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**Settlement and Negotiations:
The Limitations of Rule 408 and
How to Protect Yourself**

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Agenda

- Fed. R. Evid. 408: The Basics
- Admissibility under Rule 408
- Discoverability under Rule 408
- Best Practices Related to Rule 408

Fed. R. Evid. Rule 408: The Basics

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Federal Rule of Evidence 408: What It Says

- a) Prohibited Uses. Evidence of the following is not admissible—on behalf of any party—either **to prove or disprove the validity or amount of a disputed claim** or to impeach by a prior inconsistent statement or a contradiction:
- 1) furnishing, promising, or offering—or accepting, promising to accept, or offering to accept—a valuable consideration in compromising or attempting to compromise the claim; and
 - 2) conduct or a statement made during **compromise negotiations** about the claim—except when offered in a criminal case and when the negotiations related to a claim by a public office in the exercise of its regulatory, investigative, or enforcement authority.
- b) Exceptions. The court **may admit** this evidence **for another purpose**, such as proving a witness's bias or prejudice, negating a contention of undue delay, or proving an effort to obstruct a criminal investigation or prosecution.

Federal Rule of Evidence 408: Why It Says It

The Advisory Committee's note to Rule 408 indicates that the drafters intended the Rule to expand the scope of the common law exclusionary rule, which generally applied only to settlement *offers* but *not* statements made during settlement *negotiations*:

The practical value of the common law rule has been greatly diminished by its inapplicability to admissions of fact, even though made in the course of compromise negotiations, unless hypothetical, stated to be “without prejudice,” or so connected with the offer as to be inseparable from it. **An inevitable effect is to inhibit freedom of communication with respect to compromise, even among lawyers. Another effect is the generation of controversy over whether a given statement falls within or without the protected area.** These considerations account for the expansion of the rule herewith to include evidence of conduct or statements made in compromise negotiations, as well as the offer or completed compromise itself.

MyMaven's v. GrubHub, 2023 U.S. Dist. LEXIS 142204 (S.D.N.Y. Aug 14, 2023) (quoting 1975 Advisory Committee Note).

Federal Rule of Evidence 408: What It Means

- What constitutes “compromise negotiations” is highly fact-specific. Generally, it includes all conduct/statements made during negotiations towards compromise, not just the offer itself.
 - May include “preliminary settlement discussions,” not just formal settlement offers.
 - ***In re Gardens Reg’l Hosp. and Medical Ctr., Inc.***, 2017 WL 2889633 (C.D. Cal July 6, 2017)
- Can apply to statements made by either party to anyone else, including third parties.
 - ***United States v. Contra Costa County Water Dist.***, 678 F.2d 90 (9th Cir. 1982) (in action by United States against water district, evidence of settlement between United States and landowner was inadmissible to decrease water district’s liability)
 - ***Broadcort Capital Corp. v. Summa Med. Corp.***, 972 F.2d 1183 (10th Cir. 1992) (Rule 408 did not bar evidence of previous settlement of dispute related to prior and distinct transaction involving defendant but not plaintiff)

Federal Rule of Evidence 408: What It Means

- Generally only applies to actual disputes over existing claims.
- But the timing matters: status of “dispute” should be measured at the time compromise negotiation occurs.
 - Would not apply to offer to license a patent that was not contested and there were no allegations of infringement at the time the offer was made.
 - ***Deere & Co. v. Int’l Harvester Co.***, 710 F.2d 1551 (Fed. Cir. 1983)
 - Two modes of analysis: functional vs. temporal view
 - ***Stewart v. Wachowski***, 2004 U.S. Dist. LEXIS 26607 (C.D. Cal. Sept. 28, 2004)

Federal Rule of Evidence 408: What It Means

- Doesn't require active litigation or a threat that rises to support a declaratory judgment action
 - ***Affiliated Mfrs., Inc. v. Aluminum Co.***, 56 F.3d 521, 526–530 (3d Cir. 1995) (court reviewed conflicting interpretations of scope of Fed. R. Evid. 408 and held that district court was within its discretion in determining that rule applied when parties were in dispute even if there was no threat of pending litigation, and that parties' discussions and internal memoranda regarding negotiations were correctly excluded as evidence of compromise)
 - ***Alpex Computer Corp. v. Nintendo Co.***, 770 F. Supp. 161 (S.D.N.Y. 1991) (plaintiff's letters in patent infringement action sent prior to litigation commencing inadmissible under Rule 408 because the letters identified an infringing product, alleged infringer knew of the asserted patent prior to receiving the communications and signaled through demonstrating the accused product that it contested the infringement allegations)
 - ***Weems v. Tyson Foods, Inc.***, 665 F.3d 958 (8th Cir. 2011) ("A dispute exists for Rule 408 purposes so long as there is an actual dispute or difference of opinion regarding a party's liability for or the amount of the claim.")

BUT Colorado, Kansas, New Mexico, Oklahoma, Utah and Wyoming beware...

Federal Rule of Evidence 408: **What It Means**

- ...at least one circuit requires an actual threat of litigation!
 - ***Big O Tire Dealers, Inc. v. Goodyear Tire & Rubber Co.***, 561 F.2d 1365 (10th Cir. 1977) (concluding that business communications were admissible because there was no specific threat of litigation when they were made)

Sampling of Other Circuits:

- 3rd Circuit: “dispute [having] a clear difference of opinion”
- 9th Circuit: “existing dispute”
- 11th Circuit: statements must be “intended to be part of negotiations towards compromise”

Aiello v. Signature Commerc. Sols., 2024 U.S. Dist. LEXIS 52289 (D. Mass. Mar. 25, 2024)

Federal Rule of Evidence 408: What It Means

- Valuable Consideration Required
 - Must offer valuable consideration during compromise negotiations to maintain inadmissibility
 - Broadly construed
 - Need not be money if the parties consider something else “valuable” (e.g. apology, acknowledgement, job back)

Admissibility Under Rule 408

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Admissibility Hypotheticals

- **“All right, I infringe. Let’s talk about damages.”**
 - **Inadmissible**
 - *Why? – Although no dispute regarding liability, still dispute to the amount of the disputed claim.*

- **“Of course I infringe and owe you \$10,000, but unless you’re willing to settle for less, you’ll have to sue me for it.”**
 - **Admissible**
 - *Why? – No dispute that the accused infringer infringes and owes specific damages, but now business discussion about reducing the amount.*

- **“I understand I need to pay \$10,000 for my infringement of your patent, but unless you’re willing to accept it over three years rather than a one-time payment, you’ll have to sue me for it.”**
 - **Admissible**
 - *Why? – No dispute that the accused infringer infringes and owes specific damages, but now business discussion about how the payment will be paid.*

Admissibility - What is NOT admissible

- Admissibility is a procedural issue and reviewed under regional circuit law. ***Summit 6 v. Samsung Elecs. Co.***, 802 F.3d 1283, 1294 (Fed. Cir. 2015).
- Evidence of compromise negotiations inadmissible to prove **liability** of a disputed claim
 - ***Universal Stabilization Technologies, Inc. v. Advanced Bionutrition Corp.***, 2018 WL 3993369 (S.D. Cal. Aug. 21, 2018) (finding inadmissible information stated in informal negotiation communications between defendant's CEO and plaintiff's employee and alleged inventor where defendant allegedly admitted coinventorship because plaintiff was using the communications to show the validity of plaintiff's inventorship claim)
 - ***Seroctin Research & Techs., Inc. v. Unigen Pharms., Inc.***, 2008 WL 376256 (D. Utah Feb. 11, 2008) (refusing to consider settlement negotiations when considering the merits of plaintiff's PI motion, unless otherwise discoverable (i.e. statements regarding the marking of products with asserted patent's number) or used for a purpose other than proving liability (i.e. showing delay in bringing PI motion)).

Admissibility - What is NOT admissible

- Evidence of compromise negotiations inadmissible to prove the amount of **damages** for a disputed claim
 - ***Insight Tech. Inc. v. SureFire LLC***, 2009 WL 3242554 (D.N.H. Oct. 8, 2009) (excluding evidence of settlement agreement reached with one of named accused infringers for use by other named accused infringers to prove the value of patentee's reasonable royalty because it is not probative of a reasonable royalty given that it was made during active litigation between the settling parties)
- Application of the Rule 408 does not preclude Courts from doing a Rule 402 and/or 403 analysis.
 - ***See, e.g., id.*** (considering probative value and possibility of unfair prejudice and jury confusion along with Rule 408 analysis when determining admissibility of compromise negotiations and resulting settlement agreement between Plaintiff and third party)

Admissibility - What IS admissible?

- Evidence of compromise negotiations admissible when used for “other purpose”
 - Defend against willful infringement charge - **Carpenter Tech. Corp. v. Allegheny Techs., Inc.**, 2012 WL 5507447 (E.D. Pa. Nov. 14, 2012) (ruling accused infringer could introduce evidence of parties’ pre-suit license and settlement negotiations to defend against patentee’s willful infringement charge, but not to prove the amount of damages).
 - Cure misleading or prejudicial material introduced by opposing party - **Sonos, Inc. v. D&M Holdings Inc.**, 2017 WL 5633204 (D. Del Nov. 21, 2017) (precluding accused infringer of introducing evidence of settlement negotiations at trial unless used “to cure potentially misleading or prejudicial material introduced by [the patentee]”).
 - To prove the amount in controversy - **Vermande v. Hyundai Motor Am., Inc.**, 352 F. Supp. 2d 195 (D. Conn. 2004)(“underlying rationale for Rule 408 ... is not terribly offended by considering [negotiation evidence] for the limited purpose of determining the amount in controversy”); **Cohn v. Petsmart, Inc.**, 281 F.3d 837 (9th Cir. 2002) (agreeing with district court that Rule 408 is inapplicable when evidence of settlement negotiations is used “merely to indicate Plaintiff’s assessment of the value of the [allegedly infringed] trademark”).

Admissibility - What IS admissible?

- Evidence of compromise negotiations admissible when used for “other purpose”
 - To support subject matter jurisdiction of DJ claim - ***Rhoades v. Avon Prods., Inc.***, 504 F.3d 1151 (9th Cir. 2007)(evidence of alleged threats of infringement litigation made by defense counsel “on the heels of” years of unsuccessful and tense settlement negotiations, offered to satisfy jurisdictional requirements of action for declaratory relief, was “perfectly acceptable under Rule 408”)
 - Determine reasonable attorney’s fees - ***Lohman v. Duryea Borough***, 574 F.3d 163 (3d Cir. 2009) (“Rule 408 does not bar a court’s consideration of settlement negotiations in its analysis of what constitutes a reasonable fee award[.]”)
 - Prove or disprove mitigation - ***Bhandari v. First Nat’l Bank of Commerce***, 808 F.2d 1082 (5th Cir. 1987) (“The disputed evidence was admitted to determine whether [plaintiff] failed to mitigate damages. This purpose is permissible under Rule 408.”)
 - Confirm factual information - ***Westside Winery v. Smt Acquisitions***, 2020 WL 8413554 (E.D.N.Y. Nov. 5, 2020)(denying motion to strike plaintiff’s evidence of settlement negotiations offered to prove a settlement agreement existed that defendants made payments on).

Discoverability Under Rule 408

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Discovery of Compromise Negotiations

- Federal Circuit law applies for discovery matters in patent case when the requested materials “relate to an issue of substantive patent law.” *Advanced Cardiovascular Sys., Inc. v. Medtronic, Inc.*, 265 F.3d 1294 (Fed. Cir. 2001).
- The Federal Circuit does not recognize a formal settlement negotiation privilege automatically precluding discovery. *In re MSTG, Inc.*, 675 F.3d 1337 (Fed. Cir. 2012)
 - MSTG argued that the license negotiations between it and its licensees were protected by a settlement negotiation privilege, particularly when the agreements had already been produced
 - The Federal Circuit disagreed, stating that “the public policy goals argued to support a privilege **can more appropriately be achieved by limiting the scope of discovery**” and holding that “in light of reason and experience . . . **settlement negotiations related to reasonable royalties and damage calculations are not protected by a settlement negotiation privilege.**” *Id.* at 1347.

Discovery of Compromise Negotiations

- Rule 408 covers admissibility, not discovery
 - ***In re MSTG, Inc.***, 675 F.3d 1337 (Fed. Cir. 2012) (ruling that as a matter of Federal Circuit law no settlement privilege exists to automatically shield from discovery settlement negotiations related to a reasonable royalty and damages calculations, whether between a patentee and an accused infringer or a patentee and a third party accused infringer).
 - ***Automated Merchandising Sys., Inc. v. Crane Co.***, 2011 WL 5025907 (N.D. W. Va. Oct. 21, 2011) (granting motion to compel documents related to settlement agreements because “even something that is ultimately determined to be inadmissible is still discoverable under Fed. R. Civ. P. 26(b)(1)” and “outside of the patent context courts have generally declined to find a privilege that would preclude similar discovery”)
 - ***Two-Way Media LLC v. AT&T Inc.***, 2011 WL 13113724 (W.D. Tex. March 7, 2011) (granting motion to compel patentee to produce documents concerning negotiation communications with another accused infringer because “Rule 408 does not provide a rule against disclosure, only admissibility” and the documents were relevant to determining reasonable royalty, even if they were ultimately determined inadmissible)

Discovery of Compromise Negotiations

- Still, some courts impose heightened standards for discovery of compromise negotiations
 - ***ABT Sys., LLC v. Emerson Elec. Co.***, 2012 WL 6594996 (E.D. Mo. Dec. 18, 2012) (denying defendant’s motion to compel discovery of patentee’s settlement negotiations, except for documents related to that relate to prior art, where agreements had already been produced because defendant had not articulated “any particularized relevance to the information” sought to the issue of damages and “court has discretion to limit discovery of material that is not itself admissible. . . to protect confidentiality”)
 - ***Avocent Redmond Corp. v. Rose Elecs.***, 2012 WL 4903272 (W.D. Wash. May 9, 2012) (recognizing no settlement communication privilege, but still sustaining objection to discovery into licensing negotiations because the requesting party did not show such “discovery regarding the negotiations is likely to uncover evidence that would be admissible”)

Discovery of Compromise Negotiations

- Discovery into negotiations related to unconsummated agreements generally not permissible
 - ***Bergstrom, Inc. v. Glacier Bay, Inc.***, 2010 WL 257253 (N.D. Ill. 2010) (denying accused infringer's motion to compel documents related to patentee's failed settlement negotiations with accused infringer of related patent because compelling the production of the requested negotiations would chill the confidentiality that parties rely on during their settlement negotiation and obstruct settlement)
 - ***Lamoureux v. Anazahealth Corp.***, 2009 WL 813977, *2 (D. Conn March 26, 2009) (granting defendant's motion for protective order to stop accused infringer from getting discovery into ongoing settlement discussions between patentee, inventors, and exclusive licensees and an accused infringer in a different litigation)

Discovery of Compromise Negotiations

At least one Circuit has recognized a “settlement communication privilege” precluding discovery

- ***Goodyear Tire & Rubber Co. v. Chiles Power Supply, Inc.***, 332 F.3d 976 (6th Cir. 2003) (affirming district court’s confidentiality order and deny discovery of statement made during settlement discussions due to “settlement communication privilege”)
 - “The public policy favoring secret negotiations, combined with the inherent questionability of the truthfulness of any statement made therein, leads us to conclude that a settlement privilege should exist, and that the district court did not abuse its discretion in refusing to allow discovery.”
 - “The settlement privilege is also necessary because permitted third-party discovery of negotiation communications would lead to other undesirable results” including depositions of attorneys involved in the dispute
 - “Moreover, one of the proposed rationales for the enactment of Rule 408 was that statements made in furtherance of settlement are *never* relevant . . . ‘since the offer may be motivated by a desire for peace rather than from any concession of weakness of position.’”

Best Practices Related to Rule 408

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Best Practices Regarding Negotiation Communications

How Would You Feel If It Was On A Screen In Federal Court?

Have Clean Hands. Make Sure Your House Is In Order.

- ***Cambria Co. LLC v. Hirsch Glass Corp.***, 2023 U.S. Dist. LEXIS 175833 (D.N.J. Sept. 29, 2023)

Best Practices Regarding Negotiation Communications

- Consider additional security measures when negotiating
 - Condition negotiations on their inadmissibility.
 - ***In re Evansville Television, Inc.***, 286 F.2d 65 (7th Cir. 1961) (counsel conditioned negotiations during recess on their inadmissibility).
 - Confidentiality agreement between the parties before negotiating agreeing to broader set of protections
 - ***SanDisk Corp. v. STMicroelectronics, Inc.***, 480 F.3d 1372, 1375 n.1 (Fed. Cir. 2007)
 - ***Int’l Business Machines Corp. v. Groupon, Inc.***, 2018 WL 3007662 (D. Del. 2018) (excluding evidence of pre-suit negotiations between the parties in part because admitting such evidence would violate parties’ confidentiality agreement)
 - ***Manufacturing Resources Intern., Inc. v. Civiq Smartscapes, LLC***, 2019 WL 4198194 (D. Del. 2019)(striking damages expert’s testimony based on confidential settlement meetings and financial documents exchanged during such meeting between the parties in party because the parties can entered into an NDA “the litigation party seeking discovery must obtain the production via the discovery process and not via the exchange of any information hereunder.”)

Best Practices Regarding Negotiation Communications

- **Limit communications in writing**; schedule a meeting or call
- Be **clear with opposing** when compromise negotiations begin
- **Apply header/footer to everything disclosed** as part of the compromise negotiations indicating intended confidentiality under Rule 408
- Be careful **not to disclose the information or make reference to it**. Waiver may occur if the person complaining put forth the evidence
 - ***ABT Sys., LLC v. Emerson Elec. Co.***, 2012 WL 6594996 (E.D. Mo. Dec. 18, 2012) (stating Defendant would be “free to seek further discovery of the settlement negotiations” if Plaintiff’s experts made use of the statements made during such negotiations to inform their opinions)
 - ***Rates Tech., Inc. v. Cablevision Sys. Corp.***, 2006 WL 1026044 (E.D.N.Y 2006) (permitting discovery into documents related to licenses and settlement agreements for the asserted patents where the patentee had raised the information to its benefit by touting the strength of its patents due to the alleged widespread acceptance by those the patentee challenged)

What to do if communications are disclosed?

- **Move to strike**
 - *Pleadings*
 - ***Polaris Industries Inc. v. Arctic Cat Inc.***, 2016 WL 10518589 (D. Minn. 2016) (striking portion of accused infringer’s antitrust counterclaim under Rule 408 for improperly quoting and discussing statements made in settlement communications while a patent infringement dispute existed)
 - ***Trading Tech. Int’l v. BCG Partners, Inc.***, 2011 WL 3946581 (N.D. Ill. Sept. 2, 2011) (striking copies of negotiations materials attached to patentee’s complaint used to support its induced infringement claim because “if patent holders could lure suspected infringers to settlement negotiations, only to turn around and use those negotiations to level additional indirect infringement claims and the purported infringer, parties will be less likely to negotiate a settlement or engage in licensing discussions in the first place”)
 - *Expert reports and/or testimony*
 - ***Apple, Inc. v. Samsung Elecs. Co., Ltd.***, 2014 WL 794328 (N.D. Cal. 2014) (excluding the part of accused infringer’s damages expert’s testimony regarding their royalty analysis that relied on an inadmissible settlement proposal)
- **Object.** Although there is no unilateral waiver permitted, failure to object may constitute waiver
- **Call for a mistrial** if you feel the admission will likely affect the verdict



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