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UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

BIG BABOON CORPORATION,
a Delaware Corporation,

Plaintiff,

v.

DELL, INC., a Delaware
Corporation, et al.,

Defendants.

) NO. CV 09-01198 SVW (SSx)
)
)
) **MEMORANDUM DECISION AND ORDER**
) **GRANTING PLAINTIFF'S MOTION TO**
) **QUASH**
) **[DOCKET NOS. 268, 336]**
)
)

On August 9, 2010, Plaintiff Big Baboon Corporation ("Plaintiff") and Defendants Dell and UPS ("Defendants") filed a "Stipulation Regarding Dell and UPS Defendants' Subpoenas to UTI and Honda" (the "Stipulation"). In the Stipulation, the parties collectively requested that the Court renew Plaintiff's prior Motion to Quash a similar subpoena. (Stipulation at 1). The current subpoena seeks to compel Plaintiff to produce a copy of its settlement agreement with former defendant American Honda Motor Co., Inc. ("Honda"). On September 7, 2010, this Court issued an order requiring Plaintiff to file a copy of its settlement agreement with Honda under seal for in camera inspection. On September 15, 2010, Plaintiff filed a sealed copy of the Honda settlement agreement pursuant to the Court's order. For the reasons

1 stated below, Plaintiff's Motion to Quash the subpoena requesting the
2 Honda settlement agreement is GRANTED.

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4 **I. Summary Of The Discovery Dispute**

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6 On June 22, 2010, Plaintiff filed a Motion to Quash a June 14, 2010
7 subpoena, issued by Honda, requesting production of Plaintiff's
8 settlement agreement with defendant UTi. ("Quash. Stip.", Docket No.
9 268). Honda settled its dispute with Plaintiff before the Court ruled
10 on the motion, however, and on July 30, 2010, this Court dismissed
11 Plaintiff's Motion to Quash as moot. In the instant Stipulation, the
12 parties adopted the substantive arguments set forth in the briefing
13 filed in connection with Plaintiff's prior Motion to Quash.
14 (Stipulation at 1). Honda's arguments in the Joint Stipulation relating
15 to the production of the UTi settlement agreement are therefore imputed
16 to Defendants in their request for production of the Honda settlement
17 agreement. Similarly, Plaintiff's arguments against the production of
18 the UTi settlement agreement will be read as though they referred to the
19 Honda settlement agreement.

20
21 Plaintiff argues that its settlement agreement with Honda in this
22 matter should not be discoverable because (1) the settlement agreement
23 is privileged and confidential, and, in accordance with the "strong
24 public interest in the efficient settlement of disputes," should be
25 protected from disclosure by the "settlement negotiation privilege"; and
26 (2) the agreement is not relevant or reasonably calculated to lead to
27 the discovery of admissible evidence. (Quash Stip. at 1-2). Defendants
28

1 argue that (1) there is no federally recognized settlement negotiation
2 privilege; (2) even if the agreement is not admissible at trial, it is
3 discoverable; and (3) the agreement is relevant to the determination of
4 a reasonable royalty for the patents-in-suit in this case. (Id. at 3-
5 4).

6 7 **II. Settlement Agreements Are Not Privileged Under Ninth Circuit Law**

8 9 **A. Ninth Circuit Law Controls This Discovery Dispute**

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11 Because this discovery dispute is not one that occurs in the unique
12 context of patent litigation and because settlement discussions are
13 themselves not a substantive patent law issue, the law of the Ninth
14 Circuit pertaining to discovery applies. See, e.g., Dorf & Stanton
15 Communs., Inc. V. Molson Breweries, 100 F.3d 919, 922 (Fed. Cir. 1996)
16 (“Because an order compelling discovery is not unique to patent law, we
17 agree that [local circuit] law must be considered . . .”).

18 19 **B. Federal Law Favors A Broad Scope Of Discovery Limited By** 20 **Relevance Concerns**

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22 Pursuant to the Federal Rules of Civil Procedure, “[p]arties may
23 obtain discovery regarding any nonprivileged matter that is relevant to
24 any party’s claim or defense” and this “[r]elevant information need not
25 be admissible at trial if the discovery appears reasonably calculated
26 to lead to the discovery of admissible evidence.” Fed. R. Civ. P,
27 26(b) (1). Ninth Circuit law generally favors a broad scope of
28 discovery. “[W]ide access to relevant facts serves the integrity and

1 fairness of the judicial process by promoting the search for truth."
2 Epstein v. MCA, Inc., 54 F.3d 1422, 1423 (9th Cir. 1995).

3
4 The broad scope of permissible discovery is limited by any relevant
5 privileges that may apply, but any proposed privilege must promote a
6 public interest that is "sufficiently important . . . to outweigh the
7 need for probative evidence." Trammel v. United States, 445 U.S. 40,
8 51, 100 S. Ct. 906, 63 L. Ed. 2d 186 (1980). The recognition of
9 privileges should be judged on a case-by-case basis and weighed against
10 the public interest. Jaffee v. Redmond, 518 U.S. 1, 8, 116 S. Ct. 1923,
11 135 L. Ed. 2d 337 (1996).

12
13 **C. The Ninth Circuit Does Not Recognize A Broad Settlement**
14 **Privilege**

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16 Federal Rule of Evidence 408(a) prohibits the admission of
17 compromises or offers to compromise as evidence "when offered to prove
18 liability for, invalidity of, or amount of a claim that was disputed as
19 to validity or amount, or to impeach through a prior inconsistent
20 statement or contradiction." Fed. R. Evid. 408(a). According to the
21 Ninth Circuit, "[t]wo principles underlie Rule 408: (1) '[t]he evidence
22 [of compromise] is irrelevant, since the offer may be motivated by
23 desire for peace rather than from any concession of weakness of
24 position;' (2) '[a] more consistently impressive ground is promotion of
25 the public policy favoring the compromise and settlement of disputes.'" Hudspeth v. C.I.R., 914 F.2d 1207, 1213-14 (9th Cir. 1990) (citing Fed.
26 R. Evid. 408 advisory committee's note). However, by its terms, Rule
27 408 limits the admissibility of settlement agreements, not their
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1 discovery. See Fed. R. Evid. 408. Furthermore, Rule 408(b)
2 specifically states that it “does not require exclusion if the evidence
3 is offered for purposes not prohibited by subdivision (a).” Id.
4 Defendants’ stated purpose of discovery is “the determination of a
5 reasonable royalty rate for the patents-in-suit,” which does not fall
6 under the prohibited uses listed in Rule 408(a). (Quash Stip. at 4).
7

8 Plaintiff argues that Rule 408 is evidence of a strong public
9 policy of encouraging efficient settlements and that Federal Rule of
10 Evidence 501, which provides the general guidelines by which courts may
11 recognize the existence of privileges limiting the discoverability of
12 evidence, has been used to recognize a settlement negotiation privilege.
13 (Quash Stip. at 6). Plaintiff’s claim of privilege relies heavily on
14 Goodyear Tire & Rubber Co. v. Chiles Power Supply, Inc., 332 F.3d 976,
15 (6th Cir. 2003), in which the Sixth Circuit broadly held that “any
16 communications made in furtherance of settlement are privileged.” Id.
17 at 983.
18

19 Despite the Sixth Circuit’s apparent recognition of a settlement
20 negotiation privilege, courts in the Ninth Circuit have been reluctant
21 to adopt a similar rule. In Rhoades v. Avon Products, Inc., 504 F.3d
22 1151 (9th Cir. 2007), for example, the Ninth Circuit cautioned the
23 parties not to “make[] too much of the ‘policy behind’ Rule 408” and
24 observed that “[w]hen statements made during settlement are introduced
25 for a purpose unrelated to liability, the policy underlying the Rule is
26 not injured.” Id. at 1161-62. Lower courts have similarly determined
27 that the “prohibition on using compromise negotiations is therefore
28 limited and the rule does not bar the admission of such negotiations for

1 other permissible purposes.” Phoenix Solutions, Inc. v. Wells Fargo
2 Bank, N.A., 254 F.R.D. 568, 584 (N.D. Cal. 2008); see also Board of
3 Trustees of the Leland Stanford Junior Univ. v. Tyco Int’l Ltd., 253
4 F.R.D. 521, 523 (C.D. Cal. 2008) (concluding that “there is no federal
5 privilege preventing the discovery of settlement agreements and related
6 documents”); Matsushita Elec. Industrial Co. v. Mediatek, Inc., 2007 WL
7 963975 at *5 (N.D. Cal. 2007) (“[I]t is clear that when Congress
8 approved Rule 408 to promote settlements, it chose to do so by limiting
9 admissibility -- and not by limiting discovery.”).

10
11 Because Defendants are requesting discovery for a purpose not
12 prohibited by Rule 408 and because Ninth Circuit law does not clearly
13 recognize a broad settlement privilege, Plaintiff’s settlement agreement
14 with Honda is not protected from disclosure on the ground that it is
15 privileged.

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17 **III. Relevancy**

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19 **A. Only Relevant Matters Are Discoverable**

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21 As previously discussed, Federal Rule of Civil Procedure 26(b)(1)
22 provides that “[p]arties may obtain discovery regarding any
23 nonprivileged matter that is relevant to any party’s claim or defense.”
24 Plaintiff claims that its settlement agreement with Honda is irrelevant
25 to Defendants’ asserted purpose for discovery, the calculation of a
26 reasonable royalty rate. (Quash Stip. at 2). In support of this
27 argument, Plaintiff cites to cases that find that royalties paid to
28 avoid litigation are not a reliable indicator of the value of a patent

1 due to the parties' desire to end litigation. (Quash Stip. at 7-9,
2 citing Rude v. Wescott, 130 U.S. 152, 164 (1889) ("[P]ayment of any sum
3 in settlement of a claim for an alleged infringement cannot be taken as
4 a standard to measure the value of the improvements patented."); Hanson
5 v. Alpine Valley Ski Area, 718 F. 2d 1075 (Fed. Cir. 1983); and Wang
6 Labs., Inc. v. Mitsubishi Elecs. Am., Inc., 860 F. Supp. 1448 (C.D.
7 1993)). However, Plaintiff's claims against Honda were dismissed
8 without prejudice and thus "did not finally resolve any claims between
9 the two companies." (Quash Stip. at 9; see also Order For Dismissal
10 Without Prejudice, Docket No. 315). This could indicate that the desire
11 to end litigation was not a distorting element in forming the agreement,
12 possibly making the settlement agreement a more reliable indicator of
13 a reasonable royalty rate. See, e.g., Snellman v. Ricoh Co., 862 F.2d
14 283, 289 (Fed. Cir. 1988) (finding an agreement not executed to resolve
15 a dispute or avoid litigation was properly admitted into evidence as
16 relevant to the determination of a reasonable royalty rate).

17
18 Defendants' assertion that Plaintiff's settlement agreement with
19 Honda contains information relevant to this litigation is necessarily
20 hypothetical, however, because Defendants have not seen the agreement.
21 Furthermore, the broad scope of discovery articulated in Federal Rule
22 of Civil Procedure 26(b) is tempered by subsection 26(c), which "gives
23 district courts broad latitude to grant protective orders to prevent
24 disclosure of materials for many types of information, including . . .
25 confidential research, development, or commercial information."
26 Phillips v. Gen. Motors Corp., 307 F.3d 1206, 1211 (9th Cir. 2002)
27 (emphasis omitted). It is axiomatic that Plaintiff is not required to
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1 produce confidential information that is not relevant to the parties'
2 claims or defenses in this action. Fed. R. Civ. P. 26(b)(1).

3
4 **B. This Court Must Balance The Policy Favoring Broad Discovery**
5 **Against The Court's Interest In Protecting Settlements**
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7 Several courts in the Ninth Circuit have recognized that even
8 though settlement agreements may be discoverable in some circumstances,
9 the public policy favoring efficient settlements supports heightened
10 scrutiny regarding their production. Courts "must balance [one party's]
11 interest in the discovery of potentially relevant information against
12 [another party's] interest in protecting a settlement negotiated with
13 the expectation of confidentiality." MedImmune, L.L.C. v. PDL
14 BioPharma, Inc., 2010 WL 3636211 at *2 (N.D. Cal. 2010) (staying
15 discovery pending in camera review of third party settlement agreements
16 for relevancy); see also Abbott Diabetes Care, Inc. V. Roche Diagnostics
17 Corp., 2007 WL 4166030 at *4 (N.D. Cal. 2007) (ordering production of
18 settlement agreement following in camera review but permitting redaction
19 of confidential information not relevant to the instant claim).
20 Accordingly, in recognition of the federal policy favoring settlement
21 agreements, this Court ordered Plaintiff to file a sealed copy of its
22 settlement agreement with Honda for in camera review to allow for a
23 particularized determination of its relevancy.

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1 **IV. IN CAMERA REVIEW AND CONCLUSION**

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3 As noted above, Plaintiff filed its settlement agreement with Honda
4 for purposes of in camera review. The Court has examined Plaintiff's
5 settlement agreement with Honda. After reviewing the agreement, the
6 Court has determined that relevant evidence will not be withheld from
7 Defendants by protecting the agreement from disclosure. Accordingly,
8 Plaintiff's Motion to Quash the subpoena requesting Plaintiff's
9 settlement agreement with Honda is GRANTED.

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11 IT IS SO ORDERED.

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13 DATED: October 8, 2010

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_____/s/
SUZANNE H. SEGAL
UNITED STATES MAGISTRATE JUDGE

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