

UNITED STATES DISTRICT COURT  
NORTHERN DISTRICT OF GEORGIA  
ATLANTA DIVISION

GRACO CHILDREN'S PRODUCTS  
INC.,

Plaintiff,

v.

KIDS II, INC.,

Defendant.

CIVIL ACTION  
No. 1:12-cv-3246-SCJ

**ORDER**

This patent infringement action is before the Court on Defendant's motion to enforce settlement agreement [Doc. No. 26] and motion for leave to file documents under seal [Doc. No. 45].

**I. BACKGROUND<sup>1</sup>**

While in the midst of discovery, Plaintiff Graco Children's Products Inc. ("Graco") and Defendant Kids II, Inc. ("Kids II") agreed to discuss terms to settle this dispute. To that end, on March 11, 2013, Graco's in-house counsel, Sean Beckstrom, sent an e-mail to Joseph Staley, Kids II's in-house counsel, with a settlement proposal calling for a two-year mutual non-solicitation provision and a

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<sup>1</sup> The facts recited below are not reasonably in dispute.

purchase by Kids II of the family of patents-in-suit with a non-exclusive license back to Graco for \$1,150,000 or, in place of an outright purchase of the patents, a full settlement of the pending claims for \$750,000 [Doc. No. 37-1, 11]. The offer was made contingent on the execution of a mutually agreeable settlement agreement and was set to expire on March 15, 2013. Via an e-mail communication on March 15, 2013, Mr. Staley expressed the intention to submit a counteroffer on Graco's behalf.

On March 19, 2013, Mr. Staley extended a seven-point counterproposal as a "framework for a settlement agreement" [Doc. No. 37-1, 30]. Kids II's counterproposal offered \$750,000 for, among other things, the purchase of the patents previously identified by Graco and a mutual two-year moratorium on employee solicitation. Mr. Beckstrom responded by seeking clarification on whether Graco would be granted a right to practice the patents [*Id.* at 36]. Mr. Staley replied that Kids II would extend a non-exclusive license to Graco [*Id.* at 42].<sup>2</sup> The parties then attempted to reach an agreement on the amount for the settlement. Mr. Beckstrom set out the price Graco would agree to and indicated that he had "no issues on the remaining points" [*Id.* at 48]. Mr. Staley proposed a lesser amount and

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<sup>2</sup> Mr. Staley indicated that the term was unintentionally omitted from the March 19<sup>th</sup> proposal [Doc. No. 37-1, 42]. As such, the Court considers the term a part of Kids II's original seven-point counterproposal.

requested that the parties agree to temporarily stay discovery [*Id.* at 55]. Mr.

Beckstrom responded:

Unfortunately, I cannot agree to a stay of discovery until w[e] have an agreement on the dollar amount. I am sure you can understand that position.

So I propose that we agree to \$815,000 and call it a deal. Upon agreement on that point I would be willing to stay Marco's deposition (and all other discovery) until the execution of the final settlement agreement.

[Doc. No. 37-1, 63]. On March 21, 2013, Kids II agreed to pay the requested sum and reiterated its original seven terms as forming the substance of the agreement [*Id.* at 71]. The next day, Graco supplied a draft settlement agreement. Kids II edited the draft settlement agreement and forwarded it for Graco's review. Graco made additional changes in response. Kids II disagreed with two of the alterations, which resulted in inclusion of the following terms: (1) a six-month moratorium on the hiring of a non-clerical employee of the other party even where the employee/applicant was not solicited by the party but rather responded to an employment posting on employment websites or the party's own website; and (2) a representation by Kids II that it will not license, assign, or otherwise transfer any of the identified patents. On March 28, 2013, Mr. Staley struck the two objected to terms from the draft settlement agreement, made other "minor changes," and

provided to Graco what Mr. Staley believed to be a settlement agreement that “reflect[ed] the terms [the parties] settled on via email” [Doc. No. 37-1, 149]. The same day, Mr. Beckstrom informed Mr. Staley that the two points the parties disagreed on were “crucial” and Graco could not agree to a settlement without the inclusion of those two points [*Id.* at 169]. Citing to the parties’ correspondence, Mr. Staley expressed the belief that the parties had reached an agreement on all the material terms on March 21, 2013. As the parties failed to execute a settlement agreement, on April 5, 2013, Kids II filed a motion to enforce settlement agreement.

## II. LEGAL STANDARD

As an initial matter, Kids II’s motion to enforce a settlement agreement to settle this action is properly before the Court. *Ford v. Citizens & S. Nat’l Bank*, 928 F.2d 1118, 1131 (11th Cir. 1991) (“Under federal law, a district court has inherent power to summarily enforce settlement agreements entered into by parties litigant in a pending case.”) (internal quotation marks omitted). The burden of proving the existence of the agreement and its terms rests upon Kids II as it is the party seeking enforcement of the purported settlement agreement. *Massih v. Mulling*, 271 Ga. App. 685, 687, 610 S.E.2d 657, 659 (2005).

Here, Georgia law governs the “construction and enforcement of settlement agreements.” *Wong v. Bailey*, 752 F.2d 619, 621 (11th Cir. 1985). As Georgia law does not distinguish between a settlement agreement and other contracts, “an agreement in settlement of a pending lawsuit must meet the same requisites of formation and enforceability as any other contract.” *Id.* In accordance with well settled principles of contract law, “a contract does not exist unless the parties agree on all material terms.” *Aukerman v. Witmer*, 256 Ga. App. 211, 214, 568 S.E.2d 123, 126 (2002). Additionally, acceptance must mirror the offer to create a binding agreement. *DeRossett Enters., Inc. v. Gen. Elec. Capital Corp.*, 275 Ga. App. 728, 729, 621 S.E.2d 755, 757 (2005) (“[A] purported acceptance of a settlement offer that imposes conditions or otherwise varies the offer is construed as a counteroffer.”).

### III. ANALYSIS

Much can turn on a phrase. Here, the Court must determine whether Mr. Beckstrom’s invitation to “call it a deal” resulted in a binding settlement agreement between the parties.<sup>3</sup> The answer is no, as explained below.

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<sup>3</sup> There is no challenge to the authority of the attorneys involved in the settlement discussions to enter into a binding agreement on behalf of their clients. Moreover, it is a well-settled principle of Georgia law that “[a]n attorney of record is the client’s agent in pursuing a cause of action and . . . [a]n act of an agent within the scope of his apparent

Kids II claims that on March 21, 2013, Graco made an offer to settle the litigation on the terms extended by Kids II in its seven-point proposal of March 19, 2013, in exchange for \$815,000. Kids II asserts that with the exception of the settlement amount the parties had agreed on all material terms as evidenced by Mr. Beckstrom's representation in a previous communication that he had "no issues on the remaining points" – the "remaining points" being the terms Kids II had extended [Doc. No. 37-1, 48]. Thus, Kids II contends, the parties entered into a binding contract when Kids II accepted Graco's invitation to "agree to \$815,000 and call it a deal" [*Id.* at 63].

Graco takes the position that Mr. Beckstrom's proposal to call it a deal expressed nothing more than Graco's willingness to stay discovery upon the parties' agreement on the settlement amount.<sup>4</sup> Graco points to the context of the e-mail communication – a response to Mr. Staley's proposal to stay discovery – and the fact

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authority binds the principal.'" *Hayes v. Nat'l Serv. Indus.*, 196 F.3d 1252, 1254 (11th Cir. 1999) (second alteration in original) (quoting *Glazer v. J.C. Bradford & Co.*, 616 F.2d 167, 169 (5th Cir. 1980)).

<sup>4</sup> Graco also argues that, as evidenced by Mr. Beckstrom's e-mail of March 11, 2013, the execution of a mutually agreeable written settlement agreement was a material term, which remained unfulfilled. However, Mr. Beckstrom made his March 11 offer contingent on the parties executing a settlement agreement. That offer expired for a lack of a timely acceptance, and the execution term was not revisited by the parties in their subsequent exchange of proposals and counterproposals.

that in the communication Mr. Beckstrom made clear that he could not agree to a stay in discovery until the parties had “an agreement on the dollar amount” [Doc. No. 37-1, 63]. Further, in his affidavit, Mr. Beckstrom has stated that the “deal” he was referring to was a deal to stay discovery so that the parties could negotiate the remaining material terms [*Id.* at 4, ¶14].

Graco’s position is consistent with the context of Mr. Beckstrom’s communication. Considering that the parties were debating the stay of discovery and Graco was reluctant to stay discovery until an agreement on the settlement amount was reached, the reasonable interpretation of Mr. Beckstrom’s comment is that the parties would have a “deal” to stay discovery upon agreement on a critical term, the settlement amount. Thus, it does not appear to the Court that Graco’s proposal to call it a deal upon Kids II’s agreement to the settlement amount was in fact an offer to settle this litigation on the terms previously proposed by Kids II.

The contention that the parties did form a binding contract once Kids II agreed to pay the settlement amount Graco was asking for does have superficial appeal. After all, the parties reached an agreement on the settlement amount [Doc. No. 37-1, 71] and Mr. Beckstrom himself had previously asserted that he had “no issues on the remaining points” [Doc. 37-1, 48] that were put forward by Kids II.

Nevertheless, a review of the settlement agreement drafts exchanged by the parties makes apparent that there was no meeting of the minds on two of the terms material to the parties' agreement.

First, with regard to licensing, Kids II's offered to extend a "nonexclusive, royalty free license" to Graco on the patents it would purchase from Graco [Doc. No. 37-1, 42], and Graco sought to acquire a nonexclusive license, as evidenced by Graco's incorporation of this provision in its draft settlement agreement [Doc. No. 37-1, at 94]. However, it is clear that the parties had not reached an understanding on the scope of the license Graco would acquire [*See Id.* at 156]. In granting Graco a non-exclusive license, Kids II intended to retain the ability to license the patents to others [*Id.* at 149], while Graco understood that Kids II would be the only other entity on the market with the right to practice the acquired patents [*Id.* at 136]. Kids II argues that the agreement was for a non-exclusive license and Graco's proposed restriction on Kids II's ability to license the patents to third parties would in effect, and contrary to the parties' agreement, vest in Graco an exclusive license. Graco, on the other hand, argues that as Kids II would retain the right to practice the patents the license Graco acquired would necessarily be non-exclusive but that it had come to the settlement table upon the understanding that Kids II would be its sole



competitor and it could not agree to leave the market open for other licensed manufacturers.

In view of Kids II's intention to practice the patents, any license granted to Graco would have had to be a non-exclusive one. See Manual for Patent Examining Procedure § 301 (8th ed. rev. 9, Aug. 2012) ("The exclusive license prevents the patent owner (or any other party to whom the patent owner might wish to sell a license) from competing with the exclusive licensee . . ."). Thus, a non-exclusive license could reasonably encompass the scope put forward by Graco. However, prior to the circulation of the draft settlement agreement, neither party had attempted to confer with the other over the metes and bounds of the license to Graco. There is no evidence that either party was aware that the other's understanding of the scope of the license was any different from its own until the time the draft of the settlement agreement materialized. Reflecting its understanding of the breadth of the non-exclusive license, Graco proposed the following in its draft proposal: "Kids II will not license, assign or otherwise transfer any of the Specified Patents (other than as part of a sale of Kids II as a going concern or financial transaction)" [Doc. No. 37-1, 98]. In revising that draft proposal, Kids II struck through that provision [*Id.* at 116]. Graco reinserted it [*Id.* at 136]. Kids II

struck it again [*Id.* at 156]. There the parties parted ways [*Id.* at 169]. As evidenced by the exchange of draft proposals, although the parties were in agreement that Graco would obtain a non-exclusive license they had not previously discussed the scope of that non-exclusivity and could not reach an agreement on that material term. “Only when a meeting of the minds exists will an agreement be formed.” *Greenwald v. Kersh*, 275 Ga. App. 724, 726, 621 S.E.2d 465, 467 (2005) quoting *Vildibill v. Palmer Johnson of Savannah, Inc.*, 244 Ga.App. 747, 748, 536 S.E.2d 779 (2000). While Kids II now asserts that the parties’ agreement that Graco would acquire a non-exclusive license meant that Kids II would retain the ability to license the patents to third parties, it is not apparent that even Kids II appreciated that an understanding on this material detail had been previously reached. Rather, it appears that Graco and Kids II continued negotiations over this term, respectively advocating for its inclusion or exclusion, through exchange of the draft of the settlement agreement without Mr. Staley ever objecting, until the parties deadlocked, that Graco’s position failed to reflect the parties’ understanding of the scope of the license.

Second, with regard to the non-solicitation provision, Kids II proposed that each party agree to a two-year moratorium on soliciting the other’s non-clerical

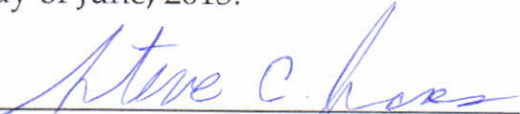
employees. Even if the parties reached a general agreement on a two-year moratorium on solicitation prior to the exchange of the drafts, it is clear that they yet specifically defined the term solicitation. In the first written draft of the settlement agreement Graco defined the term as encompassing both direct and indirect solicitation [Doc. No. 37-1, 102]. Kids II did not alter the definition, but it sought to include a disclaimer that the term should not be construed as restricting either party from posting any open employment positions on the Internet or hiring an employee of the other party who responded to such a posting [*Id.* at 123]. By doing so, Kids II altered the offer that was before it, putting forward, in essence, a counter proposal, which Graco was free to accept or reject. Rather than accepting the counterproposal, Graco sought to add an additional restriction, limiting the hiring of an employee who had responded to a job posting to those employees who had not worked for the other party for at least six months prior to the hiring [Doc. No. 37-1, 142]. Kids II rejected the restriction and Graco declined to negotiate further. Thus, no agreement was reached on a material aspect of the non-solicitation provision.

Accordingly, Kids II has failed to meet its burden of establishing that the parties reached an agreement on all material terms.

IV. CONCLUSION

For the above stated reasons, Defendant's motion to enforce settlement agreement [Doc. No. 26] is **DENIED** and motion for leave to file documents under seal [Doc. No. 45] is **DENIED AS MOOT**, as Defendant was granted permission to file its reply under seal in the Court's of April 15, 2013 [Doc. No. 38]. Thus Clerk is **DIRECTED** to maintain under seal Defendant's reply brief [Doc. No. 46].

IT IS SO ORDERED, this 3rd day of June, 2013.

  
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HONORABLE STEVE C. JONES  
UNITED STATES DISTRICT JUDGE