LICENSING PATENTS, TRADE SECRETS AND TRADEMARKS

FINAL EXAMINATION

Professor Jorda December 2000

Instructions:

This is a three-hour (more for certain foreign students), open-book exam. You may consult the course materials as well as any other materials.

Write your answers in the blue books supplied, but please use only one side of the page and observe the margins. Please write or print as legibly as possible.

Grading will be anonymous; please **do not** put your name on anything you turn in. **BE SURE YOUR EXAM NUMBER IS ON EACH BLUE BOOK YOU TURN IN.**

PROBLEM 1

A **Facts**

ABC, S.A. of 100 Rue du General de Gaulle, Louviers, France, developed a proprietary method for pre-treating and dying animal fibers, e.g. wool, in 1995/96. In May of 1997, ABC disclosed this process to XYZ Spinning, Inc. of 200 General Patton Street, Woonsocket, R.I. on the basis of a "Confidential Disclosure Agreement", to enable XYZ to evaluate the subject process and determine its interest in commercially using it under license from ABC.

In September of 1997 ABC filed a patent application on the subject process, in which it was defined generally as a procedure for producing bicolor or multicolor effects on animal fibers by subjecting said animal fibers to a certain pre-treatment with acids, blending such pre-treated fibers with untreated fibers, knitting or weaving such blend of fibers into yarns, fabrics or garments and dying these materials in a single dye bath with a dyestuff having affinity for the pre-treated fibers.

In October 1997 XYZ expressed an interest in being licensed to practice ABC's process and ABC agreed to license XYZ on terms agreeable to XYZ as follows:

1) Non-exclusive grant with the right to "sublicense", or extend the license to, dyers (as subcontractors or suppliers) to practice the licensed process, subject to approval by ABC, inasmuch as XYZ is in the business of making rather than dying fabrics.
2) Geographic scope: USA, Canada, Mexico.
3) XYZ is to pay to ABC a fixed royalty of $10,000 per annum, plus $.10 per lb., of yarn, fabric or garment on which the pre-treatment has been applied. For the first introductory year the annual fixed royalty will be reduced for XYZ to $5,000 and the weight/production royalty to $.05 per lb. of yarn, fabric or garment produced.
4) Appropriate record keeping, reporting, payment, auditing provisions.
5) Appropriate confidentiality obligations.
6) Grantback.
7) Hold-harmless obligation running from XYZ to ABC.
8) 10-year term which is renewable and default provisions.
9) Termination option by XYZ upon 3-months advanced notice.

B. **Question**

Please draft appropriate grant and termination clauses (and no others) reflecting the above fact pattern. **[20 points]**

PROBLEM II

A. **Facts**

John Doe (DOE) invented a packaging and dispensing method and apparatus (Invention). Subsequently, Doe granted exclusive rights to the Invention to ABC Industries (ABC). Their agreement required ABC to patent the Invention with promptness and diligence, if they deemed it patentable. Doe was required to assist in the patenting process. Their agreement also transferred any patents, once issued, to ABC. Ultimately, patents issued in the U.S., Canada, and Great Britain with the following expiration dates: British - 3/3/98, U.S. - 4/4/00, Canadian -5/5/02. Furthermore, the agreement required royalty payments to Doe on all sales until the last patent expired; if no patents issued, all royalties were to cease after ten (10) years. The Invention has been in use only in the U.S. and so far ABC has paid all royalties due under the agreement. Another royalty payment will be due soon.

B. **Questions**

Can ABC stop royalty payments to Doe now? If so, why? If not, why not? **[15 points]**

Problem III

Miscellaneous Questions

1. What is the rationale behind quality control provisions in trademark licenses, and what are the necessary elements and steps of a quality control policy and procedure? **[6 points]**
2. When does a trademark license become a franchise and what, if any, difference does that make? **[6 points]**
3. What are licensee and assignor estoppels and what is their present status in patent, trademark, and trade secret licensing? **[6 points]**
4 What are the most important factors for royalty rate determinations? Why is it important to negotiate the royalty rate or other money terms last? **[6 points]**
5. What is a "most-favored licensee" (MFL) provision? What is it supposed to accomplish? What is a negative "most-favored licensee" (MFL) clause? **[6 points]**

— END OF EXAMINATION —

KJF/Ruh/12/12/00