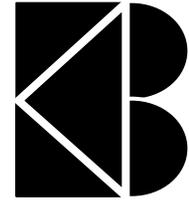


DEALING WITH THE PATENTS OF OTHERS IN A LICENSE/SALE NEGOTIATION

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You are in the middle of a negotiation. You are trying to sell or license a substantial portfolio relating to a potential commercial blockbuster product. Suddenly, the person across the table sets down a US patent that is very close in technology. Very close. They say “What about this patent?”

Your response?

On the one hand, you just want to sell/license your technology and would love to say, “Oh, that’s not a problem.” On the other hand, you have heard about this concept of inducement to infringe a patent, and don’t want to be a defendant.

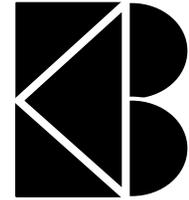
Just being a licensor does not automatically mean that you are in the soup with your licensee. But with the right facts, you could have some trouble. Your answer, and what you do to follow up, could lead you to need more help than you wanted.

This memo will provide you with some background information about infringement issues, and damages that can be assessed if you are found to willfully infringe a patent. The key element used to avoid a finding of willful infringement, the Opinion of Counsel, will be discussed, with specific background regarding what to look for in an opinion. Finally suggestions will be provided as to what information and how to share it, including a specific example of an agreement to put in place between the parties to preserve attorney client privilege.

The statutory basis for finding infringement of a patent is as follows:

•**35 U.S.C. 271 Infringement of patent.**

•(a) Except as otherwise provided in this title, whoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States, or imports into the United States any patented invention during the term of the patent therefor, infringes the patent.



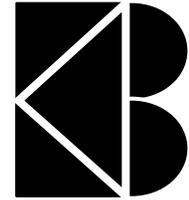
- (b) Whoever actively induces infringement of a patent shall be liable as an infringer.
- (c) Whoever offers to sell or sells within the United States or imports into the United States a component of a patented machine, manufacture, combination, or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.

The licensor in the above scenario does not want to be found to have induced a party to infringe a patent. Several elements are considered in determining whether an inducement to infringe a patent has occurred, including:

- an inducer's knowledge of the asserted patent;
- the presence of infringement by the third party allegedly induced;
- an inducer's actual intent to cause the acts which he knew or should have known would induce actual infringements; and
- the commission of an act that constitutes inducement, not merely the power to act or the failure to act.

In the U.S., if a party is found to have willfully infringed a patent, damages can be multiplied by up to three (3) times. When deciding this damage assessment, a court will consider a number of factors to determine the appropriate damage multiplier:

- (1) whether the infringer deliberately copied the ideas or design of another;
- (2) whether the infringer, when he knew of the other's patent protection, investigated the scope of the patent and formed a good-faith belief that it was invalid or that it was not infringed; and
- (3) the infringer's behavior as a party to the litigation.
- (4) defendant's size and financial condition.
 - If defendant is giant, and plaintiff is small, higher damages are likely.
 - If the damages would severely affect the defendant's financial condition, a lower multiplier is likely.
 - The enhanced damages should not unduly prejudice the defendants' non-infringing businesses.
- (5) closeness of the case.
 - If the court considers the willfulness question to be a close one, a lower multiplier, such as double damages may be appropriate.



- (6) Duration of defendant's misconduct.
 - If sales continue through and after a non-successful appeal in the court process, a higher multiplier may be applied after the decision on appeal
- (7) Remedial action by the defendant.
 - A lower multiplier may be applied if the defendant voluntarily ceases manufacture and sale of infringing systems during the lawsuit.
- (8) Defendant's motivation for harm.
 - Even if acts are deliberate and with knowledge of plaintiff's rights, a lower multiplier will apply if the motive is purely economic rather than evil.
- (9) Whether defendant attempted to conceal its misconduct.
 - Damages will be enhanced if the defendant fails to preserve its records and cooperate as it should at trial.

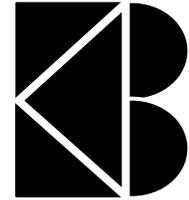
The most important step that a party can take to protect itself against assessment of Willful Infringement Damage Multiplier goes back to Factor 2:

(2) whether the infringer, when he knew of the other's patent protection, investigated the scope of the patent and formed a good-faith belief that it was invalid or that it was not infringed.

The action to take is straightforward and well recognized - get a competent opinion of counsel that the patent is invalid and/or not infringed. Note, however, that not all opinions are created equal. If a court determines that the opinion was not competent, it will provide no protection against enhanced damages whatsoever. Over the years, case law has identified factors that indicate whether an opinion should be considered to be competent. These factors include the following:

1. Was the opinion delivered by in-house vs. independent outside counsel? Outside counsel is somewhat favored as being more capable of providing an independent competent opinion.
2. Was the opinion presented in oral or written form? Written opinions can be carefully reviewed in detail, and are considered to be more likely to be competent.

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3. Was the opinion delivered by a general practitioner or a lawyer who is a patent specialist? Patent specialists are considered to be more likely to deliver competent noninfringement/invalidity opinions.
4. Was all material information considered, including prosecution history?

5. Did counsel consider all theories on infringement and validity, including Literal infringement and the Doctrine of Equivalents?
6. Was counsel a U.S. Patent Attorney or Agent?
7. Was counsel's advice unequivocal?

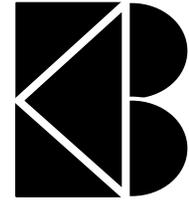
Assuming you now have a solid opinion that states that the patent is either invalid or is not infringed, what do you do with it?

First of all, recognize that it may not be in your best interest to share that opinion. Rather, it is better to encourage the buyer/licensee to reach their own conclusion regarding infringement or invalidity. If the product is totally under their control and they have not relied on you in determining that they are clear of patent problems, you should not be a party to a patent infringement suit at all.

Sometimes, however, the other party won't take no for an answer. In that case, you still don't have to share the full opinion. Instead, try to provide only a roadmap of objective facts and features that lead to a conclusion, without making that conclusion for them. The documents you provide to them should be limited to a presentation of facts, perhaps including highlights of the prosecution history of the patent in question so that they will find it easier to draw their own conclusion.

This is, however, the real world. Sometimes the other party REALLY won't take no for an answer. They want you to get out the color crayons so they really understand your theories of noninfringement or invalidity. In this case, you can provide them with a copy of your opinion on a TEMPORARY basis, only for them to study and draw their own conclusions. Your opinion should not stay in their files. And, BEFORE it goes over there, put a Confidential Disclosure Agreement in place between the parties. This confidentiality agreement is primarily designed to protect the attorney-client privilege by maintaining confidentiality of the subject matter and establishing a "Community of Interest." Here is a sample agreement:

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Dear _____:

The purpose of this letter is to confirm the intentions of OUR COMPANY and YOUR COMPANY (collectively “the Parties”) regarding the privileged status of certain subject matter to be discussed between the Parties. The Parties are exchanging communications, whether written, oral, or otherwise, relating to potential joint development of THE PRODUCT (the “Communications”).

The Parties agree that there is commonality of interest between OUR COMPANY and YOUR COMPANY to the Communications. The Communications will likely involve discussion of matters that bear on legal issues and/or advice of counsel, including such issues as potential joint inventorship, patentability of inventions, and freedom to operate. The Parties agree to be represented by separate lawyers.

The Parties previously signed a Mutual Confidential Disclosure Agreement dated _____, and the Parties intend the Communications to be confidential information as defined in the Mutual Confidential Disclosure Agreement.

The Communications may require the exchange of information, documentation, and materials that are normally subject to the attorney/client privilege (“Information”). By exchanging the above Communications, the Parties confirm that they do not intend to waive any attorney-client privilege in the Information. Moreover, the Parties do not intend to waive any attorney-client privilege in the Information as against each other in any subsequent adverse proceedings between the Parties.

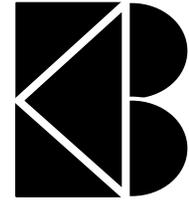
Please indicate your agreement with the terms recited herein by placing your signature and the date of signature below.

Sincerely,

_____ Date: _____ Title: _____
AGREED TO BY:

_____ Date: _____ Title: _____

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Now that the buyer/licensee is convinced that they will be free to practice the technology you are selling or licensing, you must document that this determination was their decision. The License or Purchase Agreement should document that the other party has had the opportunity to obtain their own opinion, and is not relying on any representations that you have made. The agreement should establish their competency in making these business decisions, and that you have no liability in those decisions.

Here are some sample license provisions that will help you accomplish these goals:

No Warranty of Noninfringement.

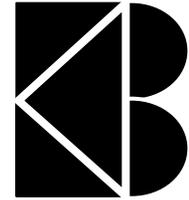
Licensor does not represent or warrant that the manufacture, use, sale, offer for sale, or importation of any Licensed Product or any product that includes Licensed Product, or that the use or practice of any intellectual property right licensed under this Agreement, is free of infringement or misappropriation of a third party's intellectual property rights.

No Warranty of Technical or Commercial Success. Licensor does not represent or warrant that with the license(s) granted hereunder, Licensee will be able to manufacture Licensed Products or that Licensed Products will be free of defects or be technically or commercially successful.

Independent Evaluation. Licensee represents and warrants that it has independently evaluated the Patent Rights and Know-how and is entering into this Agreement on the basis of its own evaluation and not in reliance on any representation by Licensor regarding the Patent Rights and Know-how.

Experience. Licensee represents and warrants that in the normal course of Licensee's business, Licensee conducts a business that is similar to the subject matter of the Patent Rights and Know-how. Accordingly, Licensee possesses such knowledge and experience in financial, business, technical, and legal matters in making an agreement of this type that it is capable of evaluating the merits and risks of entering into this Agreement. Licensee is able to bear the economic risks of entering into this Agreement and exploiting the rights transferred hereunder.

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Design Control. It is understood by the Parties that Licensee controls the design, manufacture and use of Licensed Products and of the facility in which Licensed Products are manufactured, and is solely responsible for protecting its employees, distributors, customers and others from hazards, if any, associated with the manufacture, use, sale or import of Licensed Products.

Liability. Licensee shall accept all liability for and shall take all actions necessary to protect its employees, distributors, customers and others from injury or damage resulting from Licensed Products.

The foregoing should provide you with helpful suggestions in protecting your organization from avoidable liability concerns in licensing or sale situations. Each transaction is different, and the advice of competent counsel in each situation should be obtained.