U.S. PATENT STATISTICS, *supra* note 115 (illustrating the dramatic increase in the number of patents issued by the PTO).

120. Michael Risch, *Patent Troll Myths*, 42 SETON HALL L. REV. 457, 459 (2012).

121. Xuan-Thao Nguyen, *The China We Hardly Know: Revealing the New China's Intellectual Property Regime*, 55 ST. LOUIS U. L.J. 773, 776 n.20 (2011).

122. Galanter & Frozena, *supra* note 5, at 3.

123. See, e.g., Bronsteen, *supra* note 36, at 522 (characterizing summary judgment as an increasingly popular form of dispute resolution); Martin H. Redish, *Summary Judgment and the Vanishing Trial: Implications of the Litigation Matrix*, 57 STAN. L. REV. 1329, 1330 (2005)

Based on this general data about federal civil litigation, one could extrapolate that the majority of patent cases likewise are settled. Fortunately, though, the explosion of patent litigation has given birth to an important body of empirical literature, so it is not necessary to rely on extrapolation. For example, scholars have gathered and analyzed data concerning various substantive patent law issues,<sup>125</sup> the types of patents that tend to be enforced,<sup>126</sup> and the length and cost of patent litigation.<sup>127</sup> Of course, the studies most relevant to this Article investigate the resolution of patent cases and the settlement of patent suits in particular.

The most comprehensive study to date on how litigants resolve patent disputes was conducted by Jay Kesan and Gwendolyn Ball.<sup>128</sup> Focusing on the dockets of federal district courts in three separate years—1995, 1997, and 2000—Kesan and Ball culled data from approximately 6,300 patent cases nationwide.<sup>129</sup> They then examined the case histories in great detail in order to determine how each case ultimately was resolved.

Having recorded and studied the data, Kesan and Ball then drew several conclusions. They first found that 18–20% of cases were

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(explaining that changes in summary judgment law and vigorous enforcement will result in fewer trials taking place).

124. Galanter & Cahill, *supra* note 3, at 1339.

125. See, e.g., John R. Allison & Mark A. Lemley, *Empirical Evidence on the Validity of Litigated Patents*, 26 AIPLA Q.J. 185, 208–10 (1998) (explaining that the nonobviousness requirement is responsible for invalidating more patents than any other patent rule); Glynn S. Lunney, Jr., *Patent Law, the Federal Circuit, and the Supreme Court: A Quiet Revolution*, 11 SUP. CT. ECON. REV. 1 (2003) (finding that, since the creation of the Federal Circuit, patent owners are more likely to lose on infringement than validity grounds); David L. Schwartz, *Practice Makes Perfect? An Empirical Study of Claim Construction Reversal Rates in Patent Cases*, 107 MICH. L. REV. 223, 223 (2008) (examining whether U.S. district court judges improve their skills at patent claim construction with experience, such as having their cases reviewed on appeal).

126. See, e.g., John R. Allison et al., *Valuable Patents*, 92 GEO. L.J. 435, 438 (2004) [hereinafter Allison et al., *Valuable Patents*] (describing the characteristics of litigated patents); John R. Allison et al., *Extreme Value or Trolls on Top? The Characteristics of the Most-Litigated Patents*, 158 U. PA. L. REV. 1, 3 (2009) (“[T]he most-litigated patents are far more likely to be software and telecommunications patents, not mechanical or other types of patents.”); Colleen V. Chien, *Predicting Patent Litigation*, 90 TEX. L. REV. 283, 287–88 (2011) (examining both intrinsic and acquired characteristics of patents).

127. See, e.g., James Bessen & Michael J. Meurer, *The Direct Costs from NPE Disputes*, 99 CORNELL L. REV. (forthcoming 2014) (manuscript at 3, 8, 11), available at <http://perma.cc/S557-SQTE> (asserting that an “explosion” in patent litigation initiated by “Non-Practicing Entities (NPEs)” imposes substantial direct costs on inventors); James E. Bessen & Michael J. Meurer, *The Private Costs of Patent Litigation 2* (Bos. Univ. Sch. of Law, Law & Econ. Working Paper No. 07-08, 2008), available at <http://perma.cc/JC5M-NPDE> (finding the expected joint loss to the litigating parties is large, despite the fact that most patent lawsuits settle short of trial).

128. Kesan & Ball, *supra* note 3.

129. *Id.* at 259–61.

resolved through nonmerit dispositions, including dismissals for lack of jurisdiction and default judgments.<sup>130</sup> On the other hand, 11–16% of the cases ended in a decision on the merits.<sup>131</sup> Most of the rulings on the merits resulted from summary judgment motions (7–8%), however, not trials; only between 1–5% percent of patent cases end in trial.<sup>132</sup> While those numbers are low, patent cases are still more likely to reach trial than other types of civil suits, perhaps because of the high stakes involved.<sup>133</sup>

So what happens to the rest of the patent disputes? Not surprisingly, Kesan and Ball found that the vast majority of patent cases settled.<sup>134</sup> Over the three-year period studied, between 65–68% of patent cases were resolved at the district court level through settlement.<sup>135</sup> And though not central to this particular study,<sup>136</sup> additional settlements occur as well during the appellate phase of patent litigation.<sup>137</sup> Based on these results, Kesan and Ball concluded that “patent litigation is largely a settlement mechanism.”<sup>138</sup> They therefore urged entities seeking determinative rulings on patent validity and infringement to look beyond the federal courts, perhaps to the PTO or some other ADR mechanism.<sup>139</sup>

Other recent empirical work sheds important light on additional aspects of the settlement phenomenon in patent cases. For instance, Mark Lemley, John Allison, and Joshua Walker published a study in 2011 concerning settlement among repeat patent litigants (“the Lemley study”).<sup>140</sup> The Lemley study focuses on the most litigated patents, meaning those patents that have been the subject of eight or more lawsuits between 2000 and 2009.<sup>141</sup> Lemley et al. identified 106 patents that satisfied that criteria and determined that

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130. *Id.* at 273–74 tbls.4, 5 & 6.

131. *Id.*

132. *Id.*

133. Compare *id.* at 274 tbl.6 (finding that 3% of patent cases ended in trial in 2000), with Galanter & Frozema, *supra* note 5, at 3 fig.1 (finding that 2% of federal civil suits involved a trial in 2000).

134. Kesan & Ball, *supra* note 3, at 272.

135. *Id.* at 273–74 tbls.4, 6.

136. *Id.* at 266 n.192.

137. See, e.g., U.S. COURT OF APPEALS FOR THE FED. CIRCUIT, CIRCUIT MEDIATION OFFICE STATISTICS, available at <http://perma.cc/H5B6-CHAB> (indicating that forty-four patent appeals were settled through the Federal Circuit’s mediation program in 2011).

138. Kesan & Ball, *supra* note 3, at 312.

139. *Id.*

140. Allison et al., *supra* note 14, at 677.

141. There were 106 such patents that had been litigated in 478 different patent suits against multiple defendants. *Id.* at 682.

those patents had been litigated in 478 separate suits.<sup>142</sup> They recorded the outcomes of those cases and then compared and contrasted them to cases involving patents litigated only once. Some of the results of the Lemley study are surprising, and frankly disheartening, for those who believe that patents are indicative of innovative output.

At the outset, Lemley et al. found that suits involving the most litigated patents are more likely to settle than one-off patent suits.<sup>143</sup> Since all available economic measures suggest that the most litigated patents are also the most valuable patents, this result might seem counterintuitive.<sup>144</sup> In point of fact, though, it is easily explained. Precisely because these patents are so valuable, their owners proceed with caution. Often, the holders of these patents have widely licensed them to other parties or have asserted them against different defendants in other lawsuits.<sup>145</sup> Under these circumstances, the patentee has a lot to lose if the patent is invalidated at trial.<sup>146</sup> So it makes sense that these cases are more likely to be resolved through settlement.

What is surprising, though, is what happens when cases involving the most litigated patents are adjudicated rather than settled. Because these are the most valuable patents,<sup>147</sup> one would expect them to withstand validity challenges and fare well at trial.<sup>148</sup> Yet the data tell a different story. The most litigated patent plaintiffs won only 10.7% of their cases, whereas one-time patent plaintiffs prevailed 35.6% of the time.<sup>149</sup> Lemley et al. tested the data in a number of different ways, and each time the results were the same: the most litigious patentees were significantly more likely to lose on

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142. *Id.* at 682 & n.23. Because many of the 478 suits involved more than one of the 106 most litigated patents, the total number of “patent-suit pairs” identified by Lemley et al. is 2,987. *Id.* at 682 n.23.

143. *Id.* at 689 (indicating that 90.5% of the most litigated patent suits settled while only 84% of the one-time patent suits ended in settlement).

144. *Id.* at 686; Allison et al., *Valuable Patents*, *supra* note 126, at 437; *see also* Matthew C. Turk, *Why Does the Complainant Always Win at the WTO?: A Reputation-Based Theory of Litigation at the World Trade Organization*, 31 NW. J. INT’L L. & BUS. 385, 398 (2011) (stating that parties who believe they will prevail at trial are less likely to settle).

145. Allison et al., *supra* note 14, at 686.

146. *Id.*

147. Allison et al., *Valuable Patents*, *supra* note 126, at 437.

148. Allison et al., *supra* note 14, at 686 (explaining that one purpose of their study is to test the hypothesis that “where the most-litigated patents *do* get litigated to judgment, the patentee is more likely to prevail than other litigants”).

149. *Id.* at 687 & n.35. If default judgments are included, the win rate for one-time patent plaintiffs increases to 47.3%. *Id.* at 688 tbl.4.

the merits.<sup>150</sup> Although the authors attempt to explain these unpredicted findings, they admit in the end that their proffered explanations are not entirely satisfactory.<sup>151</sup> Instead, the results of the study remain “a bit of a puzzle.”<sup>152</sup>

The bottom line is that most patent cases are settled. While this fact may be unremarkable, few scholars have explored the normative implications of this phenomenon. The remainder of this Article sets out to prove that settlement of some patent cases is contrary to the public good and to offer suggestions for righting this wrong.

#### IV. PATENT SETTLEMENTS AND THE PUBLIC INTEREST

As the Constitution itself contemplates, the public is the intended primary beneficiary of our patent system.<sup>153</sup> Though inventors reap the rewards of patents, that is simply a means to an end.<sup>154</sup> The objective of granting patents is to encourage useful, socially valuable innovation that inures to the public good.<sup>155</sup> Keeping that objective in mind, this Part considers the impact of patent settlements on the public by contextualizing the arguments of Fiss and others within the patent litigation framework.

##### *A. Patent Settlements Achieve Peace, Not Justice*

Fiss opposes settlement because it achieves peace instead of justice.<sup>156</sup> Perhaps this criticism is easy to understand when reflecting on a case like *Brown v. Board of Education*, where the plaintiffs were

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150. *Id.* at 687–88.

151. *Id.* at 700–11.

152. *Id.* at 681.

153. U.S. CONST. art. 1, § 8, cl. 8. See also Robert P. Merges et al., INTELLECTUAL PROPERTY IN THE NEW TECHNOLOGICAL AGE 29 (6th ed. 2012) (“The public benefits directly through the spur to innovation and disclosure of new technology.”); Megan M. La Belle, *Patent Law as Public Law*, 20 GEO. MASON L. REV. 41, 50 (2012) (demonstrating that the purpose of the patent system is to benefit the public).

154. *United States v. Masonite Corp.*, 316 U.S. 265, 278 (1942) (“[T]he promotion of the progress of science and the useful arts is the ‘main object’; reward of inventors is secondary and merely a means to that end.”)

155. *Hilton Davis Chem. Co. v. Warner Jenkinson Co.*, 62 F.3d 1512, 1536 (Fed. Cir. 1995) (Newman, J., concurring) (“The patent law is directed to the public purposes of fostering technological progress, investment in research and development, capital formation, entrepreneurship, innovation, national strength, and international competitiveness.”), *rev’d*, 520 U.S. 17 (1997).

156. Fiss, *supra* note 24, at 1085–86.

fighting for racial equality.<sup>157</sup> But what about patent suits? Do patent settlements further peace at the expense of justice? I maintain that some do. And while the injustice effected by patent settlements may not be as blatant and perverse as racial inequality, it is nonetheless real.

The principal way patent settlements skirt justice is by allowing potentially invalid patents to remain in force.<sup>158</sup> The problem with invalid patents is that they may thwart competition and increase prices yet fail to foster innovation when the technology disclosed was already part of the public domain.<sup>159</sup> Thus, when a patent suit is adjudicated and the patent is invalidated, a public good is created.<sup>160</sup> The previously protected intellectual property is returned to the public domain, where *anyone* is free to use it, not just the party who successfully challenged the patent.<sup>161</sup> This can be devastating to patent owners, as licensees no longer have to pay royalties, and the floodgates of competition open wide.<sup>162</sup>

By settling, on the other hand, the patent owner can protect its patent from invalidation.<sup>163</sup> As a condition to settlement, patent owners typically demand that alleged infringers abandon the validity

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157. 347 U.S. 483, 495 (1954).

158. *See, e.g., O'Reilly v. Morse*, 56 U.S. 62, 121 (1854) (holding a patent invalid and therefore “unjust to the public”). For purposes of this Article, I am equating “justice” with law. *See McThenia & Shaffer, supra* note 56, at 1664 (“Fiss comes close to equating justice with law”). In other words, a just patent is one that accords with our current legal standards. Yet I leave for future work the perhaps more interesting question of how justice in the patent context should be defined.

159. *Carrier, supra* note 20, at 105.

160. *See, e.g., Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found.*, 402 U.S. 313, 350 (1971) (holding that, once a patent is invalidated, nonmutual collateral estoppel prevents the patent owner from ever asserting it again); *La Belle, supra* note 153, at 65 (discussing the “public good problem,” which “dissuades parties from contesting patents because they bear all the costs and risks of litigation, but reap only part of the benefit”); Joseph S. Miller, *Building a Better Bounty: Litigation-Stage Rewards for Defeating Patents*, 19 BERKELEY TECH. L.J. 667, 704–05 (2004) (explaining that litigation-stage bounties adequately reward the defeat of commercially significant patents).

161. *La Belle, supra* note 153, at 65. I say *may* be free to use it because, even when one patent has been invalidated, the ability to exploit a technology is potentially limited by the existence of blocking patents held by the patent owner or a third party. *See, e.g., Miller, supra* note 160, at 693–95.

162. *See Lear, Inc. v. Adkins*, 395 U.S. 653, 673–74 (1969).

163. *See, e.g., In re Tamoxifen Citrate Antitrust Litig.*, 466 F.3d 187, 211 (2d Cir. 2006) (“It would be odd to handicap the ability of [the defendant] to settle after it had displayed sufficient confidence in its patent to risk a finding of invalidity by taking the case to trial.”), *abrogated by* *FTC v. Actavis, Inc.*, 133 S. Ct. 2223, 2230 (2013); *Holman, supra* note 15, at 507–09 (explaining that reverse payment settlements insulate pharmaceutical patentees from competition without the risk of invalidation).



claim and agree not to challenge the patent again in the future.<sup>164</sup> The result is that potentially invalid patents—patents that the PTO never should have issued in the first place—remain in force.<sup>165</sup> One court has acknowledged this “troubling dynamic”:

The less sound the patent or the less clear the infringement, and therefore the less justified the monopoly enjoyed by the patent holder, the more a rule permitting settlement is likely to benefit the patent holder by allowing it to retain the patent. But the law allows the settlement even of suits involving weak patents with the presumption that the patent is valid and that settlement is merely an extension of the valid patent monopoly. So long as the law encourages settlement, weak patent cases will likely be settled even though such settlements will inevitably protect patent monopolies that are, perhaps, undeserved.<sup>166</sup>

What makes this dynamic especially troubling is that it is not only patent owners who wish to avoid invalidation of these patents but alleged infringers as well.<sup>167</sup> At first blush, the notion that alleged infringers would want contested patents to remain in force seems counterintuitive. On closer reflection, however, it becomes clear that alleged infringers are motivated to settle patent suits by what scholars call the “free rider problem.”<sup>168</sup> When a patent is adjudged invalid, it creates a public good because the technological “know how” is returned to the public domain.<sup>169</sup> While this public good enhances the social welfare (by lowering consumer prices), it concomitantly benefits the alleged infringer’s competitors, who bore none of the costs or risks of litigation but “enjoy the outcome for free.”<sup>170</sup> To avoid this free rider

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164. See, e.g., *Flex-Foot, Inc. v. CRP, Inc.*, 238 F.3d 1362, 1367–70 (Fed. Cir. 2001) (holding that a settlement agreement with an express provision precluding future validity challenges did not violate *Lear*); *Foster v. Hallco Mfg. Co.*, 947 F.2d 469, 476–77 (Fed. Cir. 1991) (holding that it was permissible for the provision in the consent decree to preclude further validity challenges); see also *infra* Part V.C (discussing the Federal Circuit’s prosettlement jurisprudence).

165. See, e.g., *Tamoxifen*, 466 F.3d at 211 (explaining that settlements involving weak patents may protect monopolies that are unjustified).

166. *Id.* While the *Tamoxifen* court’s statement was made in the context of reverse payment settlements and thus may no longer hold water after *FTC v. Actavis*, 133 S. Ct. 2223, 2230 (2013), it is certainly still true with respect to standard patent settlements, which the Supreme Court did not address in *Actavis*.

167. See *La Belle*, *supra* note 153, at 65–66 (discussing the “public good problem”); see also *infra* Part V (arguing that courts also want patent cases to settle).

168. See *Carrier*, *supra* note 20, at 111, 118 (discussing the “public good problem” and the “free-rider problem”); Joseph Farrell & Robert P. Merges, *Incentives to Challenge and Defend Patents: Why Litigation Won’t Reliably Fix Patent Office Errors and Why Administrative Patent Review Might Help*, 19 BERKELEY TECH. L.J. 943, 952, 958 (2004) (same); Miller, *supra* note 160, at 687 (same). This is also sometimes referred to as the “public good problem.” Farrell & Merges, *supra*, at 952.

169. See *Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found.*, 402 U.S. 313, 343, 346–50 (1971) .

170. Rochelle C. Dreyfuss & Lawrence S. Pope, *Dethroning Lear? Incentives to Innovate After MedImmune*, 24 BERKELEY TECH. L.J. 971, 1001 n.121 (2009); see also Michael Risch, *Patent Challenges and Royalty Inflation*, 85 IND. L.J. 1003, 1022 (2010) (explaining the imbalance when “the challenger faces all of the cost and risk but only reaps some of the benefits”); John R.

problem, therefore, alleged infringers settle out of court and stipulate to the validity of the patent.

So at the end of the day, patent cases settle in order to achieve peace between the patent owner and the alleged infringer.<sup>171</sup> In the world of patent litigation—which has been referred to alternatively as warfare,<sup>172</sup> the “sport of kings,”<sup>173</sup> and “the business of sharks,”<sup>174</sup>—peace is not something to be taken lightly. But it would be disingenuous to pretend that peace between the parties is all that matters to our patent system, or even that it’s what matters most. To the contrary, the purpose of our patent system is to serve the public interest.<sup>175</sup> As the Supreme Court has explained,

A patent by its very nature is affected with a public interest . . . [I]t is an exception to the general rule against monopolies and to the right to access to a free and open market. The far-reaching social and economic consequences of a patent, therefore, give the public a paramount interest in seeing that patent monopolies spring from backgrounds free from fraud or other inequitable conduct and that such monopolies are kept within their legitimate scope.<sup>176</sup>

Yet the settlement of patent cases leaves this paramount public interest wholly unprotected.<sup>177</sup> There is no neutral party representing the public in patent litigation like there is in patent proceedings before the International Trade Commission.<sup>178</sup> Nor do federal judges intervene on the public’s behalf when parties decide to settle a patent case. Rather, as this Article discusses later, federal courts regularly allow (and sometimes strongly encourage) patent settlements, even when that means a weak patent will remain intact and leave the

Thomas, *Liberty and Property in the Patent Law*, 39 HOUS. L. REV. 569, 618 n.361 & 619 (2002) (discussing the “free-rider” problem).

171. See, e.g., F. Scott Kieff, *Quanta and the Future of Supreme Court Patent Jurisprudence*, 9 ENGAGE: J. FEDERALIST SOC’Y PRAC. 73, 74 (2008) (“[In] settlement negotiations around ongoing or potential patent litigation, or mediation of a patent dispute, . . . what the potential infringer often wants is mere peace from future litigation risk . . .”); Miller, *supra* note 160, at 672–73 (stating that settlement gives the parties peace and leaves the patent intact).

172. Lea Shaver, *Illuminating Innovation: From Patent Racing to Patent War*, 69 WASH. & LEE L. REV. 1891, 1892 (2012); see also FRED WARSHOFSKY, *THE PATENT WARS* 29 (1994).

173. Bessen & Meurer, *supra* note 1, at 2.

174. Chien, *supra* note 2, at 1573.

175. *Precision Instrument Mfg. Co. v. Auto. Maint. Mach. Co.*, 324 U.S. 806, 816 (1945) (“[A patent] is a special privilege designed to serve the public purpose of promoting the ‘Progress of Science and useful Arts.’”).

176. *Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found.*, 402 U.S. 313, 343 (1971) (quoting *Precision Instrument Mfg. Co.*, 324 U.S. at 816).

177. See, e.g., *In re Tamoxifen Citrate Antitrust Litig.*, 466 F.3d 187, 211 (2d Cir. 2005) (suggesting that rules allowing settlements at or above expected market value for the infringer will allow weak patents to persist).

178. Jeremy W. Bock, *Neutral Litigants in Patent Cases*, 15 N.C. J.L. & TECH. 233, 250–51 (2014).

public to suffer the consequences.<sup>179</sup> In this way, the settlement of patent cases comes at the expense of justice.

### B. Patent Settlements Are Often Coerced

Fiss's claim that settlements are coerced is also borne out in the context of patent litigation. In recent years, there has been widespread discontent over coerced or "forced" settlements of patent cases, primarily due to the emergence of patent-assertion entities ("PAEs").<sup>180</sup> PAEs, or "trolls" as they are pejoratively called, are entities that acquire and assert patents but do not practice their patented inventions.<sup>181</sup> PAEs have been accused of asserting particularly weak patents<sup>182</sup> and using overly aggressive litigation tactics.<sup>183</sup> For some time, the PAE business model was quite successful because PAEs used the threat of a permanent injunction (which was virtually guaranteed under Federal Circuit law) to force accused infringers to settle patent cases.<sup>184</sup> PAEs, in other words, engaged in the practice of "patent holdup."<sup>185</sup>

This holdup problem mobilized a groundswell of support for patent reform.<sup>186</sup> In 2006, the Supreme Court took up the issue in

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179. See *infra* Part V (discussing the role of courts in patent settlements).

180. Colleen V. Chien, *From Arms Race to Marketplace: The Complex Patent Ecosystem and Its Implications for the Patent System*, 62 HASTINGS L.J. 297, 297 (2010) (coining the term "patent assertion entity"); see also Robert A. Armitage, *The Conundrum Confronting Congress: The Patent System Must Be Left Untouched While Being Radically Reformed*, 5 J. MARSHALL REV. INTELL. PROP. L. 268, 276 (2006) ("Being forced to settle because there is little prospect for a fair fight against a patent of questionable validity is the antithesis of a fair and balanced patent system."); Gerard N. Magliocca, *Blackberries and Barnyards: Patent Trolls and the Perils of Innovation*, 82 NOTRE DAME L. REV. 1809, 1831 (2007) ("[A] troll only needs a single and cheap patent to force a large settlement.").

181. See, e.g., Colleen V. Chien & Mark A. Lemley, *Patent Holdup, the ITC, and the Public Interest*, 98 CORNELL L. REV. 1, 2 (2012) (describing PAEs).

182. Chien, *supra* note 2, at 1580.

183. *Id.* at 1579 (stating that PAEs "surpris[e] their targets" and sue multiple defendants).

184. *Id.*; see also *eBay Inc. v. MercExchange, LLC*, 547 U.S. 388, 397 (2006) (Kennedy, J., concurring) ("[A]n injunction . . . can be employed as a bargaining tool to charge exorbitant fees."); Garrett Barten, Note, *Permanent Injunctions: A Discretionary Remedy for Patent Infringement in the Aftermath of the eBay Decision*, 16 U. MIAMI BUS. L. REV. 1, 12 (2007) (noting that the threat of an injunction forced RIM to settle for \$612.5 million, nearly eighteen times the amount the jury awarded in damages).

185. Mark A. Lemley & Carl Shapiro, *Patent Holdup and Royalty Stacking*, 85 TEX. L. REV. 1991, 1992–93 (2007); Brian J. Love, *The Misuse of Reasonable Royalty Damages as a Patent Infringement Deterrent*, 74 MO. L. REV. 909, 931 (2009) (defining patent holdup as "the opportunistic use of patent rights to extract above-benchmark compensation").

186. Sarah R. Wasserman Rajec, *Tailoring Remedies to Spur Innovation*, 61 AM. U. L. REV. 733, 742 (2012) ("The furor over NPEs and their skewed incentives grew in the years leading up to the *eBay* decision.").

*eBay v. MercExchange* and overturned the Federal Circuit's automatic-injunction rule in patent cases.<sup>187</sup> The Supreme Court held that the grant of permanent injunctive relief in patent cases should be governed by "traditional principles of equity."<sup>188</sup> This means that federal courts must consider the facts of each particular case before deciding whether the issuance of such a severe remedy is warranted.

It has been several years since *eBay*, and the data demonstrate that courts grant fewer injunctions in patent cases than in the past.<sup>189</sup> This is particularly true for cases involving PAEs, with one study showing that courts denied over 90% of injunctions sought by PAEs but contested by the alleged infringer.<sup>190</sup> Thus, it's probably fair to say that *eBay* has ameliorated the holdup problem to some degree.<sup>191</sup> That said, there remain several factors that pressure patent defendants to continue to forego adjudication in favor of settlement.

First, even after *eBay*, permanent injunctions remain the norm in patent cases when there is a finding of infringement.<sup>192</sup> While courts are significantly less likely to grant this type of relief to PAEs, other types of patent plaintiffs regularly secure permanent injunctions post-*eBay*.<sup>193</sup> Indeed, courts grant permanent injunctive relief in 75% of cases in which patent owners request it.<sup>194</sup> This threat remains significant enough to force accused infringers to settle rather than risk an injunction that shuts down operations.<sup>195</sup>

Second, putting aside injunctive relief for the moment, the potential for massive damages pressures many patent defendants into settlement.<sup>196</sup> Juries have awarded record damages in several patent

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187. 547 U.S. at 393–94.

188. *Id.* at 394.

189. Chien & Lemley, *supra* note 181, at 9–10 (“[C]ourts have granted about 75% of requests for injunctions, down from an estimated 95% pre-*eBay*.”); see also Ronald J. Schutz & Patrick M. Arenz, *Non-Practicing Entities and Permanent Injunctions Post-eBay*, 12 SEDONA CONF. J. 203, 205 (2011) (acknowledging the view that NPEs are not likely to be awarded permanent injunctions post-*eBay*).

190. Chien & Lemley, *supra* note 181, at 10–11.

191. *Id.* at 8–10.

192. See, e.g., Schutz & Arenz, *supra* note 189, at 205 (“Four years after *eBay*, courts still routinely grant injunctions to victorious patent holders.”).

193. Chien & Lemley, *supra* note 181, at 10–11 (finding that universities and individuals have been granted injunctions 100% and 90% of the time, respectively, since *eBay*).

194. *Id.* at 9–10.

195. Xuan-Thao Nguyen, *Justice Scalia’s “Renegade Jurisdiction”: Lessons for Patent Law Reform*, 83 TUL. L. REV. 111, 118 (2008). Preliminary injunctions, too, can be used to force defendants to settle patent cases. Arti K. Rai et al., *University Software Ownership and Litigation: A First Examination*, 87 N.C. L. REV. 101, 139–40 (2009).

196. Robert A. Armitage, *Now That the Courts Have Beaten Congress to the Punch, Why Is Congress Still Punching the Patent System?*, 106 MICH. L. REV. FIRST IMPRESSIONS 43, 46 (2007) (explaining that some believe the “threat of runaway damages . . . has forced extravagant

cases in recent years,<sup>197</sup> including the highly publicized \$1.05 billion verdict that Apple won in its suit against Samsung over smartphone technology.<sup>198</sup> Even for large companies, a judgment of this size could be detrimental. Consequently, accused infringers wishing to avoid this result repeatedly resort to settlement even when the patent is likely invalid.<sup>199</sup>

Third, and perhaps most significantly, the astronomical cost of litigation coerces accused patent infringers to settle. While all civil litigation is expensive, patent suits are in a class of their own.<sup>200</sup> The median cost of patent litigation in 2013 ranged from \$350,000 to \$5.5 million, depending on the amount at risk and the case's duration.<sup>201</sup> With these daunting statistics, it is no wonder defendants choose to pay nuisance settlements rather than pursue a validity challenge in court.<sup>202</sup>

The problem of coerced patent settlements has received some well-deserved attention lately, with close to a dozen bills aimed at curbing “patent litigation abuse” being introduced in Congress since last May.<sup>203</sup> These bills propose various reforms—including heightened pleading standards, limitations on discovery, and expanded fee-shifting authority—all of which are supposed to ameliorate the “forced” settlement of patent cases.<sup>204</sup> The proposed

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settlements of patent lawsuits”); Love, *supra* note 185, at 928 (“[T]he expected value of court-awarded royalties alone will place pressure on accused infringers to eschew litigation and negotiate a settlement *ex ante*.”).

197. PRICEWATERHOUSECOOPERS, 2013 PATENT LITIGATION STUDY: LITIGATION CONTINUES TO RISE AMID GROWING AWARENESS OF PATENT VALUE 8 (2013), *available at* <http://perma.cc/Z66N-L9YQ> (listing the ten largest initial damages awards in patent cases between 1995 and 2011).

198. Since the initial jury verdict, the court reduced damages to just under \$599 million and ordered a retrial at which Apple was awarded \$290 million, bringing the current damages total to about \$935 million. *See* Julianne Pepitone, *Jury Awards Samsung Another \$290 Million*, <http://perma.cc/QG76-5RJY> (cnn.com, archived Feb. 1, 2014).

199. Allison et al., *supra* note 14, at 709 (arguing that the data suggest that many patent settlements are “nuisance settlement[s] over a likely invalid patent”).

200. Mark A. Lemley, Essay, *Rational Ignorance at the Patent Office*, 95 Nw. U. L. REV. 1495, 1502 (2001).

201. LAW PRACTICE MGMT. COMM., AM. INTELL. PROP. L. ASS'N, REPORT OF THE ECONOMIC SURVEY 2011, at 35 (2011).

202. *See, e.g.,* Libbey-Owens-Ford Glass Co. v. Sylvania Indus. Corp., 154 F.2d 814, 824 (2d Cir. 1946) (“[I]t is well known that the notoriously great cost of [a patent] defense has often induced infringers to accept licenses on onerous terms rather than to engage in litigation, with the result that ‘spurious’ patents, uncontested, substantially reduce competition.”).

203. Matt Levy, *Patent Progress's Guide to Patent Reform Legislation*, <http://perma.cc/P5TG-C9R3> (patentprogress.org, archived Feb. 1, 2014).

204. *See, e.g.,* Innovation Act, H.R. 3309, 113th Cong. (2013); Patent Transparency and Improvements Act, S. 1720, 113th Cong. (2013); Patent Abuse Reduction Act, S. 1013, 113th Cong. (2013); Patent Litigation Integrity Act, S. 1612, 113th Cong. (2013).

legislation enjoys broad support from a cross section of industries,<sup>205</sup> and representatives of several organizations have provided testimony to Congress in recent months. Many of these witnesses testified that accused infringers often view settlement as the only viable option: “The high cost of patent litigation means that settlement is almost always the least costly option, and the patent trolls know it. In fact . . . approximately 75% of these cases settle, so the trolls know they have a virtually guaranteed payoff, for virtually no upfront investment or preparation.”<sup>206</sup>

Others testified that their companies have chosen to litigate as a matter of principle but have spent millions of dollars as a result.<sup>207</sup> These supporters believe that the reforms currently under consideration would help rectify the coerced-settlement problem, either by facilitating earlier dismissal of patent cases or by reducing the financial burden on accused infringers, so that they could afford to adjudicate rather than settle.

Whether these predictions are accurate—and whether Congress will act on patent reform this session—remains to be seen. While the House passed one of these bills (Representative Goodlatte’s “Innovation Act”) by a vote of 325 to 91 last December,<sup>208</sup> the legislation is still under consideration in the Senate.<sup>209</sup> The Senate has

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205. See, e.g., Letter from 50 Organizations to Congressional Leadership Urging Solutions to Patent Abuse (July 17, 2013), available at <http://perma.cc/VW93-33VJ>.

206. *Improving the Patent System to Promote American Innovation and Competitiveness: Hearing on H.R. 3309 Before H. Comm. on the Judiciary*, 113th Cong. (2013) (statement of Kevin T. Kramer, Vice President & Deputy Gen. Counsel of Intellectual Prop. for Yahoo! Inc.); see also *Protecting Small Businesses and Promoting Innovation by Limiting Patent Troll Abuse: Hearing Before S. Comm. of the Judiciary*, 113th Cong. (2013) (statement of Dana Rao, Vice President & Assoc. Gen. Counsel of Intellectual Prop. & Litig. for Adobe Sys., Inc.) (“Bad actors are taking advantage of asymmetrical costs of patent litigation to pressure defendants into settlement.”); *id.* (statement of John Dwyer, President & CEO of New Eng. Fed. Credit Union) (“Although it violates one’s basic sense of right and wrong, paying up makes some economic sense for a credit union of my size.”); *id.* (statement of Phillip S. Johnson, Chief Intellectual Prop. Counsel for Johnson & Johnson) (“[P]atent troll abuse involves the use of court proceedings, or threats of them, to press specious patent claims or defenses for the purpose of coercing settlements driven solely by the desire to avoid litigation costs.”).

207. See, e.g., *Improving the Patent System*, *supra* note 206 (statement of Krish Gupta, Senior Vice President & Deputy Gen. Counsel for EMC Corp.).

208. Press Release, House Passes Innovation Act to Make Reforms to Our Patent System, U.S. House of Rep. Comm. on the Judiciary (Dec. 5, 2013), available at <http://judiciary.house.gov/news/2013/12052013.html>.

209. The bills currently under consideration in the Senate include the Patent Transparency and Improvements Act, S. 1720, 113th Cong. (2013); the Patent Abuse Reduction Act, S. 1013, 113th Cong. (2013); and the Patent Litigation Integrity Act, S. 1612, 113th Cong. (2013). These bills cover most of the same issues as the Innovation Act, H.R. 3309, 113th Cong. (2013), although one difference is that S. 1720 provides that certain demand-letter practices may

already held some hearings but is currently scheduling additional ones to explore the concerns of universities, small inventors, and others for whom the proposed legislation may have unexpected consequences not adequately considered by the House.<sup>210</sup>

### *C. Patent Settlements Deprive the Public of Decisional Law*

A common observation about patent litigation is that it is unpredictable. Some theorize that this unpredictability increases the likelihood of settlement,<sup>211</sup> while others contend that unpredictability actually diminishes that likelihood since parties overestimate their chance of success on the merits.<sup>212</sup> Whatever impact unpredictability has on settlement, the somewhat ironic fact remains that unpredictability in patent law is caused, at least in part, by settlement itself.

Much criticism of settlement has focused on the theory that settlement deprives society of judicial precedent, thereby allowing legal norms to remain in flux and litigation outcomes to be unpredictable.<sup>213</sup> This criticism is particularly apt in the patent context, where development of the law is heavily dependent on the courts.<sup>214</sup> Although Congress recently passed comprehensive patent reform with the America Invents Act, legislative action in the patent arena historically has been the exception, not the rule.<sup>215</sup> Instead,

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constitute an unfair and deceptive trade practice. *See infra* Part IV.C.3 (discussing the recent scrutiny of widespread distribution of cease-and-desist letters)

210. Scott A. McKeown, *Senate to Schedule Additional Hearings on Leahy Patent Reform Bill*, <http://perma.cc/7LA-MGQU> (patentspostgrant.com, archived Feb. 1, 2014); Tony Dutra, *Senate Patent Litigation Reform Hearing Calls for More Deliberate Approach than House*, <http://perma.cc/HW43-SUF7> (bna.com, archived Feb. 1, 2014).

211. *See, e.g., Patent Quality Improvement: Hearing Before the Subcomm. on Courts, the Internet, and Intell. Prop. of the H. Comm. on the Judiciary*, 108th Cong. 54 (2003) (statement of David M. Simon, Chief Patent Counsel, Intel Corp.), available at <http://perma.cc/X8PN-2RYN> (“This unpredictable legal environment has encouraged legitimate companies threatened by patent trolls to pay large settlements . . .”); Mark A. Lemley, *Contracting Around Liability Rules*, 100 CALIF. L. REV. 463, 474–75 (2012) (“Perhaps the uncertainty of outcome is enough to cause risk-averse parties to settle rather than chance a bad outcome.”).

212. *See, e.g., Cybor Corp. v. FAS Techs., Inc.*, 138 F.3d 1448, 1475 n.3 (Fed. Cir. 1998) (Rader, J., dissenting in part) (describing how parties calculate, and often overestimate, their chances of prevailing on the merits, which reduces the likelihood of settlement).

213. *See supra* Part II.B (discussing criticism of settlement).

214. *See, e.g., R. Polk Wagner, The Supreme Court and the Future of Patent Reform*, FED. LAW., Feb. 2008, at 35, 39 (“[E]ven though patent law is a creature of statute, much of the actual legal landscape has been constructed by decades of court decisions, in common-law-like fashion.”).

215. Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat. 284 (2011); *see also* Gregory N. Mandel, *Proxy Signals: Capturing Private Information for Public Benefit*, 90 WASH. U. L. REV. 1, 45 (2012) (arguing that the AIA is a watered-down version of prior reform efforts).

decisional law, specifically Federal Circuit jurisprudence, has primarily formed and defined the patent landscape.<sup>216</sup>

Yet when patent suits settle, as the vast majority do, little to no decisional law is created for future litigants. The case may be settled early in the litigation, before the judge has rendered any substantive decisions. Or suppose the parties reach a settlement after the court has issued an opinion on, say, claim construction; the parties will usually make the settlement conditional on the court granting vacatur.<sup>217</sup> Either way, the upshot is that legal and factual questions are left unresolved, giving rise to repeat litigation that drains society's resources.<sup>218</sup>

For the parties to the lawsuit, on the other hand, this uncertainty may actually prove advantageous:

[A] settlement of patent litigation is not so much a determination of the parties' rights to patented technology as it is a technique for preserving uncertainty regarding the patent rights at issue. That uncertainty is of value both to the patentee and to the alleged infringer if the patent is in fact invalid, because the settlement allows them both privileged access to the market.<sup>219</sup>

With few exceptions, parties have *carte blanche* to decide whether or not to settle a patent case, despite the potential adverse impact on the public.<sup>220</sup> Even more troubling, the confidentiality surrounding the

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216. See, e.g., John F. Duffy, *The Federal Circuit in the Shadow of the Solicitor General*, 78 GEO. WASH. L. REV. 518, 544 (2010) (stating that patent law "has traditionally had a common law feel to it"); Craig Allen Nard, *Legal Forms and the Common Law of Patents*, 90 B.U. L. REV. 51, 53 (2010) (noting that common law is "the dominant legal force in the development of U.S. patent law").

217. Jeremy W. Bock, *An Empirical Study of Certain Settlement-Related Motions for Vacatur in Patent Cases*, 88 IND. L.J. 919, 921–22 (2013); see also *infra* Part V (discussing the various ways courts facilitate and encourage patent settlements).

218. See Luban, *supra* note 62, at 2622–23 (noting that settlement fails to create rules and precedents); Perschbacher & Bassett, *supra* note 62, at 19 (arguing that lack of rules and precedents might lead to arbitrariness in courts). While many patent cases turn on claim construction, which is often case specific, decisional law on claim construction will still lead to better predictability and fewer patent suits in many circumstances. See, e.g., *Omega Eng'g, Inc. v. Raytek Corp.*, 334 F.3d 1314, 1334 (Fed. Cir. 2003) (holding that generally "the same claim term in the same patent or related patents carries the same construed meaning"); *Mycogen Plant Sci., Inc. v. Monsanto Co.*, 252 F.3d 1306, 1310–11 (Fed. Cir. 2001) (holding that collateral estoppel precludes relitigation of claim construction in actions involving different but related patents), *vacated on other grounds*, 535 U.S. 1109 (2002).

219. Mark R. Patterson, *Leveraging Information About Patents: Settlements, Portfolios, and Holdups*, 50 HOUS. L. REV. 483, 498 (2012).

220. See Medicare Prescription Drug, Improvement, and Modernization Act of 2003, Pub. L. No. 108-173, § 1112, 117 Stat. 2066, 2461–63 (2003) (codified at 21 U.S.C. § 355 (2012)) (requiring the filing of certain pharmaceutical patent-settlement agreements with the Federal Trade Commission ("FTC") and the Department of Justice ("DOJ")); *FTC v. Actavis, Inc.*, 133 S. Ct. 2223, 2237 (2013) (holding that reverse payment patent settlement must be analyzed for antitrust compliance pursuant to the rule of reason).



terms of these settlement agreements makes any sort of ex post scrutiny close to impossible.

#### *D. Patent Settlements Are Shrouded in Secrecy*

As in other areas of civil law, settlements in patent cases are generally confidential.<sup>221</sup> Secret patent settlements are problematic, first, because they insulate invalid patents from further challenge. Take, for instance, the situation where the patent owner settles for a nominal amount.<sup>222</sup> If publicly available, such settlements might signal to other competitors that the patent is weak and vulnerable to attack.<sup>223</sup> But by keeping the terms secret, patent owners are able to create false impressions about the strength of their patents.<sup>224</sup>

In a similar vein, patent owners can leverage these secret settlements to their advantage in dealings with other accused infringers. Prior settlements tend to make patents appear stronger and more valuable, thus inducing future licensees to pay higher royalties.<sup>225</sup> This proves true even for de minimis settlements: because the terms are confidential, the licensee has no way of knowing how much the earlier settlement was worth.

Keeping patent settlements secret also distorts damages awards in those cases that do proceed to trial.<sup>226</sup> Patent owners who prove infringement are entitled to reasonable royalties, lost profits, or some combination of the two.<sup>227</sup> With the rise of PAEs, reasonable royalties have become the predominant measure of damages in patent cases, since a nonpracticing entity cannot recover lost profits.<sup>228</sup> Reasonable royalties typically are determined based on a hypothetical negotiation between the parties at the time the infringement began.<sup>229</sup> To decide what royalty rate such a hypothetical negotiation would

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221. See *supra* Part II.B (discussing the trend to keep settlements confidential).

222. See, e.g., David L. Schwartz, *The Rise of Contingent Fee Representation in Patent Litigation*, 64 ALA. L. REV. 335, 370–71 (2012) (discussing patent cases with settlement demands as low as \$5,000 to \$10,000).

223. *Id.* at 370 (quoting defense attorneys who claim the patents in these types of cases are “very, very weak” or “being stretched beyond belief”).

224. See Scott A. Moss, *Illuminating Secrecy: A New Economic Analysis of Confidential Settlements*, 105 MICH. L. REV. 867, 870 (2007) (explaining that confidential settlements have been criticized for allowing defendants to conceal “serious misdeeds”).

225. Risch, *supra* note 170, at 1025.

226. Love, *supra* note 185, at 930.

227. 35 U.S.C. § 284 (2012); *Minco, Inc. v. Combustion Eng'g, Inc.*, 95 F.3d 1109, 1119 (Fed. Cir. 1996).

228. *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292, 1312 (Fed. Cir. 2011).

229. *Id.*

have yielded, courts rely on the testimony of experts who cull data regarding similar license agreements.<sup>230</sup> One problem with this approach, however, is that the data on which these experts rely are limited because so many patent license agreements result from settlement of litigation and are therefore confidential.<sup>231</sup> Often, the only publicly available data comes from federal securities law filings in which a party must disclose a license or settlement that is “material” to its bottom line.<sup>232</sup> This skews royalty information upward because license agreements involving large sums of money are much more likely to be deemed material.<sup>233</sup> In short, allowing parties to keep their settlements secret results in a windfall for patent owners with respect to reasonable royalty damages.

A final criticism of confidentiality provisions in patent settlement agreements is that they hide potential antitrust violations. Much attention has been paid in recent years to reverse payment settlements, in which patent owners (name-brand pharmaceutical companies) pay alleged infringers (generic pharmaceutical companies) to drop the validity challenge and delay entry into the market.<sup>234</sup> These arrangements are illegal restraints on trade, so the argument goes, because they limit competition and exceed the exclusionary scope of the patent.<sup>235</sup> Originally, reverse payment settlements were kept secret, just like typical patent settlement agreements. That changed in 2003 when Congress mandated that all reverse payment settlements be disclosed to the Federal Trade Commission for

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230. *ResQNet.com, Inc. v. Lansa, Inc.*, 594 F.3d 860, 872 (Fed. Cir. 2010) (explaining that the trial court “must consider licenses that are commensurate with what the defendant has appropriated”).

231. Lemley & Shapiro, *supra* note 185, at 2021–22.

232. *Id.*

233. Love, *supra* note 185, at 909.

234. *E.g.*, Einer Elhauge & Alex Krueger, *Solving the Patent Settlement Puzzle*, 91 TEX. L. REV. 283, 284–85 (2012).

235. *See, e.g., id.* at 285–87 (describing federal court of appeals, FTC, and DOJ approaches to determine whether reverse settlement payments violate antitrust laws). Last year, the Supreme Court addressed the question of how reverse payment settlement agreements should be scrutinized from an antitrust perspective in *FTC v. Actavis, Inc.*, 133 S. Ct. 2223 (2013). *Id.* at 2237–38. The FTC argued that these settlements are presumptively unlawful and that courts reviewing them should use a “quick look” antitrust analysis. *Id.* at 2237. The pharmaceutical companies, on the other hand, urged the Court to affirm the Eleventh Circuit’s decision that reverse settlement agreements are immune from antitrust attack as long as their “anticompetitive effects fall within the scope of the exclusionary potential of the patent.” *Id.* at 2230 (quoting *FTC v. Watson Pharms., Inc.*, 677 F.3d 1298, 1311 (11th Cir. 2012)). The Court rejected both positions and took a middle-ground approach, holding that reverse payment settlements should be analyzed under the rule of reason based on the circumstances of each case. *Id.* at 2237–38.

review.<sup>236</sup> To be sure, greater transparency as to reverse payment settlements is laudable. But, as the Supreme Court recently acknowledged, they are not the only type of patent settlements to raise antitrust concerns.<sup>237</sup> For example, parties settling a patent case might agree to various anticompetitive terms—let’s say a sham license, a tying arrangement involving patented and nonpatented products, or an agreement to divide the market, among others.<sup>238</sup> Yet as long as such settlements avoid reverse payments between pharmaceutical companies, they remain confidential, evade antitrust scrutiny, and potentially harm the consuming public.<sup>239</sup>

### *E. Patent Settlements Leave Litigants Dissatisfied*

Dissatisfaction with the patent system has been widespread and well documented for the past decade or so.<sup>240</sup> Possible culprits include the poor quality of issued patents, the proliferation of PAE-initiated litigation, and the Federal Circuit’s pro-patentee bias.

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236. See Medicare Prescription Drug, Improvement, and Modernization Act of 2003, Pub. L. No. 108-173, § 1112, 117 Stat. 2066, 2461–63 (2003) (codified at 21 U.S.C. § 355 (2012)) (requiring disclosure of agreements regarding “the manufacture, marketing, or sale” of the brand name and generic drugs in question). Under the new postgrant review procedures created by the AIA, parties who settle must file their settlement agreements with the PTO. See 35 U.S.C. §§ 317, 327 (2012) (requiring filing for inter partes review and postgrant review). At the parties’ request, the PTO will keep these agreements confidential unless requested by another federal agency or a person who demonstrates good cause. *Id.* This raises the question whether the FTC or some other federal agency might start reviewing patent settlements outside the reverse payment context. See Robert G. Sterne et al., *America Invents Act: The 5 New Post-Issuance Procedures*, 13 SEDONA CONF. J. 27, 43–44 (2012) (questioning whether the FTC should review settlement agreements in high-stakes postgrant and inter partes review proceedings).

237. See *Actavis*, 133 S. Ct. at 2232 (“[T]his Court’s precedents make clear that patent-related settlement agreements can sometimes violate the antitrust laws.”).

238. See, e.g., *Virginia Panel Corp. v. MAC Panel Co.*, 133 F.3d 860, 869 (Fed. Cir. 1997) (describing tying and postexpiration royalties); Hovenkamp et al., *supra* note 15, at 1721 (discussing forms of out-of-court settlements and corresponding antitrust concerns).

239. See *Actavis*, 133 S. Ct. at 2243 (Roberts, J., dissenting) (stating that settlements outside the Hatch-Waxman context are private agreements that are not publicly available); Christina Bohannan & Herbert Hovenkamp, *IP and Antitrust: Reformation and Harm*, 51 B.C. L. REV. 905, 928–44 (2010) (describing anticompetitive problems posed by patent settlement agreements); Marc G. Schildkraut, *Patent-Splitting Settlements and the Reverse Payment Fallacy*, 71 ANTITRUST L.J. 1033, 1048 (2004) (discussing lack of “red flags” with conventional patent settlements).

240. See, e.g., ADAM B. JAFFE & JOSH LERNER, *INNOVATION AND ITS DISCONTENTS: HOW OUR BROKEN PATENT SYSTEM IS ENDANGERING INNOVATION AND PROGRESS, AND WHAT TO DO ABOUT IT* (Princeton Univ. Press, 2004) (discussing how changes made to the patent system starting in 1982 encourage frivolous litigation and hinders innovation); Stuart Minor Benjamin & Arti K. Rai, *Who’s Afraid of the APA? What the Patent System Can Learn from Administrative Law*, 95 GEO. L.J. 269, 276–78 (2007) (discussing how the patent examination process fails to serve the patent system’s economic goals).

Though it's impossible to pinpoint the exact source of this discontent, the settlement phenomenon has surely been a contributing factor.

Defendants in patent cases are undoubtedly unhappy in the first instance because they have been named in a lawsuit. The mere fact of patent litigation spells trouble for defendants; it diverts resources from research and development, and it distracts key personnel from their core responsibilities.<sup>241</sup> What is worse than the expense and aggravation of patent litigation, though, is the outcome for many defendants—namely, forced settlement with the patent owner. As previously discussed, accused infringers often have no choice but to settle because the cost to litigate is simply too high.<sup>242</sup> This inadequate opportunity to participate in the adjudicative process can leave defendants feeling dissatisfied with the patent system as a whole.<sup>243</sup> And while accused infringers lodge most of the complaints about forced patent settlements, patent owners sometimes feel pressure to settle too. For patent owners, however, that pressure usually comes from the court.

## V. THE ROLE OF COURTS IN PATENT SETTLEMENTS

Historically, the role of federal judges in civil litigation was quite limited. Judges were passive adjudicators who waited to hear from the parties about whether the case was settling or proceeding to trial.<sup>244</sup> Over time, the role of federal judges has morphed. Where judges once functioned as umpires, they now look more like managers, or even players.<sup>245</sup> Today's federal judges involve themselves in all aspects of litigation, including settlement. Indeed, judges in complex, high-stakes suits, including patent cases, are even more likely to

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241. FED. TRADE COMM'N, TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW AND POLICY 5–6 (2003), available at <http://perma.cc/F5P3-CCQB>.

242. See *supra* Part IV.B (arguing that patent settlements are often coerced). In an interview with the *New York Times*, the general counsel of Rackspace, a cloud-storage company that has been a target of PAEs, explained that his company is bucking the trend and choosing to litigate rather than settle. “The game is to extort license fees out of companies for less than defense costs. . . . We don't want to encourage that behavior. We'll just continue to be sued until we demonstrate that we can't be pushed into settlement.” David Segal, *Has Patent, Will Sue: An Alert to Corporate America*, <http://perma.cc/D6E3-UDGV> (nytimes.com, archived Feb. 1, 2014).

243. See Geoffrey P. Miller, *Preliminary Judgments*, 2010 U. ILL. L. REV. 165, 166 (“[S]ettlements deny litigants a ‘day in court’ and thus may feel unsatisfying.”).

244. Chayes, *supra* note 83, at 1285; Resnick, *supra* note 84, at 376.

245. Francis E. McGovern, *Rethinking Cooperation Among Judges in Mass Tort Litigation*, 44 UCLA L. REV. 1851, 1869 (1997).

actively encourage settlements that avoid prolonged litigation and trial.<sup>246</sup>

To say there is a strong judicial preference for settlement of patent cases is to put it mildly. Besides individual trial judges facilitating patent settlements, the federal courts have taken a number of institutional measures to further this objective.<sup>247</sup> What is more, the Federal Circuit has developed a prosettlement jurisprudence that permeates patent law.<sup>248</sup> But all the while, few appear to be asking the obvious question: Is settlement really the best way to resolve all patent cases?

### A. Trial Judges Encourage Patent Settlements

There has been extensive media coverage of the high-tech patent wars over smartphones and tablets.<sup>249</sup> The short of it is that Apple has sued a number of competitors, including Samsung, Motorola, HTC, and others, for patent infringement in courts around the world.<sup>250</sup> While Apple's campaign has been far-reaching and aggressive, the prime reason these lawsuits garnered so much attention is because they were not settled and were heading for trial.<sup>251</sup> Apparently, Apple's strategy was framed by its late CEO, Steve Jobs, who was unwilling to settle because of his firm belief that Apple had been wronged.<sup>252</sup> In Fiss's terms, Apple was seeking justice rather than peace.

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246. Nancy Levit, *Megacases, Diversity, and the Elusive Goal of Workplace Reform*, 49 B.C. L. REV. 367, 383–84 (2008) (“[M]egacases’ have forced an expansion in the role of the judge from simply presiding over traditional litigation to more active participation in mediating global solutions.”); Adam Shartzter, *Patent Litigation 101: Empirical Support for the Patent Pilot Program’s Solution to Increase Judicial Experience in Patent Law*, 18 FED. CIR. B.J. 191, 230 (2009) (“A judge that does not like patent cases may more strongly encourage a settlement between the parties to avoid a lengthy and complicated litigation.”).

247. See *infra* Part V.B (discussing the steps courts have taken to promote settlement).

248. See *infra* Part V.C (discussing the Federal Circuit’s prosettlement case law).

249. See, e.g., Charles Duhigg & Steve Lohr, *The Patent, Used as a Sword*, <http://perma.cc/WJ5E-KVZN> (nytimes.com, archived Feb. 1, 2014) (discussing how companies file numerous lawsuits to prevent competition); Glenn G. Lammi, *’Tis the Season for More Smartphone ‘Patent War’ Court Rulings*, <http://perma.cc/T49P-UATW> (forbes.com, archived Feb. 1, 2014) (discussing important recent decisions in “the patent wars.”); *Smartphone Cases Caught Up in Patent Wars*, <http://perma.cc/FD3X-GCT3> (chicagotribune.com, archived Feb. 1, 2014) (describing the rise in litigation over smartphone cases).

250. Duhigg & Lohr, *supra* note 249.

251. See Jessica E. Vascellaro, *Apple and Samsung Trade Jobs in Court*, <http://perma.cc/4KM3-R6TT> (wsj.com, archived Feb. 1, 2014) (describing in detail the opening statements of one such trial and noting the crowd that gathered in the courthouse).

252. See WALTER ISAACSON, *STEVE JOBS* 1 (2011). According to Steve Jobs’ biographer, Walter Isaacson, Jobs accused Google of “grand theft” and said he was “willing to go to

From the beginning, Apple's litigation plan was met with resistance, especially from the trial judges assigned to these cases. Consider, for example, Judge Lucy Koh, who presided over the *Apple, Inc. v. Samsung Electronics Co.* case in the Northern District of California. Early on in the litigation, Judge Koh reminded Apple and Samsung about their \$7 billion business relationship and lightheartedly asked, "Can we all just get along here and can I send you out to ADR? . . . I will send you with boxes of chocolates."<sup>253</sup> But as the case progressed and still was not settled, Judge Koh grew impatient. During one pretrial hearing, she expressed frustration with the parties for insufficiently narrowing the issues for trial.<sup>254</sup> She went so far as to say that it would be "cruel and unusual punishment" for a jury to have to decide a case so complex.<sup>255</sup> Even after the trial was underway, Judge Koh ordered Apple and Samsung to try once more to resolve the dispute, because in her words, it was "time for peace."<sup>256</sup> Despite these efforts, *Apple v. Samsung* proceeded to a jury, and Apple was awarded more than \$1 billion in damages. Judge Koh continued to urge settlement postverdict, telling the parties that "global peace" would be "good for consumers and good for the industry."<sup>257</sup> So far, though, the parties have stuck to their guns and are letting this matter resolve itself through the adjudicative process. Indeed, as a result of Judge Koh's decision to reduce the initial \$1.05 billion verdict, a partial retrial was held in late 2014,<sup>258</sup> and another trial on related products is scheduled to begin this March. Judge Koh has still not given up on settlement, however, and the parties recently agreed

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thermonuclear war" against Google and others for "ripp[ing] off the iPhone." *Id.* Jobs reportedly also said, "I will spend my last dying breath if I need to, and I will spend every penny of Apple's \$40 billion in the bank, to right this wrong. I'm going to destroy Android, because it's a stolen product." *Id.*

253. Transcript of Proceedings at 16:10–21, *Apple, Inc. v. Samsung Elecs. Co.*, No.5:11-cv-01846-LHK, (N.D. Cal. June 21, 2011).

254. *Id.* at 3:19–4:8.

255. *Id.* ("But it's simply not going to be possible for one jury to do . . . 16 utility patents, six design patents, five trade dresses, six trademarks, an anti-trust case and about 37 accused devices."). Later, when Apple submitted an unusually long brief naming more than twenty potential rebuttal witnesses, Judge Koh asked Apple's lawyers if they were "smoking crack." Josh Lowensohn, *Judge Says Apple's "Smoking Crack" with Giant Witness List*, <http://perma.cc/YJ8X-EMMM> (cnet.com, archived Feb. 1, 2014).

256. *Judge Urges Apple and Samsung to Settle Their Patent Dispute*, <http://perma.cc/7YR3-6BQG> (nytimes.com, archived Feb. 1, 2014).

257. Natasha Lomas, *Apple vs. Samsung: Judge Koh Makes Plea for "Global Peace" as Pair Muster Latest Rounds of Legal Arguments*, <http://perma.cc/Z69S-6LSE> (techcrunch.com, archived Feb. 1, 2014).

258. *See supra* note 198 (explaining that Apple was awarded \$290 million at the retrial, bringing the current damages total to about \$935 million).

(at the court's urging) to try mediation.<sup>259</sup> Yet if past behavior is any predictor of future behavior, then Apple and Samsung are likely to end up back in court fighting it out.<sup>260</sup>

Apple's take-no-prisoners strategy has not fared as well in other courts. When Apple's case against Motorola failed to settle and was on the brink of trial, Judge Posner (sitting by designation in the Northern District of Illinois) instead dismissed the case.<sup>261</sup> In this unprecedented decision, which both parties have appealed, Judge Posner held that the parties were not entitled to proceed to trial because they had adduced insufficient evidence of patent injury.<sup>262</sup> Interestingly, Judge Posner first issued his decision on a tentative basis,<sup>263</sup> perhaps hoping to spur settlement, but the parties stayed the course toward trial. And so literally on the eve of trial, Judge Posner converted his tentative order to final and dismissed the case with prejudice.<sup>264</sup>

Worse yet, at least from a Fissian perspective, Apple announced a global settlement with HTC in late 2012, marking a sharp reversal of its former litigation strategy.<sup>265</sup> It's impossible to know precisely what motivated Apple's decision to change direction.<sup>266</sup> Some believe that Apple's current CEO, Tim Cook, simply does not share his predecessor's antisettlement position.<sup>267</sup> Public opinion also may have prompted Apple's shift in strategy, as consumers

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259. Chris O'Brien, *Apple, Samsung Agree to Try Mediation in Patent Disputes*, <http://perma.cc/L5S3-QRQJ> (latimes.com, archived Feb. 1, 2014).

260. See Phillip Elmer-DeWitt, *Apple-Samsung Mediation Talks: Don't Hold Your Breath*, <http://perma.cc/NU5H-9LN7> (cnn.com, archived Feb. 1, 2014).

261. *Apple, Inc. v. Motorola, Inc.*, No. 1:11-cv-08540 (N.D. Ill. June 22, 2012) (opinion and order for dismissal), available at <http://perma.cc/9JPV-4MGS>.

262. *Id.* The Federal Circuit heard oral argument in *Apple, Inc. v. Motorola, Inc.* on September 11, 2013, but it has not yet issued a decision in the case.

263. *Apple, Inc. v. Motorola, Inc.*, No. 1:11-cv-08540 (N.D. Ill. June 7, 2012) (tentative order for dismissal), available at <http://perma.cc/HGY8-KAB9>.

264. *Apple, Inc. v. Motorola, Inc.*, No. 1:11-cv-08540 (N.D. Ill. June 22, 2012) (opinion and order for dismissal), available at <http://perma.cc/T4BS-4RCF>.

265. Ian Sherr, *Apple, HTC Settle Patent Dispute, Sign Licensing Pact*, <http://perma.cc/LS7T-8XRY> (wsj.com, archived Feb. 1, 2014).

266. See John R. Allison, Emerson H. Tiller & Samantha Zyontz, *Patent Litigation and the Internet*, 2012 STAN. TECH. L. REV. 1, 55 ("As with the decision to institute patent litigation in the first place, the decision to settle is a complex one affected by countless factors, most of which are undiscoverable or at least unmeasurable.")

267. See, e.g., Tim Culpan & Adam Satariano, *Apple Settles HTC Patent Suits Shifting from Jobs' War*, <http://perma.cc/DZ28-EMK4> (bloomberg.com, archived Feb. 1, 2014) ("For as long as Tim Cook has been CEO, Apple has been less interested in pursuing legal assaults against competitors, choosing increasingly to find ways to settle differences out of court." (internal quotation marks omitted)).

increasingly questioned the value of these lawsuits.<sup>268</sup> Finally, and most importantly for purposes of this Article, Apple felt heavy pressure from the courts to settle these disputes as quickly as possible.<sup>269</sup>

While courts may be a bit more emboldened to push for settlement in massive, high-profile suits like Apple's,<sup>270</sup> it is the norm in patent litigation for trial judges to encourage and facilitate settlement. There are a whole host of reasons why a trial judge might prefer settlement of patent cases. Starting with the obvious, patent cases are generally time consuming and unwieldy, which means that courts spend a disproportionate amount of time managing them.<sup>271</sup> For a trial judge who wants to control her calendar and docket, purging all patent cases would certainly be a step in the right direction.

Moreover, even as compared to other types of complex litigation, judges may be particularly motivated to settle patent cases due to the heightened challenges they pose both from a factual and legal perspective. Patent cases generally involve highly complicated technology that federal judges may feel they, and certainly lay jurors, are not qualified to handle.<sup>272</sup> Just to understand the facts of these cases, judges frequently appoint special masters, experts, or other technical specialists with knowledge in the relevant field.<sup>273</sup> Nor do

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268. See, e.g., Erik Kain, *Samsung Takes a Jab at Apple in the Court of Public Opinion*, <http://perma.cc/KC4J-9W3W> (forbes.com, archived Feb. 1, 2014) (suggesting that Samsung's commercial mocking Apple's iPhone 5 tapped into public frustration with patent suits).

269. Roger Cheng, *Judge Tells Apple and HTC to Start Talking Settlement*, <http://perma.cc/7JXA-CEJC> (cnet.com, archived Feb. 1, 2014); Culpan & Satariano, *supra* note 267 ("A separate case before the ITC may have forced Cook to the negotiating table after a judge said Apple probably would face difficulty getting a series of HTC patents invalidated.").

270. See also *Settlement Reached in BlackBerry Patent Case*, <http://perma.cc/YA52-8MYC> (nbcnews.com, archived Feb. 1, 2014) (explaining that the trial judge "expressed impatience with RIM and urged settlement").

271. 155 Cong. Rec. 3457 (2009) (statement of Rep. Lamar Smith) ("Patent litigation is too expensive, too time-consuming, and too unpredictable.").

272. See, e.g., *Aro Corp. v. Allied Witan Co.*, 531 F.2d 1368, 1372 (6th Cir. 1976) ("Settlement is of particular value in patent litigation, the nature of which is often inordinately complex and time consuming.").

273. See FED. R. EVID. 706(a) ("The court may appoint any expert that the parties agree on and any of its own choosing."); Marilyn L. Huff, *Developments in the Jurisprudence on the Use of Experts*, 7 WASH. J.L. TECH. & ARTS 325, 328–29 (2012) ("The technical complexity of many patent claims may lead trial judges to seek the assistance of court-appointed experts, special masters, or technical advisors for assistance in the case."); see also JAY P. KESAN & GWENDOLYN G. BALL, FED. JUDICIAL CTR., A STUDY OF THE ROLE AND IMPACT OF SPECIAL MASTERS IN PATENT CASES (2009), available at <http://perma.cc/KAC7-JFXE> (discussing the appointment and role of special masters in patent litigation and noting their use "in areas where their technical skills and training will allow them to evaluate evidence, to determine how it should be collected, or to determine how patent claims should be construed").



the facts of patent cases tend to repeat, leaving judges to reinvent the wheel with each case.<sup>274</sup>

But it's not only the facts of patent cases that are difficult, it's the law too. Many areas of patent doctrine are muddled or confused, which makes the possibility of trial especially daunting.<sup>275</sup> So to avoid a judge or jury having to decide thorny issues of infringement, invalidity, and damages, trial courts regularly promote settlement of patent cases. Indeed, some courts have moved beyond encouragement, prodding, and pressure and have put into place institutional measures to maximize settlement outcomes.

### *B. Institutional Measures Encourage Patent Settlements*

In recent years, there has been an exponential rise in patent litigation concentrated in a small number of federal judicial districts throughout the country.<sup>276</sup> Courts with heavy patent dockets have implemented institutional controls to manage these complex suits, the most notable of which is the adoption of local patent rules.<sup>277</sup> In 2000, the Northern District of California was the first to adopt local patent rules. Since then, almost thirty districts have followed in its footsteps.<sup>278</sup> Even some districts without significant patent dockets have adopted these local rules, perhaps as a way of enticing plaintiffs to file patent suits there.<sup>279</sup>

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274. Kelly Casey Mullally, *Legal (Un)certainty, Legal Process, and Patent Law*, 43 LOY. L.A. L. REV. 1109, 1128–29 (2010).

275. See, e.g., *Edwards Lifesciences AG v. Corevalve, Inc.*, 699 F.3d 1305, 1317 (Fed. Cir. 2012) (“Some complain of areas of patent law in which our guidance is mixed or muddled.”).

276. See generally Mark A. Lemley, *Where to File Your Patent Case*, 38 AIPLA Q.J. 401 (2010) (analyzing factors that attribute to a judicial district's popularity as a forum for patent litigation).

277. See, e.g., Xuan-Thao Nguyen, *Dynamic Federalism and Patent Law Reform*, 85 IND. L.J. 449, 476–77 (2010) (listing a number of districts that have adopted a form of local patent rules). The Central District of California, however, has not adopted local patent rules, even though it is the largest judicial district in the country with a very busy patent docket. See Craig Anderson, *Central District Struggles in Its Role as Top Patent Venue*, SUPPLEMENT TO L.A. & S.F. DAILY J. (Apr. 7, 2010), available at <http://perma.cc/EF4N-LGJY> (discussing how the Central District of California's refusal to adopt local patent rules both increases its load of patent litigation and creates uncertainty).

278. Arthur Gollwitzer III, *Local Patent Rules—Certainty and Efficiency or a Crazy Quilt of Substantive Law?*, 13 ENGAGE: J. FEDERALIST SOC'Y PRAC. GROUPS 94, 94 (2012). District courts promulgate these local rules pursuant to FED. R. CIV. P. 83, yet some have questioned whether these local rules conform with either Rule 83 or the Rules Enabling Act. See *Tyco Fire Prods. LP v. Victaulic Co.*, 777 F. Supp. 2d 893, 904 (E.D. Pa. 2011) (“Using local patent rules to alter a defendant's pleading obligations . . . offends the trans-substantive character of federal procedure.”); Gollwitzer, *supra*, at 265 (discussing how local patent rules may give rise to substantive differences in case outcomes across districts).

279. E.g., D. NEV. CIV. PRAC. R. 16.1-1; W.D. TENN. PATENT R. 1.1.

Local patent rules aim to standardize, streamline, and speed up patent cases by forcing parties early on in litigation to disclose their infringement and invalidity contentions.<sup>280</sup> This means quicker discovery deadlines and less time to develop case theories and strategies.<sup>281</sup> While speeding up some aspects of litigation, local patent rules have slowed down others—namely, *Markman* hearings.<sup>282</sup> The usual trend is to defer *Markman* hearings to the end of fact discovery so that the parties' positions on claim construction will be better defined and so that the court will only have to construe the most relevant disputed terms.<sup>283</sup> The natural corollary of these timing requirements, whether intended or not, is to increase settlement rates in patent cases.<sup>284</sup>

Judge Davis of the Eastern District of Texas has aptly described this relationship between local patent rules and settlement:

While the Court will not comment on Plaintiff's strategy, when combined with the requirements of the Patent Rules and the Court's standard docket control order, Plaintiff's strategy presents Defendants with a *Hobson's choice*: spend more than the settlement range on discovery, or settle for what amounts to cost of defense, regardless of whether a Defendant believes it has a legitimate defense.<sup>285</sup>

In a separate case, Judge Davis expressed related concerns about plaintiffs who file cases with extremely weak infringement positions in order to settle for less than the cost of defense and who have no intention of taking the case to trial. Such a practice is an abuse of the judicial system and threatens the integrity of and respect for the courts.<sup>286</sup> In those situations, Judge Davis believes, local patent rules "may not provide the most efficient case management schedule."<sup>287</sup> Accordingly, Judge Davis has been willing to modify the deadlines and

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280. Peter S. Menell et al., *Patent Claim Construction: A Modern Synthesis and Structured Framework*, 25 BERKELEY TECH. L.J. 711, 788–90 (2010).

281. See *Uniloc USA, Inc. v. Sony Corp. of Am.*, No. 6:10-CV-591, 2011 WL 1980214, at \*1 (E.D. Tex. May 20, 2011) (noting that, in some situations, patent rules' "quick discovery deadlines" enable abuse of the judicial system); *McKesson Info. Solutions LLC v. Epic Sys. Corp.*, 495 F. Supp. 2d 1329, 1332 (N.D. Ga. 2007) ("The Local Patent Rules have been characterized as an exercise in forced door closing, in the sense that they force the parties to take infringement and invalidity positions early in the litigation and stick to them." (internal quotations omitted)).

282. Menell et al., *supra* note 280, at 792.

283. Randall R. Rader, Chief Judge, U.S. Ct. App. Fed. Cir., Circuit Judges Panel of the PriceWaterhouseCoopers Leadership Conference (Feb. 18, 2006) (stating preference for claim construction to occur as late in the proceeding as possible).

284. See *Uniloc*, 2011 WL 1980214, at \*1 (discussing how bringing questionable patent claims may motivate settlements).

285. *Parallel Networks LLC v. AEO, Inc.*, No. 6:10-cv-00111-LED, at 6–7 (E.D. Tex. Mar. 15, 2011) (internal quotations omitted) (order denying motion to bifurcate).

286. *Raylon, LLC v. Complus Data Innovations, Co.*, No. 6:09-cv-00355-LED, at \*5 (E.D. Tex. 2009) (order denying motion for sanctions).

287. *Uniloc*, 2011 WL 1980214, at \*1.

disclosure requirements imposed by his court's local patent rules as appropriate on a case-by-case basis.<sup>288</sup>

Besides Judge Davis, few trial judges seem concerned about local patent rules coercing parties (particularly defendants) into unjustified settlements.<sup>289</sup> To the contrary, most district courts strictly interpret and enforce their local patent rules, a practice the Federal Circuit has approved.<sup>290</sup> More to the point, courts have adopted local patent rules that include specific provisions designed to promote settlement. For example, the Southern District of California and the District of Nevada have both promulgated local patent rules mandating settlement conferences.<sup>291</sup> In the same vein, the Western District of Tennessee has adopted local patent rules that require parties to identify disputed claim terms whose construction would be “substantially conducive to promoting settlement.”<sup>292</sup> These prosettlement local rules arguably will attract patent plaintiffs who have no intention of adjudicating a case to trial but instead are seeking quick, lucrative settlements.

The movement to adopt local patent rules is not the only institutional action the judiciary has taken to encourage out-of-court patent settlements. In 2006, the Federal Circuit established a mandatory mediation program for all cases selected for participation, including patent appeals.<sup>293</sup> The mediation program's purpose is to

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288. See, e.g., *Raylon*, No.147 6:09-cv-00355-LED, at 5 (order denying motion for sanctions); *Adjustacam LLC v. Amazon.com, Inc.*, No. 426 6:10-cv-00329-LED (E.D. Tex. Oct. 14, 2010) (order denying motion to stay and to sever claims, and granting parties' request for leave to file an early summary judgment motion regarding damages).

289. Congress, on the other hand, was somewhat concerned with this problem and enacted stricter joinder requirements for patent cases as part of the America Invents Act. 35 U.S.C. § 299 (2012). Under prior joinder rules, patent owners could sue multiple unrelated defendants in the same action as long as they were alleged to have infringed on the same patent. See David O. Taylor, *Patent Misjoinder*, 88 N.Y.U. L. REV. 652, 671 (2013). Congress apparently believed that these liberal joinder rules increased costs for defendants, pressuring them into premature settlements. *Id.* at 701–02.

290. See, e.g., *O2 Micro Int'l Ltd. v. Monolithic Power Sys., Inc.*, 467 F.3d 1355, 1366 (Fed. Cir. 2006) (holding that district court did not abuse its discretion in strictly enforcing local patent rules); *Genentech, Inc. v. Amgen, Inc.*, 289 F.3d 761, 774 (Fed. Cir. 2001) (stating that it “defers to the district court when interpreting and enforcing local rules so as not to frustrate local attempts to manage patent cases according to prescribed guidelines”).

291. See W. West Allen, *Nevada Federal Court: The Next Best Place for Patent Litigation?*, NEV. LAW., Nov. 2001, at 9–10 (explaining that the District of Nevada requires three mandatory settlement conferences held at strategic stages of the litigation: pre-claim construction, post-claim construction, and pretrial); Douglas C. Muth et al., *The Local Patent Rules Bandwagon*, 21 INTELL. PROP. & TECH. L.J. 19, 21 (2009) (describing the Southern District of California's requirement for an early settlement conference).

292. W.D. TENN. PATENT R. 4.5(C).

293. David E. Sosnowski, *Resolving Patent Disputes Via Mediation: The Federal Circuit and the ITC Find Success*, MD. B.J., Mar. 2012, at 26. The Federal Circuit initially rolled this out as a

help settle cases by providing a confidential, nonbinding, no-cost opportunity for parties to discuss their dispute with a mediator who has expertise in the relevant field.<sup>294</sup> Between 2007 and 2013, there were 497 patent cases selected for participation in the mediation program, and on average, 45% of those cases settled.<sup>295</sup> If success is defined as settling cases—which it clearly is for the Federal Circuit—then this mediation program has been quite successful for patent appeals over the past several years.<sup>296</sup>

To be sure, the Federal Circuit's mediation program has increased the settlement rate of patent cases. In reality, though, the mediation program's impact on patent settlements is infinitesimal when compared to other ways the Federal Circuit has influenced settlement. Specifically, over the past thirty years, the Federal Circuit has developed a prosettlement jurisprudence that has conveyed to lower courts, litigants, and market participants that settlement is always the preferred way to resolve patent disputes.

### *C. The Federal Circuit's Prosettlement Jurisprudence*

Federal Circuit jurisprudence has been the topic of much scholarly debate. Scholars have explored the Federal Circuit's pro-patentee bias,<sup>297</sup> inclination toward formalism,<sup>298</sup> and propensity for

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voluntary mediation program in 2005 but made it mandatory when the program was formally implemented a year later. *Id.*

294. U.S. COURT OF APP. FED. CIRCUIT, APPELLATE MEDIATION PROGRAM GUIDELINES (2008), available at <http://www.cafc.uscourts.gov/mediation/guidelines.html>; Wendy Levenson Dean, *Let's Make a Deal: Negotiating Resolution of Intellectual Property Disputes Through Mandatory Mediation at the Federal Circuit*, 6 J. MARSHALL REV. INTELL. PROP. L. 365, 366 (2007).

295. U.S. COURT OF APP. FED. CIRCUIT, CIRCUIT MEDIATION OFFICE STATISTICS (2007), available at <http://perma.cc/4VAV-Y4YV>; U.S. COURT OF APP. FED. CIRCUIT, CIRCUIT MEDIATION OFFICE STATISTICS (2008), available at <http://perma.cc/Z896-342Q>; U.S. COURT OF APP. FED. CIRCUIT, CIRCUIT MEDIATION OFFICE STATISTICS (2009), available at <http://perma.cc/W6NL-3QNU>; U.S. COURT OF APP. FED. CIRCUIT, CIRCUIT MEDIATION OFFICE STATISTICS (2010), available at <http://perma.cc/3WL2-Y3BH>; U.S. COURT OF APP. FED. CIRCUIT, CIRCUIT MEDIATION OFFICE STATISTICS (2011), available at <http://perma.cc/L4ZF-PA3D>; U.S. COURT OF APP. FED. CIRCUIT, CIRCUIT MEDIATION OFFICE STATISTICS (2012), available at <http://perma.cc/X5WE-KY48>; U.S. COURT OF APP. FED. CIRCUIT, CIRCUIT MEDIATION OFFICE STATISTICS (2013), available at <http://perma.cc/5BLN-92EM>.

296. See *supra* Part V.C (discussing the Federal Circuit's preference for settlement).

297. See, e.g., BESSEN & MEURER, *supra* note 115, at 69 (describing empirical research that shows a link between growth of patent applications and pro-patent-holder policies in the Federal Circuit); ADAM B. JAFFE & JOSH LERNER, INNOVATION AND ITS DISCONTENTS: HOW OUR BROKEN PATENT SYSTEM IS ENDANGERING INNOVATION AND PROGRESS, AND WHAT TO DO ABOUT IT 110–26 (2004) (explaining systematic alterations in favor of patent holders, including strengthening remedies, expanding patentable topics, limiting challenges to patent validity, and increasing reliance on juries).

turning questions of fact into questions of law.<sup>299</sup> One subject that has received surprisingly little attention, however, is the Federal Circuit's prosettlement ideology, which pervades the court's patent law jurisprudence.

### 1. Patent Validity Challenges and Settlement

When the PTO issues a bad patent, federal court adjudication is usually the only way to rectify that mistake.<sup>300</sup> Because of the impact bad patents may have on the consuming public, the Supreme Court consistently has taken the position that validity challenges must be facilitated and encouraged.<sup>301</sup> To that end, the Court in *Lear, Inc. v. Adkins* abolished the doctrine of licensee estoppel, which precluded licensees from challenging the validity of patents subject to license agreements.<sup>302</sup> The Court reasoned that "[l]icensees may often be the only individuals with enough economic incentive to challenge the patentability of an inventor's discovery."<sup>303</sup>

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298. See, e.g., Michael J. Burstein, *Rules for Patents*, 52 WM. & MARY L. REV. 1747, 1790 (2011) ("Poor policy arising from legal formalism is especially commonplace in Federal Circuit patent cases."); John F. Duffy, *Rules and Standards on the Forefront of Patentability*, 51 WM. & MARY L. REV. 609, 611–12 (2009) (describing how Federal Circuit overruled a prior doctrinal test and adopted the "machine-or-transformation" rule instead of a more flexible standard); John R. Thomas, *Formalism at the Federal Circuit*, 52 AM. U. L. REV. 771, 776 (2003) (explaining "adjudicative rule formalism," according to which lawmakers are encouraged to make bright-line rules instead of vague standards).

299. See, e.g., Rochelle Cooper Dreyfuss, *In Search of Institutional Identity: The Federal Circuit Comes of Age*, 23 BERKELEY TECH. L.J. 766, 781 (2008) (reasoning that the Federal Circuit's tendency to change questions of fact into questions of law leads to quality and accuracy issues); Paul R. Gugliuzza, *The Federal Circuit as a Federal Court*, 54 WM. & MARY L. REV. 1791, 1832 (2013) (arguing that, although evaluating extrinsic claim construction evidence seems to be a fact-finding task, the Federal Circuit treats it as a question of law); Arti K. Rai, *Specialized Trial Courts: Concentrating Expertise on Fact*, 17 BERKELEY TECH. L.J. 887, 894 (2002) (noting how the Federal Circuit has declared claim construction to be a pure question of law and thus subject to de novo review).

300. Farell & Merges, *supra* note 168, at 958. Pursuant to the AIA, Congress has created additional administrative procedures for challenging patent validity. See Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat. 284–341 (2011) (codified as amended in scattered parts of 35 U.S.C.). However, there are limitations to these proceedings, so litigation will likely remain the primary gatekeeper of patent validity. La Belle, *supra* note 153, at 57–59.

301. See *FTC v. Activis, Inc.*, 133 S. Ct. 2223, 2233 (2013) (recognizing the "patent-related policy of eliminating unwarranted patent grants so the public will not continually be required to pay tribute to would-be monopolists without need or justification" (internal quotations omitted)); *Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found.*, 402 U.S. 313, 345–46 (1971) (discussing line of Supreme Court cases that "eliminat[ed] obstacles to suit by those disposed to challenge the validity of a patent"); see also La Belle, *supra* note 153, at 62–63 (describing how the Court in *Lear* recognized the crucial nature of the public's right to access the public domain).

302. 395 U.S. 653, 671 (1969).

303. *Id.* at 670.

In the wake of *Lear*, parties and courts have struggled to define the decision's reach. Of particular concern has been *Lear*'s impact on "no-challenge" clauses, which are provisions in patent licenses and settlement agreements acknowledging the validity of the patent and precluding future validity challenges.<sup>304</sup> While courts and scholars agree that *Lear* likely bars no-challenge provisions in standard patent license agreements, the analysis is more complicated when a lawsuit (actual or potential) is involved.

Courts first addressed the question whether settlement agreements with no-challenge provisions are enforceable under *Lear* with respect to cases resolved through the entry of a consent decree.<sup>305</sup> Courts have uniformly answered this question in the affirmative, but their rationales have varied. The Second Circuit, for example, found persuasive the argument that consent decrees are subject to court scrutiny (unlike license agreements) and are entered into only after the accused infringer conducts discovery.<sup>306</sup> By contrast, the Federal Circuit in *Foster v. Hallco Manufacturing Co.* relied on policies favoring the finality of judgments and voluntary settlement in deciding to enforce no-challenge provisions in consent decrees: "Barring subsequent challenges favors the public policy of encouraging voluntary settlement; at the same time, a narrow construction of [no-challenge] provisions favors challenges to validity. Thus, a balance in the policy expressed in *Lear* and the interest in encouraging settlement is achieved."<sup>307</sup>

Had the Federal Circuit actually gone on to construe no-challenge provisions narrowly, perhaps the right balance might have been struck. But that is not what has happened since *Foster*. Instead, the Federal Circuit has repeatedly cited the policy encouraging

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304. See *Massillon-Cleveland-Akron Sign Co. v. Golden State Adver. Co.*, 444 F.2d 425, 425-26 (9th Cir. 1971) (describing how the district court struggled with defining a breach of the settlement agreement as a breach-of-contract or a patent-infringement claim).

305. See, e.g., *Foster v. Hallco Mfg. Co.*, 947 F.2d 469, 476 (Fed. Cir. 1991) ("[A] consent judgment, unlike an imposed judgment, runs afoul of *Lear* even with respect to the same cause of action . . . on the theory that *Lear* precludes parties from removing possible challenges to validity merely by their agreement."); *Am. Equip. Corp. v. Wikomi Mfg. Co.*, 630 F.2d 544, 547-48 (7th Cir. 1980) (noting that the impact of *Lear* on "whether consent judgment adjudicating infringement as well as validity of the patent has not yet been decided by this court" (internal quotations omitted)); *Wallace Clark & Co. v. Acheson Indus., Inc.*, 532 F.2d 846, 849 (2d Cir. 1976) (concluding that consent decrees were subject to court scrutiny unlike pre-*Lear* estoppel claims based on purely private license agreements); *Schlegel Mfg. Co. v. USM Corp.*, 525 F.2d 775, 780-81 (6th Cir. 1975) (describing a circuit split regarding how to treat *Lear* with respect to consent decrees).

306. *Wallace Clark*, 532 F.2d at 849.

307. *Foster*, 947 F.2d at 481.

settlement to “chip[ ] away at” the *Lear* doctrine.<sup>308</sup> In *Flex-Foot, Inc. v. CRP, Inc.*, the Federal Circuit held that *Lear* does not void private settlement agreements with no-challenge provisions, even in the absence of a consent decree.<sup>309</sup> As the court explained,

Once an accused infringer has challenged patent validity, *has had an opportunity to conduct discovery on validity issues*, and has elected to voluntarily dismiss the litigation with prejudice under a settlement agreement containing a clear and unambiguous undertaking not to challenge validity . . . the accused infringer is contractually estopped from raising any such challenge in any subsequent proceeding.<sup>310</sup>

Under these circumstances, the Federal Circuit concluded, “settlement of litigation is more strongly favored” than *Lear*.<sup>311</sup>

*Flex-Foot* left open the question whether no-challenge provisions in settlement agreements would only be enforced in cases where the accused infringer challenged patent validity and had the opportunity to engage in meaningful discovery.<sup>312</sup> Let’s consider the situation where a patentee sues for infringement, the parties settle very quickly before any discovery has taken place, and the defendant agrees to a no-challenge provision. Is that no-challenge provision enforceable even though the accused infringer did not have “an opportunity to conduct discovery on validity issues” like the defendant in *Flex-Foot*? In the years immediately following *Flex-Foot*, some scholars concluded that such a no-challenge provision would be enforceable because *Flex-Foot* stood for the broad proposition that a clear and unambiguous promise not to challenge the validity of a patent will be enforced as long as it forms part of an agreement to settle litigation.<sup>313</sup> Other scholars argued that such an extensive application of *Flex-Foot* would cut too far into *Lear*’s holding because

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308. Hovenkamp et al., *supra* note 15, at 1743 n.99.

309. 238 F.3d 1362, 1368–70 (Fed. Cir. 2001); *see also* Hemstreet v. Spiegel, Inc., 851 F.2d 348, 350–51 (Fed. Cir. 1988) (upholding the district court’s settlement order dismissing litigation and stating that validity issues were finally resolved and bar a later challenge to validity under estoppel principles).

310. *Flex-Foot*, 238 F.3d at 1370 (emphasis added).

311. *Id.* at 1369.

312. *See, e.g.*, Maureen A. O’Rourke & Joseph F. Brodley, *An Incentives Approach to Patent Settlements: A Commentary on Hovenkamp, Janis and Lemley*, 87 MINN. L. REV. 1767, 1780 (2003) (arguing that the *Flex-Foot* rule should only apply when defendant has conducted discovery because, “[p]resumably, such discovery is likely to reveal much about probable patent invalidity”).

313. DONALD S. CHISUM ET AL., PRINCIPLES OF PATENT LAW 1142 (2d ed. 2001) (“[A] promise not to challenge the validity of a patent will be enforced if it is in a contract of a certain type, which presently includes settlement agreements.”); *see also* Hovenkamp et al., *supra* note 15, at 1739 n.99 (stating that, after *Flex-Foot*, the *Lear* doctrine “does not permit a licensee who once challenged a patent’s validity and settled that lawsuit to reopen the challenge”).

“the public also benefits from removing invalid patents from the system.”<sup>314</sup>

The Federal Circuit recently addressed this unresolved question in *Baseload Energy, Inc. v. Roberts*, and predictably, the court continued its pattern of whittling away *Lear* in favor of policies promoting settlement.<sup>315</sup> The accused infringer in *Baseload* brought a declaratory judgment action against Roberts (the patent owner), asking the court to declare his patent invalid and unenforceable. The district court granted summary judgment to Roberts on estoppel grounds based on an earlier settlement agreement between the parties that barred “all claims between the parties.”<sup>316</sup> On appeal, the accused infringer argued that *Flex-Foot* did not apply because the prior litigation and settlement concerned a breach of contract claim and did not involve patent invalidity issues at all.<sup>317</sup> The Federal Circuit disagreed:

Contrary to [the accused infringer’s] argument, while the absence of a prior dispute and litigation as to invalidity is pertinent, we do not think that a settlement agreement is ineffective to release invalidity claims unless the exact circumstances described in *Flex-Foot* are present . . . . In the context of settlement agreements, as with consent decrees, clear and unambiguous language barring the right to challenge patent validity in future infringement actions is sufficient, *even if invalidity claims had not been previously at issue and had not been actually litigated.*<sup>318</sup>

In the end, however, the Federal Circuit reversed the grant of summary judgment because the settlement agreement from the prior breach-of-contract litigation did not include the necessary “clear and unambiguous language” required of a no-challenge clause.<sup>319</sup>

Despite the ultimate conclusion in *Baseload*, the above-quoted language is telling for a number of reasons. For starters, it signals the Federal Circuit’s willingness to enforce no-challenge provisions in quick settlements executed soon after cases are filed without any discovery as to the patent’s validity. Indeed, even before *Baseload*, district courts were interpreting *Flex-Foot* as applying to cases where there was little or no presettlement discovery.<sup>320</sup> But with *Baseload*,

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314. O’Rourke & Brodley, *supra* note 299, at 1780.

315. 619 F.3d 1357, 1361–64 (Fed. Cir. 2010).

316. *Id.* at 1358 (internal quotations omitted).

317. *Id.* at 1363.

318. *Id.* (emphasis added).

319. *Id.* at 1364.

320. See, e.g., *Warrior Lacrosse, Inc. v. Brine, Inc.*, No. 04-71649, 2006 WL 763190, at \*26 (E.D. Mich. Mar. 8, 2006) (“[T]he Federal Circuit has repeatedly stated that the policy of preserving the public domain articulated in *Lear v. Adkins* must yield in view of the strong federal policy of promoting the settlement of litigation.”); *Panduit Corp. v. Hellermann Tyton Corp.*, No. 03-C-8100, 2004 WL 1898954, at \*3 (N.D. Ill. Aug. 11, 2004) (holding that the factors



the Federal Circuit has taken *Flex-Foot* one step further. Now, the accused infringer may be estopped even where neither patent validity nor infringement was raised in the prior proceeding.<sup>321</sup>

One remaining situation that the Federal Circuit has yet to address involves a *prelitigation* settlement with a no-challenge provision. Say, for instance, that a patent owner threatens an infringement suit but that the parties settle and enter into a license agreement before a lawsuit is ever filed. If the agreement includes a no-challenge provision, is that treated more like the license agreement in *Lear* or the settlement agreement in *Flex-Foot*? The Second Circuit addressed this question recently and decided that prelitigation settlements look more like the former and are therefore void under *Lear*.<sup>322</sup> In reaching this decision, the Second Circuit admitted to some tension with the above-quoted language from *Baseload* but concluded that the Federal Circuit's statement was dicta and that, more importantly, the Second Circuit is not bound by the Federal Circuit.<sup>323</sup> The Second Circuit further stated that it "anticipates that when the issue is squarely presented," the Federal Circuit will "carefully consider" whether the dicta in *Baseload* is consistent with *Lear*, which, the Second Circuit reminds the Federal Circuit, is binding on all circuits.<sup>324</sup>

For now, we will have to wait and see how the Federal Circuit comes out on this issue. I must admit, though, I am less optimistic than the Second Circuit about the Federal Circuit deferring to *Lear* with respect to prelitigation settlements. I suspect instead that the Federal Circuit will reject the Second Circuit's rule on the ground that it will increase litigation by forcing parties who wish to settle to go through the formality of filing suit so that their settlement agreement is enforceable under *Flex-Foot*.<sup>325</sup> Of course, more litigation is not the

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set out in *Flex-Foot* were not intended by the Federal Circuit as a "test" for future cases, but simply as a recitation of the facts in *Flex-Foot*).

321. See, e.g., *Petter Invs., Inc. v. Hydro Eng'g, Inc.*, 828 F. Supp. 2d 924, 929 (W.D. Mich. 2011) (finding that, to maintain a right to contractual estoppel, *Flex-Foot* did not require invalidity issues to be actually litigated in the proceeding giving rise to the settlement agreement).

322. *Rates Tech., Inc. v. Speakeasy, Inc.*, 685 F.3d 163, 172 (2d Cir. 2012) ("[W]e believe that in the patent context enforcing no-challenge clauses in prelitigation settlements would too easily enable patent owners to 'muzzle[]' licensees—the 'only individuals with enough economic incentive to challenge' the patent's validity." (quoting *Lear v. Adkins*, 395 U.S. 653, 670 (1969))).

323. *Id.* at 173–74.

324. *Id.* at 174 n.9. Importantly, in a case decided just this January, the Supreme Court reaffirmed *Lear*'s reasoning that patent challenges serve the public interest. See *Medtronic, Inc., v. Mirowski Family Ventures, LLC*, 134 S. Ct. 843, 852 (2014).

325. See, e.g., Jennifer L. Collins & Michael A. Cicero, *The Impact of MedImmune Upon Both Licensing and Litigation*, 89 J. PAT. & TRADEMARK OFF. SOC'Y 748, 748 (2007) ("For patent

only possible outcome of the Second Circuit's rule—parties could also respond by settling without no-challenge provisions, which would be “a desirable consequence for the reasons stated in *Lear*.”<sup>326</sup> Yet because the Federal Circuit has consistently denigrated *Lear* in favor of settlement, there is little reason to believe it will fall in line with the Second Circuit on this issue.<sup>327</sup>

## 2. Vacatur

Vacatur is another area of patent law where the Federal Circuit has consistently promoted settlement without adequately considering the impact on the public good.<sup>328</sup> The practice of parties jointly moving to vacate otherwise proper rulings in connection with settlement has become quite common in patent cases.<sup>329</sup> A recent empirical study by Jeremy Bock sheds important light on this issue. In his study, Bock gathered data from seventy-nine patent cases filed during a five-year period (January 2006 to January 2011) in which the parties jointly moved the trial court to vacate otherwise-proper court rulings as part of the settlement agreement.<sup>330</sup> The vacatur motions in all seventy-nine cases targeted rulings on substantive matters of patent law, including claim construction, noninfringement, invalidity, and unenforceability.<sup>331</sup> Bock found that trial courts granted these motions for vacatur a vast majority of the time.<sup>332</sup>

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holders . . . looking to negotiate new license agreements, the fact that license agreements prepared and executed in the context of settlement agreements are stronger . . . may weigh in favor of an approach of suing the potential licensee for infringement prior to negotiating the license agreement.”)

326. *Rates Tech.*, 685 F.3d at 173.

327. Closely related to no-challenge provisions are covenants not to sue (“CNS”), pursuant to which a patentee promises not to enforce its patent(s) against certain potential infringers. Patent owners will often grant a CNS after litigation has been initiated in order to settle the case. Sometimes, though, the accused infringer wants to continue litigating its invalidity claim notwithstanding the CNS. The Federal Circuit has held, however, that the issuance of a CNS can divest a federal court of declaratory judgment jurisdiction because there is no longer an actual case or controversy for the court to resolve. *See, e.g., Dow Jones & Co., Inc. v. Ablaise Ltd.*, 606 F.3d 1338, 1345–49 (Fed. Cir. 2010); *Super Sack Mfg. Corp. v. Chase Packaging Corp.*, 57 F.3d 1054 (Fed. Cir. 1995). This means that the validity challenge goes unresolved and the potentially invalid patent remains in force. Although the Federal Circuit has not explicitly justified this position on promotion-of-settlement grounds, it is likely that the court's prosettlement policy underlies its CNS jurisprudence, at least to some degree.

328. BLACK'S LAW DICTIONARY 1254 (abridged 7th ed. 2000) (defining vacatur as “the act of annulling or setting aside”).

329. *See Bock, supra* note 217, at 920. Some vacatur motions are not jointly filed but are unopposed, so the end result is the same. *Id.* at 953.

330. *Id.* at 935.

331. *Id.*

332. *Id.* at 938 (finding that courts grant 78.5% of these motions).

To understand the import of Bock's results, it is necessary to appreciate why parties, specifically patent owners, seek vacatur in the first place. Generally speaking, patent owners move to vacate judgments to avoid an estoppel effect in future litigation. If, for instance, a patent is adjudged invalid in one suit, the patent owner would normally be estopped from enforcing that patent in a later suit.<sup>333</sup> But if the parties settle and the trial court vacates the judgment, then the patent owner is free to reassert the previously invalidated patent against other competitors.<sup>334</sup> No doubt this practice adversely affects the public interest,<sup>335</sup> yet federal district courts grant vacatur motions in the vast majority of instances where it is requested as part of a patent settlement. This trend is due at least in part to the Federal Circuit's vacatur jurisprudence.

The leading Supreme Court decision on vacatur is *U.S. Bancorp Mortgage Co. v. Bonner Mall Partnership*.<sup>336</sup> In that case, the parties settled after the Court granted certiorari and after the petitioner moved to vacate the lower court's judgment. The Supreme Court denied the motion, holding that vacatur is an equitable remedy that should be used only in exceptional circumstances.<sup>337</sup> Because of its equitable nature, the decision whether to grant vacatur, the Court further explained, must take into account the public's interest.<sup>338</sup> The Court concluded that the public's interests lie in having legal questions resolved, and "the mere fact that the settlement agreement provides for vacatur" does not outweigh this fundamental principle of social welfare.<sup>339</sup>

Despite setting a high bar for settlement-related vacatur, *Bancorp* has had a diminished impact because some lower courts have interpreted it as limited to appellate level vacatur.<sup>340</sup> It is true that

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333. See *Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found.*, 402 U.S. 313, 350 (1971) (holding that, once a patent is invalidated, nonmutual collateral estoppel prevents the patent owner from ever asserting it again).

334. Bock, *supra* note 217, at 958 (finding that the majority of vacatur motions pertained to patents with a history of litigation).

335. See *Cardinal Chem. Co. v. Morton Int'l, Inc.*, 508 U.S. 83, 100 (1993) (noting "the importance to the public at large of resolving questions of patent validity"); *Lear v. Adkins*, 395 U.S. 653, 675 n.19 (1969) (remarking on "the public's interest in the elimination of specious patents").

336. 513 U.S. 18 (1994).

337. *Id.* at 29.

338. *Id.* at 26–27.

339. *Id.* at 26–27, 29.

340. See, e.g., *Marseilles Hydro Power LLC v. Marseilles Land & Water Co.*, 481 F.3d 1002, 1003 (7th Cir. 2007) (stating that district courts are not "cabined by [Bancorp's] exceptional circumstances test"); *Am. Games v. Trade Prods.*, 142 F.3d 1164, 1169 (9th Cir. 1998) (stating

*Bancorp* suggested that appellate courts should refrain from deciding vacatur motions and should instead allow trial courts to resolve these questions on remand.<sup>341</sup> What *Bancorp* did not make clear, however, is whether district courts are bound by the “exceptional circumstances” requirement or whether the standard is looser for trial courts. Federal circuit courts have split on this issue, with some holding that *Bancorp* applies at the trial level,<sup>342</sup> while others have held that a district court may grant settlement-related vacatur even in the absence of exceptional circumstances.<sup>343</sup>

Since *Bancorp*, the Federal Circuit has weighed in on vacatur and encouraged its use to settle patent cases, albeit in relatively subtle ways.<sup>344</sup> In *Dana v. E.S. Originals, Inc.*, a case about the preclusive effect of claim construction orders, Judge Dyk wrote a concurring opinion addressing vacatur:

I also write separately to emphasize that our decision today does not determine that the parties to a district court settlement agreement lack a mechanism to prevent interim decisions in that litigation from having collateral estoppel effects in future third party litigation. That goal could perhaps be accomplished by moving to vacate the district court’s earlier decision as part of the settlement.<sup>345</sup>

Judge Dyk went on to say that *Bancorp* does not apply to district courts “but rather only to the Supreme Court and to courts of appeals.”<sup>346</sup>

Judge Dyk’s recommended approach has become prevalent in patent litigation. As Bock’s study reflects, parties regularly move the trial court to vacate adverse rulings upon settlement, and those

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that district courts, in granting vacatur, are not bound by *Bancorp*’s exceptional circumstances test).

341. *Bancorp*, 513 U.S. at 29.

342. See, e.g., *Valero Terrestrial Corp. v. Paige*, 211 F.3d 112, 121 (4th Cir. 2000) (holding that *Bancorp* considerations are largely determinative of a district court’s vacatur decision).

343. See, e.g., *Marseilles*, 481 F.3d at 1003 (stating that district courts are not “cabined by [*Bancorp*’s] exceptional circumstances test”); *Am. Games*, 142 F.3d at 1169 (stating that the district court could have vacated its own judgment without using the exceptional circumstances test).

344. In patent cases, the general rule is that Federal Circuit law governs substantive patent law issues and regional circuit law governs procedural issues. See *GFI, Inc. v. Franklin Corp.*, 265 F.3d 1268, 1272 (Fed. Cir. 2001). Yet the Federal Circuit has created an exception for procedural questions that are “intimately involved in the substance of enforcement of the patent right,” *id.*, and applies its own law in those situations. See *Silent Drive, Inc. v. Strong Indus., Inc.*, 326 F.3d 1194, 1201 (Fed. Cir. 2003). The Federal Circuit has yet to resolve the question whether vacatur is “intimately involved in the substance of enforcement of the patent right,” so it is unclear whether regional circuit law or Federal Circuit law applies to vacatur motions in patent cases.

345. *Dana v. E.S. Originals, Inc.*, 342 F.3d 1320, 1328 (Fed. Cir. 2003).

346. *Id.*

motions are usually successful.<sup>347</sup> In a good number of cases, Judge Dyk's concurrence was cited in connection with a request for settlement-related vacatur.<sup>348</sup> Other courts were likely influenced by Judge Dyk's concurrence, even if his decision was not cited explicitly.<sup>349</sup>

The Federal Circuit also facilitates vacatur with respect to cases that settle on appeal by remanding them to the trial court for the limited purpose of deciding the motion to vacate. This long-standing practice, which is documented in a series of unpublished opinions,<sup>350</sup> went unchecked until the Federal Circuit's recent published decision in *Ohio Willow Wood Co. v. Thermo-Ply, Inc.*<sup>351</sup> The parties in *Ohio Willow* settled on appeal, and per its usual practice, the Federal Circuit remanded so the district court could consider whether to vacate the invalidity judgment. What sets *Ohio Willow* apart, other than being published, is the concurrence from Judge Moore, which argues that *Bancorp* applies to district courts and warns against the dangers to the public created by vacatur in patent cases.<sup>352</sup>

It seemed initially that Judge Moore's concurrence would carry some weight with district courts deciding vacatur motions in patent cases. Indeed, in *Ohio Willow* itself, the district court on remand denied the motion to vacate in light of the factors set out in *Bancorp*.<sup>353</sup> Other indicators, however, suggest that Judge Moore is an outlier on this issue and that the Federal Circuit will continue to

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347. Bock, *supra* note 217, at 234.

348. See, e.g., *Triquint Semiconductor, Inc. v. Avago Tech. Ltd.*, No. CV 09-1531-PHX-JAT, 2012 WL 1768084, at \*1 (D. Az. May 17, 2012) (citing Judge Dyk's concurrence); *Lycos, Inc. v. Blockbuster, Inc.*, No. 07-11469-MLW, 2010 WL 5437226, at \*1 (D. Mass. Dec. 23, 2010) (citing Judge Dyk's concurrence); see also Bock, *supra* note 217, at 931 (stating that Judge Dyk's concurrence was cited in at least sixteen motions out of seventy-nine cases and in two orders granting vacatur).

349. Trial courts granting vacatur in patent cases may also be swayed by *Erickson v. Interdigital Commc'ns Corp.*, 418 F.3d 1217, 1224 (Fed. Cir. 2005), in which the Federal Circuit held that a district court abused its discretion by allowing a third party to intervene in a patent case in order to reinstate previously vacated rulings.

350. See, e.g., *Roche Palo Alto LLC v. Ranbaxy Labs. Ltd.*, No. 2010-1056, 2010 WL 8357170, at \*1 (Fed. Cir. Aug. 24, 2010) (remanding case to allow the district court to consider granting the parties' motion for vacatur); *Taurus IP, LLC v. Ford Motor Co.*, No. 2008-1475, 2008 WL 5737018, at \*1 (Fed. Cir. Oct. 3, 2008) ("The usual course, when the parties have settled, is to dismiss the appeal unless the parties request that the case be remanded so that the trial court can consider whether to vacate its own decision due to settlement."); *Conmed Corp. v. Erbe Electromedizen*, No. 04-1261, 2004 WL 1531451, \*1 (Fed. Cir. June 17, 2004) (remanding case to allow the district court to consider the parties' motion to vacate).

351. 629 F.3d 1374, 1375 (Fed. Cir. 2011).

352. *Id.* at 1376 (arguing that the public's interest in patent cases is "overwhelming" especially when the patent has been invalidated). Judge Newman also wrote a concurrence intended to limit the impact of Judge Moore's opinion. *Id.* at 1375-76.

353. 769 F. Supp. 2d 1065, 1071 (E.D. Tex. 2011).

facilitate vacatur because of its positive influence on settlement outcomes. For one, in the short time following *Ohio Willow*, the Federal Circuit on several occasions has remanded patent cases to the district court to consider a settlement-related vacatur motion without mention of Judge Moore's concerns expressed in *Ohio Willow*.<sup>354</sup>

Perhaps even more revealing are the vacatur-related policies and practices of the Federal Circuit's mandatory mediation program. Recent anecdotal evidence demonstrates that Federal Circuit mediators sometimes advise parties to seek vacatur as a means of facilitating settlement in patent cases.<sup>355</sup> That this practice is becoming the rule rather than the exception is substantiated by the fact that the Federal Circuit's mediation guidelines, which were originally silent as to vacatur, were amended in September 2012 and December 2013 to specifically contemplate vacatur as a term of settlement.<sup>356</sup> In fact, in what appears to be a direct response to Judge Moore's concurrence in *Ohio Willow*, the mediation guidelines now require any remand order by the Federal Circuit to include the following statement: "In remanding this case to the District Court to consider the motion for vacatur, the Federal Circuit takes no position as to whether the District Court should grant the motion for vacatur."<sup>357</sup>

In the end, *Ohio Willow* did little to dampen the Federal Circuit's enthusiasm for settlement-related vacatur, even though this practice squarely contravenes the public's interest in eliminating suspect patents.

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354. *Resqnet.com, Inc. v. Lansa, Inc.*, Nos. 2012-1189, 2012-1190, 2012 WL 4171262, at \*1 (Fed. Cir. Sept. 20, 2012); *Karl Storz Imaging, Inc. v. Pointe Conception Med., Inc.*, No. 2012-1001, 2012 WL 2884704, at \*1 (Fed. Cir. July 16, 2012); *Acoustic Techs., Inc. v. Itron, Inc.*, No. 2011-1315, 2011 WL 3893811, at \*1 (Fed. Cir. Sept. 6, 2011); *Duncan Kitchen Grips, Inc. v. Bos. Warehouse Trading Corp.*, No. 2011-1321, 2011 WL 3893813, at \*1 (Fed. Cir. Sept. 6, 2011); *Dicam, Inc. v. Cellco*, No. 2011-1034, 2011 WL 1252250, at \*1 (Fed. Cir. Apr. 4, 2011).

355. See Response in Opposition Regarding Motion for Leave to File Amicus Curiae Brief at 10–11, *Ameranth, Inc. v. Menusoft Sys. Corp.*, No. 2:07-CV-271 (E.D. Tex. Nov. 15, 2011) (No. 336) ("[T]he settlement would not have been reached without the efforts of the Chief Federal Circuit Mediator and his suggestion of the motion for vacatur to facilitate the settlement."); see also Bock, *supra* note 217, at 933 (discussing mediators' practice of recommending vacatur).

356. Compare U.S. COURT OF APPEALS FED. CIRCUIT, APPELLATE MEDIATION PROGRAM GUIDELINES (effective May 1, 2008), available at <http://perma.cc/qqj3-AEaz> (omitting any discussion of vacatur as a term of settlement), with U.S. COURT OF APPEALS FED. CIRCUIT, APPELLATE MEDIATION PROGRAM GUIDELINES (amended Sept. 4, 2012), available at <http://www.cafc.uscourts.gov/mediation/guidelines.html> (contemplating vacatur as a term of settlement).

357. See U.S. COURT OF APPEALS FED. CIRCUIT, AMENDMENTS TO U.S. COURT OF APPEALS FOR THE FEDERAL CIRCUIT'S APPELLATE MEDIATION PROGRAM GUIDELINES (Dec. 6, 2013), available at <http://perma.cc/D6BN-JSWG> (stating that the "Federal Circuit takes no position as to whether the District Court should grant the motion for vacatur").

### 3. Personal Jurisdiction

Though personal jurisdiction ostensibly has nothing to do with settlement, the Federal Circuit has managed to link these two doctrines with respect to patent declaratory judgment actions.<sup>358</sup> In a long line of cases, the Federal Circuit has held that patent owners will not be subject to personal jurisdiction in declaratory judgment actions based exclusively on the sending of a cease-and-desist (or demand) letter to the accused infringer in the forum state.<sup>359</sup> Unlike most dismissals for lack of personal jurisdiction, the problem identified by the Federal Circuit has nothing to do with the defendant's lack of minimum contacts. Just the opposite: the Federal Circuit concedes that the sending of a cease-and-desist letter would normally give rise to specific jurisdiction because the patent owner purposefully availed itself to the forum state by directing the letter there and because the letter gave rise to the plaintiff's claim.<sup>360</sup>

So why has the Federal Circuit adopted a rule precluding jurisdiction in these circumstances? Because, at least in theory, it encourages settlement. The Federal Circuit has explained that basing personal jurisdiction on cease-and-desist letters would discourage patent owners from sending these letters and thus stifle the settlement of patent disputes—a policy the Federal Circuit deems “manifest.”<sup>361</sup> In establishing this bright-line rule, which has hardly been questioned since its adoption more than fifteen years ago, the Federal Circuit presumes that settlement of patent litigation promotes the public good.<sup>362</sup> But as I've argued here and in previous work,

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358. The Federal Circuit applies its own law to questions of personal jurisdiction in patent cases because it has determined that personal jurisdiction is “intimately linked to patent law.” See *Silent Drive, Inc., v. Strong Indus., Inc.*, 326 F.3d 1194, 1201 (Fed. Cir. 2003); see also *supra* note 344 (discussing the Federal Circuit's choice-of-law analysis in patent cases).

359. See *Campbell Pet Co. v. Miale*, 542 F.3d 879, 885 (Fed. Cir. 2008) (stating that “a patentee's act of sending letters to another state claiming infringement . . . is not sufficient to confer personal jurisdiction in that state.”); *Silent Drive*, 326 F.3d at 1202 (stating that “the sending of letters threatening infringement litigation is not sufficient to confer personal jurisdiction.”); *Red Wing Shoe Co. v. Hockerson-Halberstadt, Inc.*, 148 F.3d 1355, 1360–61 (Fed. Cir. 1998) (stating that the sending of cease-and-desist letters is not sufficient to establish personal jurisdiction).

360. See *Avocent Huntsville Corp. v. Aten Int'l Co.*, 552 F.3d 1324, 1333 (Fed. Cir. 2008) (conceding that one would expect the letters to support an assertion of personal jurisdiction); *Silent Drive*, 326 F.3d at 1202 (conceding that cease-and-desist letters are purposefully directed at the forum state); see also Megan M. La Belle, *Patent Litigation, Personal Jurisdiction, and the Public Good*, 18 GEO. MASON L. REV. 43, 82–95 (2010) (arguing that the Federal Circuit's jurisdictional analysis contradicts Supreme Court precedent).

361. *Red Wing Shoe*, 148 F.3d at 1361.

362. *Id.*; La Belle, *supra* note 153, at 85 (stating that lower courts have reflexively applied this rule).

patent settlements sometimes contravene the public interest, especially when the patent at issue is actually invalid.<sup>363</sup> Be that as it may, the Federal Circuit has continued to apply this rule and has even expanded it in recent years to make it more difficult for accused infringers to affirmatively challenge patents in federal court.<sup>364</sup>

Recent developments suggest that the time may be ripe to reconsider this rule. In the context of the current legislative effort to curb abusive patent litigation, the use of demand letters has come under attack. The proposed Innovation Act, for instance, provides that “it is an abuse of the patent system and against public policy for a party to send out purposely evasive demand letters to end users alleging patent infringement.”<sup>365</sup> Senate Bill 1720 goes even further, providing that the widespread sending of demand letters may constitute an unfair or deceptive act or practice under the Federal Trade Commission Act.<sup>366</sup> And it’s not just the federal government probing patent owners’ use of cease-and-desist letters; many states are as well. The attorneys general of Minnesota, Nebraska, New York, and Vermont have used state consumer-protection laws to combat patent demand-letter campaigns, and Vermont has passed legislation that provides a private cause of action for businesses receiving a demand letter.<sup>367</sup> In light of the shifting sentiments about the value of these types of letters, the Federal Circuit’s personal jurisdiction doctrine appears all the more troubling.

#### 4. Discovery of Settlement Negotiations

A final example of the Federal Circuit’s prosettlement jurisprudence in the patent arena relates to discovery.<sup>368</sup> As a matter of course in patent litigation, accused infringers seek to discover settlement negotiation materials relating to the patent owner’s

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363. See *supra* Part IV (exploring the normative implications of patent settlements); La Belle, *supra* note 360, at 86–90 (demonstrating weaknesses of promotion of settlement justification for Federal Circuit’s personal jurisdiction rule).

364. See La Belle, *supra* note 153, at 86–93.

365. Innovation Act, H.R. 3309, 113th Cong. § 299A(e) (2013).

366. Patent Transparency and Improvements Act, S. 1720, 113th Cong. § 299B(b) (2013).

367. See Tony Dutra, *NY Agrees to Terms with Patent Troll MPHJ, Firm Fights Back with Lawsuit Against FTC*, <http://perma.cc/YDX9-DQAU> (bna.com, archived Feb. 2, 2014); Ashby Jones, *New York State Cracks Down on Patent Trolls*, <http://perma.cc/C94D-SBYR> (wsj.com, archived Feb. 2, 2014); Timothy B. Lee, *How Vermont Could Save the Nation from Patent Trolls*, <http://perma.cc/7JCH-Z7C7> (washingtonpost.com, archived Feb. 2, 2014).

368. As with personal jurisdiction, the Federal Circuit has held that its law governs discovery matters in patent cases if the materials subject to discovery relate to an issue of substantive patent law. *In re Spalding Sports Worldwide, Inc.*, 203 F.3d 800, 803 (Fed. Cir. 2000).



settlement of prior lawsuits involving similar technology.<sup>369</sup> It is well settled that such information is relevant, as it is germane to the damages analysis in patent suits.<sup>370</sup> A good argument can also be made that settlement negotiations may be relevant to the underlying merits of patent suits,<sup>371</sup> as well as to requests for injunctive relief.<sup>372</sup>

Nevertheless, in a recently decided case, the Federal Circuit was asked to declare settlement negotiations privileged and thus immune from discovery. The argument was that this privilege would “protect the sanctity of settlement discussions and promote the compromise and settlement of dispute.”<sup>373</sup> While the Federal Circuit declined to fashion a new privilege, it held that “other effective methods” could be used to achieve those important ends.<sup>374</sup> Above all, the court encouraged trial judges to exercise their broad discretion under the Federal Rules of Civil Procedure to limit the scope and extent of discovery that might otherwise “undermine important interests in confidentiality,” including prior settlements.<sup>375</sup>

Simply put, patent cases settle because everyone involved usually wants them to settle. The patent owner wants to settle in order to protect its patent vis-à-vis other competitors. The accused infringer wants (or is forced) to settle because adjudicating the case to judgment is too risky and expensive. And the court wants the parties to settle because patent cases, even more than other types of complex civil litigation, are time consuming, burdensome, and difficult. Under these circumstances, settlement might seem to make good sense. But the fundamental flaw with our current system is its failure to

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369. See, e.g., *ResQNet.com, Inc. v. Lansa, Inc.*, 594 F.3d 860, 869–72 (Fed. Cir. 2010) (showing that, in litigation, an accused infringer sought discovery of a patent owner’s settlement of prior infringement lawsuits).

370. See, e.g., *id.* at 869–73 (holding that prior licenses are relevant to calculating reasonable royalty damages in patent suits).

371. See, e.g., *Rothman v. Target Corp.*, 556 F.3d 1310, 1321 (Fed. Cir. 2009) (stating that willingness to license patented invention is objective evidence related to obviousness analysis).

372. See, e.g., *Apple, Inc. v. Samsung Elecs. Co.*, No. C 11-1846-LHK (PSG), at \*2–4 (N.D. Cal. 2012) (order granting motion to compel depositions and settlement agreement), available at <http://perma.cc/MVP2-B8U4> (finding Apple’s settlement with HTC relevant to request for permanent injunctive relief against Samsung).

373. *In re MSTG, Inc.*, 675 F.3d 1337, 1339, 1346 (Fed. Cir. 2012); Wayne D. Brazil, *Protecting the Confidentiality of Settlement Negotiations*, 39 HASTINGS L.J. 955, 985 (1988) (“[C]ourts that admit evidence from settlement negotiations discourage communication about settlement and impair the rationality of settlement discussions, and thus help to defeat the policy of encouraging consensual resolution of disputes.”).

374. *MSTG*, 675 F.3d at 1346.

375. *Id.* at 1347; see also *Advanced Cardiovascular Sys., Inc. v. Medtronic, Inc.* 265 F.3d 1294, 1307–08 (Fed. Cir. 2001) (“[W]e are mindful . . . of the policy in favor of protecting settlement negotiations from being admitted as evidence, thus serving to encourage settlements.”).

safeguard the public interest. The remainder of this Article provides a solution to that problem.

## VI. FOR ADJUDICATION OF SOME PATENT CASES

“[P]opular wisdom is that . . . settlement is a good thing.”<sup>376</sup> Yet, when it comes to patent settlements, the timeworn adage that there can be too much of a good thing rings true. Patent settlements may serve the interests of the parties and the courts in the short term, but their long-term effects on the public are alarming. For years, this preference for settlement over adjudication has gone virtually unchecked.<sup>377</sup> What follows is my proposal for fixing our broken system of settling patent disputes.

### A. Trial Courts as Protectors of the Public Interest

Although patent settlements are fraught with problems,<sup>378</sup> the principal shortcoming in my view is their failure to protect the public’s interest in the patent system. If a patent is invalid, the public is generally better served by the case being litigated to judgment so that competitors can enter the market sooner than if the case settles and the patent remains intact.<sup>379</sup> Similarly, litigating to judgment will curb repeat patent litigation, which has contributed significantly to the expanding patent dockets of federal courts.<sup>380</sup> Indeed, as will be discussed further below, if patent owners believed their lawsuits would proceed to a final judgment, fewer lawsuits arguably would be filed in the first place.<sup>381</sup> Easing burdens on federal courts in these ways would redound to the benefit of the public.

But who will protect this public interest? I think it is safe to say that private parties will not. Patent owners do not want their patents invalidated, and accused infringers often choose to settle, not only because of the high cost of litigation but also because of the

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376. *FTC v. Actavis, Inc.*, 133 S. Ct. 2223, 2239 (2013) (Roberts, J., dissenting) (noting that settlement is ordinarily thought of as “a good thing”); Galanter & Cahill, *supra* note 3, at 1341.

377. The Supreme Court’s recent *Actavis* decision provides for an antitrust check on reverse payment settlements, but not for the types of standard patent settlements that are the subject of this Article. 133 S. Ct. at 2233.

378. See *supra* Part IV (exploring the many problems associated with patent settlements).

379. See *supra* Part IV.A (showing that the public’s interest in the patent system is paramount).

380. See Allison et al., *supra* note 14, at 677 (finding that repeat patent litigants are often unsuccessful at trial).

381. See Luban, *supra* note 62, at 2640 (explaining that, in a world without settlement, “we should expect fewer lawsuits to be filed”).

free rider problem associated with patent challenges.<sup>382</sup> Even if the current reform efforts result in lower litigation costs in patent cases, many accused infringers would still opt to settle—the only difference being they could settle for less money because the possibility of recovering attorneys’ fees would provide greater leverage in settlement negotiations. So we can’t rely on the parties to protect the public interest, but what about organizations such as the Public Patent Foundation<sup>383</sup> and Public Knowledge?<sup>384</sup> In theory, these public interest organizations would be very good candidates, except that their ability to challenge patents in federal courts is severely limited by Article III standing requirements.<sup>385</sup> Nor is there a neutral third party representing the public in patent litigation as there is in International Trade Commission proceedings, meaning the public interest is left unguarded.<sup>386</sup>

This leaves trial judges to function as protectors of the public interest in patent cases. Trial judges are the logical choice for several reasons. First, the vast majority of patent cases are settled at the initial stage of litigation (as opposed to on appeal), so if the goal is to limit patent settlements, the focus must be on district court proceedings. Second, trial judges are well positioned to assess the

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382. See, e.g., Robert J. Hoerner, *Antitrust Pitfalls in Patent Litigation Settlement Agreements*, 8 FED. CIR. B.J. 113, 114 (1998) (“When an alleged infringer decides that it is in his interest to settle a patent infringement litigation against him, his entire business outlook changes. Where before he wanted the patent held invalid, he now may want the patent held valid so that the patent owner can assert it against his competitors.”).

383. The Public Patent Foundation is a nonprofit “legal services organization whose mission is to protect freedom in the patent system.” *About PubPat*, <http://perma.cc/K4TE-5ENP> (pubpat.org, archived Feb. 2, 2014).

384. Public Knowledge is a public interest organization whose mission includes “uphold[ing] and protect[ing] the rights of consumers to use innovative technology lawfully.” *Mission Statement*, <http://perma.cc/F7E-6F48> (publicknowledge.org, archived Feb. 2, 2014).

385. La Belle, *supra* note 153, at 77–82 (canvassing the Federal Circuit’s case law regarding standing in patent declaratory judgment actions). Public interest organizations are able to bring postgrant administrative challenges to the PTO, and the AIA provides that any party dissatisfied by the PTO’s decision may appeal to the Federal Circuit. See 35 U.S.C. §§ 319, 329 (2011). In a recent case, however, the Federal Circuit raised the question whether the appellant—a public interest organization—has Article III standing to appeal the PTO’s adverse validity decision. See *Consumer Watchdog v. Wis. Alumni Research Found.*, No. 2013-1377 (Fed. Cir. 2013). Oral argument in the case was held late last year, after which the Federal Circuit invited the PTO and the United States to weigh in on the standing question. On January 17, 2014, the government filed its brief in which it takes the position that appellant Consumer Watchdog lacks Article III standing to appeal the PTO’s decision. See Brief for the United States as Amicus Curiae, No. 2013-1377 (Fed. Cir. Jan. 17, 2014). If the Federal Circuit agrees with the government, public interest organizations and the consumers they represent will be further disenfranchised by these restraints on their ability to participate in the patent system.

386. See Bock, *supra* note 178 (manuscript at 1) (proposing the addition of third-party neutrals to patent litigation in federal court).

parties, facts, patents, and technology involved in the suit, and when appropriate, they can appoint special masters to assist with that effort.<sup>387</sup> Last, and perhaps most important, trial judges are regularly called upon to consider the public interest for other inquires related to patent law, such as preliminary and permanent injunctions, patent misuse, and laches.<sup>388</sup> Also, more generally, judges consider the public interest in the context of class action lawsuits.<sup>389</sup> So federal judges should already be fairly comfortable in this role as defenders of the public good.

### *B. Identifying Patent Cases that Should Be Adjudicated*

Let's say district judges eagerly assume this new role. The next step is separating patent cases that should be adjudicated from those that should be settled. This will not be an easy task, but there are some patent cases that stand out as leading contenders for the adjudication track because their impact is felt by many more than just the litigants before the court. The first would be "repeat patent suits," and by that I mean cases involving patents that have previously been asserted or are concurrently being asserted against other parties in other suits. Adjudicating these repeat patent suits could yield immediate, palpable benefits, because if the patent is invalidated, the previously protected technology may fall into the public domain, and the patent owner will be estopped from asserting the patent again.<sup>390</sup> Judge Moore addressed this in her *Ohio Willow* concurrence:

In this case . . . the patentee has already sued another party on the patent in question. If the decision that invalidated the patent at issue is not vacated, then the patentee will be collaterally estopped from asserting this patent in this and other suits, thereby

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387. See e.g., Josh Hartman & Rachel Krevans, *Counsel Courts Keep: Judicial Reliance on Special Masters, Court-Appointed Experts, and Technical Advisors in Patent Cases*, 14 SEDONA CONF. J. 61 (2013).

388. See, e.g., *eBay, Inc. v. MercExchange, LLC*, 547 U.S. 388, 391 (2006) (listing public interest as one of the factors in deciding whether to grant permanent injunctive relief); *A.C. Auckerman Co. v. R.L. Chaides Constr. Co.*, 960 F.2d 1020, 1046–47 (Fed. Cir. 1992) (noting public policy concerns in a laches analysis); *In re Recombinant DNA Tech. Patent & Contract Litig.*, 850 F. Supp. 769, 772 (S.D. Ind. 1994) (explaining that patent misuse considers the "public's interest in assuring that a patentee does not extend his patent beyond the statutory monopoly he has been granted").

389. See FED. R. CIV. P. 23(e) (providing that class action settlements are subject to the trial court's approval).

390. See, e.g., *Ohio Willow Wood Co. v. Thermo-Ply, Inc.*, 629 F.3d 1374, 1376 (Fed. Cir. 2011) (Moore, J., concurring) (explaining that invalidation will collaterally estop the patentee from asserting the patent in this and other suits); see also *supra* note 161 (discussing how blocking patents might prevent the technology from entering the public domain even when a patent has been invalidated).

saving courts and litigants the time and money it takes to proceed with patent litigation.<sup>391</sup>

The Lemley study, discussed above in Part III.B, lends further support to this recommendation. Its finding—that the most litigated patents are more likely to be invalidated upon adjudication than patents litigated one time—supports repeat patent suits being adjudicated.<sup>392</sup>

A second class of patent cases that we should seriously consider for adjudication would be those involving so-called standards-essential patents. These patents have been declared as essential to implementing some technological standard, so that anyone who adopts the standard potentially infringes the patent.<sup>393</sup> Although standards-essential patents are to be licensed on fair, reasonable, and nondiscriminatory (“FRAND”) terms, there is often disagreement about what FRAND requires and whether a declared patent is actually essential to a given standard.<sup>394</sup> If litigation ensues, this is exactly the type of case that ought to be adjudicated, because invalidation of the patent would release all who adopted the standard of any obligation to pay licensing fees.<sup>395</sup>

The third category of patent cases that judges should steer toward adjudication may be more elusive to identify. These are what I call “important” patent cases, which are cases that will impact the public in some significant way. One reason a patent case may be important is because it implicates public health or safety. The *Ass’n for Molecular Pathology v. Myriad Genetics, Inc.* case, in which the ACLU challenged certain gene patents related to breast cancer, is a good example.<sup>396</sup> Alternatively, a case may be deemed important because the accused product is highly popular, so injunctive relief

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391. *Ohio Willow Wood Co.*, 629 F.3d at 1376.

392. See Allison et al., *supra* note 14, at 687 (finding that, of 1,134 results, 343 were outcomes from patents litigated a single time and the rest were outcomes from the most litigated patents); see also *supra* Part III.B (explaining Allison et al.’s findings).

393. See Jorge L. Contreras, *Fixing FRAND: A Pseudo-Pool Approach to Standards-Based Patent Licensing*, 79 ANTITRUST L.J. 47, 50–52 (2013); Joseph Scott Miller, *Standard Setting, Patents, and Access Lock-In: RAND Licensing and the Theory of the Firm*, 40 IND. L. REV. 351, 371 (2007).

394. See, e.g., *Microsoft Corp. v. Motorola, Inc.*, No. C10-1823JLR, 2013 WL 2111217, at \*1 (W.D. Wash. Apr. 25, 2013) (first U.S. court to determine RAND terms for a standards-essential patent); Doug Lichtman, *Understanding the RAND Commitment*, 47 HOUS. L. REV. 1023, 1031 (2010) (describing the lack of guidance offered by the language of the RAND commitment as “something of an outrage”).

395. See Love, *supra* note 185, at n.126 (stating that invalidation of a licensed patent frees the licensees from having to pay royalties).

396. 133 S. Ct. 2107 (2013). In *Myriad*, the Supreme Court unanimously held that isolated human genes are not patentable subject matter under § 101. *Id.* at 2116–19.

would directly affect a large group of consumers.<sup>397</sup> Finally, a case that raises a critical yet unresolved question of patent law could also fall into this “important” category. Because the question whether a patent case is sufficiently important to warrant adjudication may be nebulous, district courts should look for signals like amicus briefs and media attention,<sup>398</sup> or perhaps seek guidance from a special master or expert.<sup>399</sup> Ideally, over time, the Federal Circuit would provide guidance to lower courts in identifying important cases for adjudication.

### *C. What Trial Courts Can Do to Encourage Adjudication*

Once the district court identifies a case that should be adjudicated, the ultimate question is what, if anything, can the judge do about it? It is true that preventing private parties from settling may be challenging, yet there are steps for courts to take. While I offer suggestions here—some modest, others more wide-ranging—they are by no means intended to be exhaustive.

Starting small, the first thing courts can do to encourage adjudication of patent cases is to stop pressuring parties to settle. There are litigants who want to go to trial, and courts ought to let them.<sup>400</sup> Along those same lines, district courts should stop granting settlement-related vacatur motions. Courts are currently granting these motions almost 80% of the time, which is far too often.<sup>401</sup> If patentees had to live with invalidity judgments and unfavorable claim construction rulings, there would be fewer settlements.

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397. See, e.g., *Apple, Inc. v. Samsung Elecs. Co.*, 695 F.3d 1370 (Fed. Cir. 2012) (accusing the popular Android smartphone of infringement); *NTP, Inc. v. Research in Motion, Ltd.*, 418 F.3d 1282 (Fed. Cir. 2005) (accusing the popular BlackBerry device of infringement). Of course, there is a potential downside to adjudicating these cases if the patent owner prevails and secures an injunction that could directly affect a large number of consumers. While a real risk, I believe it’s one worth taking in many cases, especially seeing how district courts post-*eBay* consider the public’s interest in deciding whether to grant and how to fashion permanent injunctive relief. See, e.g., *i4i Ltd. P’ship v. Microsoft Corp.*, 589 F.3d 1246, 1277 (Fed. Cir. 2009) (holding that injunction was narrowly tailored to minimize harm to public), *rev’d on other grounds*, 598 F.3d 831 (2010).

398. In the *Myriad* case, for example, a number of amicus briefs were filed at the district court stage of the litigation. See *Ass’n for Molecular Pathology v. Myriad Genetics, Inc.*, 702 F. Supp. 2d 181, 190–92 (S.D.N.Y. 2010) (noting the various amici in the case).

399. See *supra* note 260 and accompanying text (discussing the use of special masters in patent cases).

400. See *supra* Part V.A (explaining how Apple and others have been heavily pressured by courts to settle their patent disputes).

401. See Bock, *supra* note 217, at 956–57 (finding through empirical research that vacatur was granted in an overwhelming majority of cases).

Courts willing to be a bit more assertive have other items in the judicial toolbox for encouraging adjudication. Like Judge Davis in the Eastern District of Texas, judges can modify deadlines and disclosure requirements to relieve some of the pressure that leads to premature settlement.<sup>402</sup> Depending on the case's scope, the requirements under local patent rules may be unreasonable and illogical. For instance, some local rules require invalidity contentions to be developed, prepared, and disclosed in a very short amount of time, forcing accused infringers to "scour the earth" for prior art right at the start of the lawsuit.<sup>403</sup> If an accused infringer is unable to identify relevant prior art in that brief time frame, the case may very well settle. Yet with more flexible deadlines from the court, there is a better chance the defendant will uncover prior art that invalidates the patent.<sup>404</sup>

Another option is for the trial court to invite amici to participate in patent cases it believes should be adjudicated.<sup>405</sup> Amici may participate at all levels of federal litigation, including the district court.<sup>406</sup> Even in patent cases with capable counsel, amici can provide valuable assistance to the court and the parties. The court might look to amici for expertise on the patented technology or to weigh in on the implications for the public.<sup>407</sup> Amici could simultaneously support the parties, specifically accused infringers in their efforts to uncover relevant prior art and prove the patent invalid.

Trial courts could also rely on their fee-shifting authority to push certain patent cases toward adjudication. The Patent Act permits courts to award reasonable attorneys' fees to the prevailing party in "exceptional cases."<sup>408</sup> If courts exercised this power more freely and more often, accused infringers might be more willing to go to trial for a chance at invalidating the patent. And while courts historically have been reluctant to shift fees in patent cases, that

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402. See *supra* Part V.B (discussing Judge Davis's approach to settlement in patent cases).

403. James Ware & Brian Davy, *The History, Content, Application and Influence of the Northern District of California's Patent Local Rules*, 25 SANTA CLARA COMPUTER & HIGH TECH. L.J. 965, 1005 (2009).

404. See, e.g., *Connell v. Sears, Roebuck & Co.*, 722 F.2d 1542, 1549 (Fed. Cir. 1983) ("[T]here is virtually always 'pertinent' and 'relevant' art apparently unconsidered in the PTO and available to a patent challenger.").

405. See Susan Freiwald, *Cell Phone Location Data and the Fourth Amendment: A Question of Law, Not Fact*, 70 MD. L. REV. 681, 692–93 (2011) (explaining that district court invited amicus briefs from public interest organizations, academics, and public defenders).

406. Michele Estrin Gilman, *Litigating Presidential Signing Statements*, 16 WM. & MARY BILL RTS. J. 131, 151 (2007).

407. See *id.* (noting that amici may provide background information or particular expertise).

408. 35 U.S.C. § 285 (2012).

trend may be changing. In *Monolithic Power Systems, Inc. v. O2 Micro International, Ltd.*, for example, the Federal Circuit affirmed a \$9 million award of attorneys' fees to the accused infringer based on the patent owner's litigation misconduct.<sup>409</sup> Moreover, the Chief Judge of the Federal Circuit wrote an op-ed in the *New York Times* last year urging trial judges to use their fee-shifting authority to prevent patent owners from "bully[ing] . . . defendant[s] into settling."<sup>410</sup> Finally, Congress and the Supreme Court have both taken up the issue of attorneys' fees in patent cases. As discussed earlier, the House has passed and the Senate is considering legislation that would imbue the courts with greater fee-shifting authority.<sup>411</sup> Meanwhile, the Supreme Court has granted certiorari in two cases involving the patent fee-shifting statute, which together challenge the Federal Circuit's substantive standard and standard of review for an "exceptional case" finding under section 285 of the Patent Act.<sup>412</sup> Thus, in the current climate, fee shifting may actually be a viable option for trial courts hoping to encourage adjudication of some patent cases.

My last two suggestions are somewhat more radical. The first is that trial judges should use preliminary judgments to promote adjudication of appropriate patent cases.<sup>413</sup> A preliminary judgment is a "tentative assessment of the merits of a case or any part of a case, based on the same sorts of information that the courts already consider on motions for summary judgment."<sup>414</sup> Preliminary judgments could serve various salutary functions in patent cases, such as signaling to accused infringers the court's view on the patent's validity.<sup>415</sup> Take, for instance, a case where the trial judge has serious doubts about the patent based on the defendant's invalidity contentions or some other information. If the judge issues a preliminary judgment invalidating the patent, that may be enough to

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409. 726 F.3d 1359, 1361 (Fed. Cir. 2013).

410. Randall R. Rader et al., *Making Patent Trolls Pay in Court*, <http://perma.cc/5R8K-F6G6> (nytimes.com, archived Feb. 2, 2014).

411. See *infra* Part III.B (discussing Congressional efforts to pass legislation to curb patent litigation abuse).

412. See *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 496 F. App'x 57 (Fed. Cir. 2012), *cert. granted*, No. 12-1184, 2013 WL 1283843, at \*1 (U.S. Oct. 1, 2013); *Highmark, Inc. v. Allcare Health Mgmt. Sys., Inc.*, 687 F.3d 1300 (Fed. Cir. 2012), *cert. granted*, No. 12-1163, 2013 WL 1217353, at \*1 (U.S. Oct. 1, 2013).

413. Miller, *supra* note 243, at 165 (proposing the use of preliminary judgments in civil cases).

414. *Id.* at 167.

415. *Id.* at 168 (arguing that preliminary judgments "would provide litigants with a highly credible evaluation of the case, made by a person with the capacity to determine (or, in the case of a jury trial, at least influence) the outcome").



steer the accused infringer away from settlement and toward adjudication—especially if the court also indicates its willingness to award attorneys' fees.

Finally, patent cases could be treated as “quasi-class actions” thereby imbuing judges with broader powers, including the authority to approve (or disapprove) of any settlement.<sup>416</sup> The quasi-class action is a judicial creation that has been utilized by some federal courts in recent years, especially in mass-tort multidistrict litigations (“MDLs”).<sup>417</sup> These courts essentially treat MDLs as class actions, on the premise that mass litigation possesses many of the characteristics of class actions.<sup>418</sup> Though scholars have questioned the legitimacy of quasi-class action practice, it is undeniable that at least some courts have embraced it.<sup>419</sup> Moreover, MDL patent practice has grown recently because of the joinder provisions in the America Invents Act, which make it more difficult for patent owners to join multiple defendants in a single suit.<sup>420</sup> So perhaps judges in these patent MDLs could exercise their equitable powers to disapprove of settlements not in the public's best interest.<sup>421</sup>

These are just a few suggestions for how trial judges might encourage adjudication of certain patent cases. The fact is that federal courts have broad discretion to manage cases in a way that secures the “just, speedy, and inexpensive determination of every action.”<sup>422</sup>

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416. See, e.g., Charles Silver & Geoffrey P. Miller, *The Quasi-Class Action Method of Managing Multi-District Litigations: Problems and a Proposal*, 63 VAND. L. REV. 107, 114 (2010) (discussing the judicial powers associated with class actions).

417. See, e.g., *In re Vioxx Prods. Liab. Litig.*, 650 F. Supp. 2d 549, 554 (E.D. La. 2009) (noting that an MDL is distinct from a class action but similar enough to warrant treatment as a quasi-class action); *In re Zyprexa Prods. Liab. Litig.*, 489 F. Supp. 2d 230, 1 (E.D.N.Y. 2008) (noting that the 30,000 cases brought against Eli Lilly & Company had been administered as a quasi-class action).

418. See Silver & Miller, *supra* note 416, at 110–11 (explaining that a judge presiding over an MDL has the same broad powers as one presiding over a class action, including appointment of lead attorneys and control of their compensation, forced fee transfers, and fee cuts).

419. See *id.* (noting that “several judges have recently ruled that MDLs are ‘quasi-class actions’”); Linda Mullenix, *Dubious Doctrines: The Quasi-Class Action*, 80 U. CIN. L. REV. 389, 389 (2012) (arguing that “there is no such thing as a quasi-class actions”).

420. See Daniel J. Schwartz, *Leveraging Strategies and Scheduling Complexities in Patent Cases to Design Successful Infringement Defenses*, 2013 WL 574400, at \*2 (2013) (explaining the new joinder provisions in the AIA); see also *supra* note 276 (discussing AIA joinder provisions).

421. For example, judges could refuse to approve patent settlements conditioned on vacatur or settlements including no-challenge provisions. See *supra* Part V (demonstrating the negative impact these practices have on the public).

422. FED. R. CIV. P. 1; see also Suzette M. Malveaux, *Front Loading and Heavy Lifting: How Pre-Dismissal Discovery Can Address the Detrimental Effect of Iqbal on Civil Rights Cases*, 14 LEWIS & CLARK L. REV. 65, 107 (2010) (explaining that “courts may exercise their broad discretion to grant discovery and manage their cases in such a way as to serve the goals of justice and efficiency”).

Up to now, courts have used this power to facilitate settlement in patent litigation, presumably because that provided for a “speedy and inexpensive” end to the case. Going forward, however, courts should be equally concerned with exercising discretion in a way that ensures *just* resolution of patent cases. The question addressed in the penultimate Part of this Article is whether courts can strive for justice without compromising these other important values.

## VII. MORE ADJUDICATION, LESS LITIGATION

Critics are likely to object to my proposal on the ground that it will create more work and more expense for our already overburdened federal courts. Conventional wisdom says that patent litigation is too expensive, too unwieldy, and too unpredictable. We heard that time and again as Congress discussed, debated, and finally passed the AIA.<sup>423</sup> Thus, objectors will argue, a proposal that advocates for *more* litigation is impractical and unwise. While it may be true that my proposal will increase litigation in the immediate term, the long-range view suggests that more adjudication will actually *reduce* patent litigation in federal courts.

There are two reasons why that is so. First, as has been discussed throughout this Article, adjudication will reduce repeat patent suits, which account for a significant percentage of patent litigation filed in federal courts today.<sup>424</sup> If the patent is adjudged invalid, the patent owner will be precluded from ever asserting the patent again.<sup>425</sup> However, even if the patent is upheld, that could reduce future litigation because accused infringers may be more willing to license a patent that has withstood a prior validity challenge.<sup>426</sup>

Second, many patent owners view litigation simply as a settlement mechanism and have no intention of pursuing their cases

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423. See, e.g., 155 Cong. Rec. H3457 (Mar. 11, 2009) (statement of Rep. Lamar Smith) (arguing the negative attributes of patent litigation).

424. See, e.g., Allison et al., *supra* note 14, at 682 & n.23 (finding that the most litigated patents had been asserted in almost 500 separate suits). It is worth noting that the Lemley study defines “most litigated patents” as those that were the subject of *eight or more* lawsuits in the relevant time period. *Id.* at 682. That means that there are far more than 500 repeat patent suits where the patent has been asserted in two to seven separate litigations.

425. See *Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found.*, 402 U.S. 313, 350 (1971) (allowing petitioner to amend pleading to assert a plea of estoppel).

426. See, e.g., Josh Lerner, *The Litigation of Financial Innovations*, 53 J.L. & ECON. 807, 816 (2010) (explaining that patentee was able to license its patent to Bank of America, CapitalOne, and other major credit card providers after the patent withstood a validity challenge); Lee Petherbridge, *Positive Examination*, 46 IDEA 173, 176 (2006) (“[I]f competitors believe that a patent is likely not valid, they are less likely to take a license to that patent.”).

to judgment.<sup>427</sup> This strategy has been successful under our current system because patent owners are able to settle quickly, inexpensively, and without posing any real risk to their patents. But if courts begin encouraging adjudication of some patent cases instead of settlement, the effect over time would be to dissuade patent owners from initiating litigation.<sup>428</sup> In other words, more adjudication would actually mean less litigation, because the greater risk of invalidation and higher costs of adjudication would frequently outweigh the benefits of filing suit.<sup>429</sup>

## VIII. CONCLUSION

“We live in a world of settlements, it is true, but all is not right with this world.”<sup>430</sup> These words, written by Professor Geoffrey Miller, should resonate with those concerned about the current state of our patent litigation system. It is true that patent litigation can be time-consuming, expensive, and unpredictable, but as this Article has shown, settlement is not always the solution. Instead, settlement poses real harm to the public’s interest, as Owen Fiss and other critics have argued. In the patent context, settlements are especially dangerous because they leave potentially invalid patents intact, thwarting competition and increasing prices without benefiting society in any way.

Some patent cases ought to be adjudicated, particularly those whose impact will be felt far beyond the four walls of the courtroom. More adjudication will benefit the public by eradicating bad patents and by reducing over time the number of patent cases filed in federal court. While it will not always be easy to identify the patent cases that should be adjudicated, trial judges, as guardians of the public interest, are well situated to make these decisions. Trial judges also have the broad discretion necessary to implement this proposal and to influence patent litigation outcomes in pursuit of justice.

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427. See Kesan & Ball, *supra* note 3, at 312 (concluding as a result that “any proposed change in the patent laws should be analyzed in terms of the incentives generated for prompt settlement of patent disputes”).

428. See Luban, *supra* note 62, at 2640 (positing that in a world without settlement, “we should expect fewer lawsuits to be filed”); see also *FTC v. Actavis*, 133 S. Ct. 2223, 2247 (2013) (Roberts, J., dissenting) (arguing that the majority’s decision to reject certain reverse payment settlements “may very well discourage” litigation in the first place).

429. See, e.g., James Farrand et al., “Reform” Arrives in Patent Enforcement: *The Big Picture*, 51 *IDEA* 357, 440 (2011) (“[T]he increased risk of invalidation influences bargaining power, licensing negotiations, litigation decisions, and settlement proposals.”).

430. Miller, *supra* note 243, at 167 (internal quotation marks omitted).