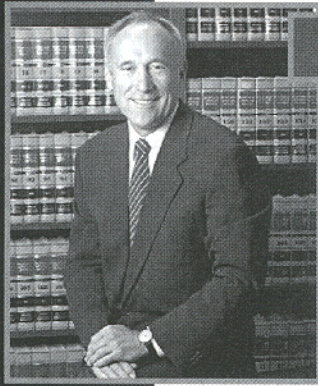


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"Have Made" Rights — A Trap for the Unwary

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Many patent licenses grant the licensee a "have made" right. In general, a "have made" right, which is derived from the term "to make" set forth in 35 U.S.C. § 271(a), permits a licensee to have an unlicensed third party make a licensed product for the licensee.¹ There are no magic words to grant a licensee "have made" rights. For example, a license that grants the right "to make, to have made, to use, to sell (either directly or indirectly), to lease and to otherwise dispose of Licensed Products," conveys "have made" rights.²

In addition to permitting the licensee to have a licensed product manufactured for it by a third party, a "have made" right also offers limited protection from an infringement charge for the third party manufacturer. Specifically, to the extent an unlicensed third party manufactures a licensed product for a licensee with "have made" rights, the unlicensed third party cannot be liable for infringement to the licensor/patent owner.³ Thus, the effect of granting "have made" rights is to provide a limited license to third parties. Inasmuch as a license is an absolute defense to a charge of patent infringement,⁴ by granting "have made" rights to a licensee, the licensor may be unintentionally providing a defense to a patent infringement suit to a third-party under an implied license theory.⁵

The case of *Intel Corp. v. Broadcom* is instructive in this regard. In that case, Intel filed suit against Broadcom charging infringement of five U.S. patents. One of the affirmative defenses raised by Broadcom was that to the extent certain of the allegedly infringing products were made for or sold to licensees of Intel with "have made" rights included in their licenses, that Broadcom's manufacture of those products was shielded from infringement. For example, in that case, Broadcom sold allegedly infringing products to Sony. Sony had a license from Intel that allowed them to "have made" certain products.

Ultimately, both Intel and Broadcom moved for summary judgment on Broadcom's license defense. The key issue the court needed to decide in order to resolve the summary judgment motions was:

[W]hether Broadcom *made* the products pursuant to a request from the licensee, in which case the making and selling would be authorized to the extent that licensee's license allows it to be, or whether Broadcom simply *sold* allegedly infringing off-the-shelf products to parties that happened to be licensees.⁶

In reaching the conclusion that this was the key issue, the court stated that, "[a]n unlicensed third party in the position of Broadcom only is afforded the protections of a license if those protections are conveyed by the licensee to the third party as an exer-

cise of the licensed party's 'have made' rights. Broadcom cannot lay claim to those protections if they were never conveyed to Broadcom."⁷ The court noted that it had come to the exact same conclusion when it had addressed the issue of whether "have made" rights confer protections to manufacturers of "off the shelf" parts in *Thorn EMI North America, Inc. v. Hyundai Elec. Indus. Co.*⁸ In that case, the court found that, "a foundry commissioned by IBM to manufacture HIS products would have the protection of the licensed agreement...[but that] a manufacturer of 'off the shelf' products is not a foundry... [and] therefore, whether or not it sold the products to IBM, would not be protected by the agreement.

The court ultimately denied summary judgment to both Intel and Broadcom, finding that, "it is unclear whether Broadcom made the products pursuant to a request from the licensee."⁹ The court went on to conclude that the:

[G]ranting of "have made" rights to licensees does not, however, give the licensee the inherent right to in some way immunize prior acts of infringement through its subsequent purchase of off-the-shelf goods. To the extent that the "have made" right allows the licensee to purchase the licensed products off of the shelf of an unlicensed third party, that right may shield the licensee from subsequent liability for using or selling that product. However, the "have made" right in that situation does not immunize the unlicensed third party.¹⁰

The license defense arose again at trial. In that regard, the jury was instructed

regarding Broadcom's license defense as follows:

An accused infringer may be protected from infringement liability if the accused infringer makes products for the use or sale of a licensee under a patent in suit. In order to take advantage of such "have made" rights, the accused infringer must prove the following factors: First, the accused infringer must prove that the party for whom it produces the accused product was a licensee under the patent in suit at the time of the accused sales. Second, the accused infringer must prove that the licensee has valid "have made" rights under its license to the patent in suit. For the licensee to have valid "have made" rights, the license agreement must authorize that licensee to have the patented product, or a portion of the patented product, made for it by an outside source like the accused infringer. Third, the accused infringer must prove that the products it makes are "licensed products" as defined under the license. Fourth, the accused infringer must prove that it made products pursuant to a request from the licensee. If the accused infringer sells "off the shelf" or stock products, the accused infringer would not be protected from infringement liability under "have made" rights.¹¹

Because Broadcom did not introduce any evidence concerning the license defense, the court vacated the jury verdict finding that Broadcom's sales to twelve separate licensees did not constitute infringement, and granted Intel's motion for a new trial.

The importance of this case can be seen in the test set forth in the foregoing jury instruction. More specifically, in order to avail itself of an implied license defense under a "have made" rights clause, a third-party manufacturer must establish the following four facts:

1. That the party for whom it produces the accused product was a licensee under the patent in suit at the time of the accused sales.
2. That the licensee has valid "have made" rights under its license to the patent in suit.
3. That the products it makes are "licensed products" as defined under the license.
4. That it made products pursuant to a request from the licensee.¹²

Notably, with respect to the fourth element, the court specifically stated that if a third-party manufacturer sells "off the shelf" or stock products, that party would not be able to establish this factor, and would not be protected from infringement liability.¹³

Based on this case, it is foreseeable that manufacturers, when negotiating sales of a potentially infringing product, could include language in the purchase/sales agreement providing that the manufacturer is making the product at the specific request of the customer/licensee, in an attempt to shield those sales from a future charge of infringement. While it may be difficult for the manufacturer to establish that it is making the product pursuant to the request of a licensee if the manufacturer is making the product prior to its sale to the licensee, it still remains a viable defense that will, at a minimum, unnecessarily increase the costs associated with bringing an infringement action. While there are some favorable cases limiting the scope of "have made" rights when it comes to "off the shelf" components, a company takes a significant risk in relying on this law rather than carefully drafting its licenses. For example, in the *Intel v. Broadcom* case, the jury found that Broadcom's sales to twelve customers that were Intel's licensees were immunized from infringement based on those licensees' "have made" rights.¹⁴ While the court ultimately granted Intel a new trial on this issue, it is clearly a significant concern.¹⁵

This problem can be easily addressed before litigation, by limiting the scope of the "have made" rights at the time of the license grant. There are obviously many ways to address this issue. For example, to avoid the situation addressed in *Intel v. Broadcom*, a licensor can restrict the "have made" rights to exclude "off the shelf" products. Another alternative would be to restrict the "have made" rights to products designed by the licensee. A third alternative would be to limit the "have made" rights so as to exclude products sold by the third-party manufacturer to others. A fourth alternative can be seen in the case of *Tulip Computers Int'l B.V. v. Dell Computer Corp.*¹⁶ There, the court stated in dicta that "off the shelf" computers did not fall within a "have made" clause of a license because they were not specifically made for the licensee. Notably, the license agreement between IBM and Tulip specifically limited the "have made" rights provision such that it "shall not apply to any products in the form manufactured or marketed by said other manufacturer prior to [IBM] furnish-

ing of said specifications."¹⁷ In this way, Dell limited the scope of IBM's "have made" rights.

The key to avoiding the implied license issue under a "have made" license provision is to carefully draft the license, because courts are often less than sympathetic to a party claiming that the scope of its license should be interpreted in some way other than the plain language of the license. For example, in *Tulip Computers*, the court stated that, "Like the plaintiff in *Thorn EMI* which was forced to suffer (sic) the consequences resulting from a licensor's failure to consider a particular risk in drafting the license agreement at issue there, Tulip must suffer the consequences of its own failure to draft the 1998 Agreement to protect itself from the risk that its licensee would see unmarked product."¹⁸

In conclusion, the law is clear that "have made" rights can extend to third party manufacturers, resulting in an implied license. In certain circumstances, this implied license can have unintended consequences, such as waiving a charge of infringement against a third-party manufacturer. Thus, it is important to consider the issue of "have made" rights at the time a license is granted and decide whether certain limitations on the "have made" rights should be included so as to avoid an argument at some later date that a third-party does not infringe because it makes the infringing products under a licensee's "have made" rights. **IPT**

ENDNOTES

1. *Intel Corp. v. Broadcom Corp.*, 173 F. Supp. 2d 201, 228 (D. Del. 2001).
2. *Cyrix Corp. v. Intel Corp.*, 803 F. Supp. 1200, 1203 (E. D. Tex. 1992) (quoting a license agreement entered into between Intel Corp. and Mostek Corp.).
3. *Intel Corp. v. Broadcom Corp.*, 173 F. Supp. at 229.
4. *De Forest Radio Telephone & Telegraph Co. v. U.S.*, 273 U.S. 236, 242, 47 S.Ct. 366, 368 (1927).
5. *Intel Corp. v. Broadcom Corp.*, 173 F. Supp. at 232.
6. *Id.* at 233 (emphasis in original).
7. *Id.*
8. *Thorn EMI North America, Inc. v. Hyundai Elec. Indus. Co.*, CA 94-332-RRM, 1996 U.S. Dist. LEXIS 21170 (D. Del. July 12, 1996).
9. *Id.* at *15.
10. *Intel Corp. v. Broadcom Corp.*, 173 F. Supp. at 232.
11. *Id.* at 233-234.
12. *Intel Corp. v. Broadcom Corp.*, Civ.A. 00-796-SLR, 2003 WL 360256, *28-29 (D. Del. Feb. 13, 2003).
13. *Id.*
14. *Id.*
15. *Id.* at 29.
16. *Id.*
17. *Tulip Computers Int'l B.V. v. Dell Computer Corp.*, CUV, A 00-981-KAJ, 2003 WL 1606081 (D. Del. Feb. 4, 2003).
18. *Id.* at *6.
19. *Id.* at *12.