

IN THE UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF WISCONSIN

CONSUMER PRODUCTS RESEARCH & DESIGN, INC.,

Plaintiff,

MEMORANDUM AND ORDER

v.

06-C-625-S

JIMMY JENSEN, RYAN JENSEN
and INNOTEK CORPORATION,

Defendants/Third Party Plaintiffs,

v.

RICHARD KIRCHNER,

Third-Party Defendant.

Plaintiff Consumer Products Research & Design, Inc. commenced this action against defendants Jimmy Jensen, Ryan Jensen, and Innotek Corporation alleging fraud, breach of contract, and unjust enrichment. Defendants counterclaimed that they had been fraudulently induced to enter the agreement and develop plaintiff's technology. Defendants filed a third party complaint against plaintiff's president Richard Kirchner alleging a similar fraud claim. The matter is presently before the Court on plaintiff's motions for summary judgment on its fraud and breach of contract claims and on defendant Innotek's motion to dismiss the claims against it. The following facts are undisputed for purpose of the pending motions.

FACTS

Plaintiff is the owner of United States Patent Number 6,229,449 (the '449 patent) which covers a smoke detector system using wireless technology. The named inventor of the '449 patent is Richard Kirchner. Defendant Innotek is in the business of manufacturing, marketing, and selling smoke detectors and has developed a line of radio frequency interconnected smoke detectors wherein each unit joins in an alarm when one unit detects smoke.

In 2004 plaintiff and defendants entered into negotiations concerning a potential licensing agreement for the technology covered by the '449 patent. During the course of negotiations Kirchner represented that the '449 technology was the only available technology that could be used to manufacture wireless interconnected smoke detector systems and that only licensees of his technology could manufacture such systems. He further represented that the '449 technology was engineered for full production and to get to market within five months.

Defendant Jimmy Jensen represented that he had experience in creating detector products and bringing them to market. Jimmy Jensen determined that there might be advantages to using a separate corporate entity for purposes of entering a license agreement. He told plaintiff that an entity named Tanj Company would act as licensee under the agreement. In fact, defendants did

not own or control Tanj Company, which was a corporation without assets whose registration had expired.

On July 23, 2004 the parties executed a License Agreement whereby Tanj (as licensee) acquired a non-exclusive license to manufacture products in accordance with the '449 invention. The agreement requires a non-refundable "up-front" \$35,000 payment, and subsequent royalty payments. The agreement authorizes sub-licensing and identifies Innotek as sub-licensee. In the agreement Licensee represents that it was "experienced in the technical and commercial development of hazardous detector apparatus" and that it could develop and market the invention represented by the patent. Defendant Jimmy Jensen executed the agreement on behalf of Tanj and defendant Ryan Jensen executed the agreement on behalf of defendant Innotek.

No payments were made.

MEMORANDUM

Plaintiff also seeks summary judgment on its fraud claim on the basis of representations concerning Tanj. Defendant opposes this motion contending that the existence of Tanj was irrelevant to the agreement and therefor not intended to defraud or relied upon by plaintiff. In support of its motion for summary judgment on its contract claim plaintiff argues that the contract is binding on Jimmy Jensen and that there is no dispute that payments have not

been made in accordance with the agreement. Defendant argues that the patent rights it received under the license were not valuable. Finally, plaintiff does not oppose defendant Innotek's motion to dismiss the contract claim against it, noting that it has never asserted such a claim.

Summary judgment is appropriate when, after both parties have the opportunity to submit evidence in support of their respective positions and the Court has reviewed such evidence in the light most favorable to the nonmovant, there remains no genuine issue of material fact and the moving party is entitled to judgment as a matter of law. Rule 56(c), Fed. R. Civ. P. A fact is material only if it might affect the outcome of the suit under the governing law. Disputes over unnecessary or irrelevant facts will not preclude summary judgment. A factual issue is genuine only if the evidence is such that a reasonable factfinder, applying the appropriate evidentiary standard of proof, could return a verdict for the nonmoving party. Anderson v. Liberty Lobby, Inc., 477 U.S. 242, 254 (1986). Under Rule 56(e) it is the obligation of the nonmoving party to set forth specific facts showing that there is a genuine issue for trial.

Plaintiff's Fraud Claim

Under Wisconsin law a claim for fraud has five elements: 1) the defendant made a factual representation; 2) which was untrue;

3) the defendant either made the representation knowing it was untrue or made it recklessly without caring whether it was true or false; 4) the defendant made the representation with intent to defraud and to induce another to act upon it; and 5) the plaintiff believed the statement to be true and relied on it to his/her detriment. Kaloti Enterprises, Inc. v. Kellogg Sales Co., 2005 WI 111, ¶12, 283 Wis. 2d 555, 699 N.W.2d 205.

It is undisputed that defendants made a false representation that Tanj was an existing business entity that was capable of performing its obligations required in the agreement. It also appears that defendants knew that the representation was untrue. However, the facts surrounding the issues of intent and reliance are the subject of genuine dispute. Tanj was apparently inserted as licensee at Jimmy Jensen's request for some undisclosed legal purposes. There is no evidence that defendants represented that Tanj had assets or knowledge beyond that of Jimmy Jensen. Jimmy Jensen concedes that since Tanj is non-existent he is personally obligated as licensee.

Accepting this version of the facts for purposes of the summary judgment motion, it is difficult to see what reasonable reliance was placed on the existence of Tanj or how its insertion into the transaction induced plaintiff to sign the agreement or caused it detriment. Factual disputes surrounding the final two elements of the claim preclude summary judgment.

Breach of Contract

_____Defendant Jimmy Jensen concedes that he is obligated as the signer of the license agreement. There is also no dispute that payments were not made in accordance with the agreement. His only argument in opposition to summary judgment is that the '449 technology turned out not to be valuable or as represented during negotiations. He does not dispute that the patent is valid and enforceable. Plaintiff couches this argument as lack of consideration for the contract. However, the provision of the patent rights are clearly sufficient "consideration" in the legal sense to sustain a contract.

It is not a proper function of the jury to determine whether consideration is a fair and adequate exchange for the promise. Fairness and adequacy are for the offeror and offeree to judge for themselves. Any legal consideration, no matter how slight, will be sufficient.

WIS JI-Civil 3020.

However, defendant Jimmy Jensen's contention that he was fraudulently induced to execute the agreement, though somewhat inartfully presented, constitutes a contract defense rendering the contract void, as well as a fraud counterclaim. Bank of Sun Prairie v. Esser, 155 Wis. 2d 724, 731, 456 N.W.2d 585 (1990). And, viewing the facts most favorable to defendants the fraud in the inducement claim remains viable. Plaintiff represented that the '449 technology was engineered and ready for market

introduction in five months. Defendants contend that the technology was in fact not useful nor capable of coming to market. There is a dispute concerning the truth of the statements and the question of whether there was reasonable detrimental reliance on them, but those issues can not be resolved on the present motions.

Accordingly, what remains for trial on liability is whether any party engaged in fraud during the negotiations leading to execution of the license agreement.

ORDER

IT IS ORDERED that plaintiff's motions for summary judgment on the fraud and breach of contract claims are DENIED.

IT IS FURTHER ORDERED that defendant Innotek's motion to dismiss is GRANTED to the extent it seeks a determination that no contract claim is alleged against it and is in all other respects DENIED.

Entered this 17th day of May, 2007.

BY THE COURT:

S/

JOHN C. SHABAZ
District Judge