

# Patent Litigation Settlement Agreements: How to Get the Best Deal For Your Company

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# Patent Settlements

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- Strategy and Negotiations
- Term Sheet
- Agreement Walk-Through
- Exhibits
- Strategic Considerations

# Strategy and Negotiations

# Patent Settlements – Strategy and Negotiations

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- Evaluate risk
- Manage risk
- Considerations for reaching settlement
- Different parties
  - NPEs
  - Litigation funded cases
  - Competitors

# Termsheet

# Patent Settlements – Term Sheet

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- Seek input from knowledgeable stakeholders
  - Litigators
  - Licensing team
  - Client strategy and roadmaps
  - Technology expertise
- Binding v. non-binding term sheet

# Patent Settlement Agreement Walk-Through

# Patent Settlements – Walk-Through

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- Parties
- Recitals
- Definitions
- License Grant
- Covenants
- Releases
- Dismissals
- Other Terms



# Patent Settlements – Parties

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- Patent holders
  - NPEs have complex structures
  - Litigation funders
  - Competitors
  - Related individuals
- Future acquisitions
  - Accused infringer will want all acquisitions included
  - Patent holder will consider whether to include future acquisitions
    - or seek exclusions (e.g. market cap, product sales, types of products, prior product sales)
  - Seek antitrust advice if exclude companies (e.g., competitor)

## Patent Settlements – Recitals

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- Summarize purpose and intent of settlement in clear language
  - Used to interpret scope of agreement
- Specify
  - Litigations and claims subject to the settlement
  - Third party beneficiaries
  - Undisputed findings (e.g., certain products infringe)
  - Deny contested claims
    - No admission of infringement, validity, or liability
    - Payments do not reflect a reasonable royalty or FRAND rate

# Patent Settlements – Definitions

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- Potentially covered parties
  - Licensee, affiliates, and subsidiaries
  - Supply chain (e.g., manufacturer, suppliers, distributors, retailer)
  - Customers and end users
- Potentially covered products and services alternatives
  - All products and services used or sold; or
  - Accused products and services and/or natural evolutions along with prototypes, replacements, test units, internal use

## Patent Settlements – Definitions (cont'd)

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- Potentially covered patents
  - For standards or patents limited to technical field
    - Ensure technology definitions are accurate
    - Consider covering related technologies (e.g., all wireless standards) and future standards
  - Expressly include all family members
    - Multiple ways to define patent families
    - Defendants will want to consider including CIPs
    - Continuations may be impliedly licensed unless a clear indication of mutual intent to the contrary

## Patent Settlements – License Grant

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- Cover licensed products and services, and practicing methods and processes
- Have made rights
  - Implied, unless otherwise specified
  - Limit to products designed by accused parties
- Combinations
  - E.g., intended, specific, exclude
- Considerations
  - Carefully review sublicenses and rights flowing to affiliates, subsidiaries, and any future acquisitions
  - Exhaustion may not apply outside the US
  - Check for special requirements in foreign jurisdictions

## Patent Settlements – Covenant Not To Sue

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- Use CNTS if patent holder is unwilling or unable to grant license (e.g., co-ownership)
- Even if receiving a license, CNTS provides extra protection and may be easier to establish a breach
- Covered parties can include licensee, subsidiaries, and affiliates, along with supply chain, customers and end users
- Include threats as well as court or administrative proceedings
- Term of CNTS is six years after patent expiration

# Patent Settlements – Covenant Not To Sue (cont'd)

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- Considerations
  - Authorized future sales could exhaust in the US
  - Jurisdiction review as to whether CNTS runs with the patent
    - Include obligation to comply with CNTS in assignments, which provides cause of action if not honored

# Patent Settlements – Releases

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- Scope
  - E.g., direct and indirect infringement, claims in litigation, conduct prior to effective date, conduct of settlement negotiation, judgments, liabilities, allegations offer was not FRAND
  - Exclude claims for breach of the settlement agreement
- Released entities can include licensee, subsidiaries, and affiliates, along with supply chain, customers, and end users
- Bind successors-in-interest or others with an interest in the covered patents



## Patent Settlements – Releases (cont'd)

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- Considerations
  - Releases need not be mutual or mirror each other
    - Some patent holders require releases to be subject to payment or other particular covenants
    - Accused infringer should make sure patent defenses are not released
  - Exhaustion
    - Release of past liability alone may not retroactively authorize sales
  - Doctrines may limit future claims

## Patent Settlements – Standstill

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- Avoid escalation
  - Cooling off period after contentious litigation
  - Use when nearing renewal / expiration of rights
- Tolling or non-tolling of damages
- Not limited to litigation
  - Patent challenges
  - Other forms of conflict (e.g., complaints to governmental agencies)

# Patent Settlements – Dismissals

- District court
  - Voluntary dismissal by plaintiff if defendant has not answered or filed SJ
    - Assume without prejudice unless otherwise stated
  - Joint dismissal
    - Dismissal **with prejudice** acts as a final judgment on the merits
    - Dismissal **without prejudice**
      - Possibility of continued infringement by accused infringer
      - Maintain invalidity defenses for unasserted claims and new products
      - Conditional dismissal that retains defenses
  - Parties may jointly seek to vacate judgments

## Patent Settlements – Dismissals (cont'd)

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- Appeal
  - Invalidity finding
  - Collateral estoppel
- PTAB proceeding
- Foreign litigation, nullity and oppositions
  - Discuss effects of settlement with foreign counsel
  - Withdrawal or nonparticipation in nullity or opposition proceedings

# Patent Settlements – Other Terms

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## Reps and Warranties

- Representations regarding business structure and whether litigation involves funding

## Payment

- Check on payment timing and transmission logistics
- Types of payments and audit rights

## Assignment

- Acquisitions by competitors

## Jurisdiction

- Specialty courts (e.g. PTAB and ITC)

## Patent Settlements – Other Terms (cont'd)

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### No challenge clause

- May not be enforceable in settlements
  - Limit to litigated patents
  - Not allowed in certain pharma cases
- Alternatives: notice period before filing, deterrents such as termination or fee reimbursement

### Specific performance

- Confidentiality
- Covenants not to sue

### Bankruptcy effect on patents and settlement

# Exhibits

## Patent Settlements – Exhibits

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- Dismissals
- Patent Schedules
- Press Release
- Consent Judgment
- Joint Motions (e.g., Vacate Judgement)



# Strategic Considerations

## Strategic Consideration

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- Draft to avoid common non-material breaches
- Trending settlement terms
- Alternative compensation terms
- Side letters
- Complications with indemnity or multiple vendors

# Presenters

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