BASIC LICENSING
JUNE 14-JULY 23,1993

PROFESSOR KARL F. JORDA

FINAL EXAMINATION

This is a two hour (three hours for foreign students), open book exam. You may consult the course books and any other materials. Yet, your examination must be your own work. Do not discuss it with other students.

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

Grading will be anonymous; please do not put your name on anything you turn in. USE YOUR EXAMINATION NUMBER.

PROBLEM I

The attached license agreement between VORTRAN CORPORATION and VORTRAN MEDICAL TECHNOLOGY, INC. is at the center of a law suit between the two companies presently pending in a Sacramento California state court.

Please comment separately on the adequacy of the Best Efforts Clause (Paragraph 7), the Termination clause (Paragraph 13) and the Third-party Infringement clause (Paragraph 22). In so commenting indicate in a general way, if you find the clauses inadequate, how they should read and/or what other additional or alternative provisions should have been included. No other clauses need be studied in detail except for ascertaining whether other relevant provisions exist in the agreement. [20 points]

PROBLEM II

A. Facts

When Siemens Corporation decided to enter the dental apparatus business, it sought to acquire an American company that was a manufacturer of dental handpieces by the name of Midwest. After investigation, however, Siemens backed away from the Midwest deal because of certain problems within that company. It then began to look at a Midwest's competitor, Star. However, the president of Star immediately informed Siemens that it would not deal with Siemens if Siemens was still dealing with its competitor, Midwest. Siemens assured Star that it was no longer dealing with Midwest and that the deal was dead. Thus the negotiations between Star and Siemens began.

A letter of intent was executed which did not specifically prevent Siemens from negotiating with other companies simultaneously. A mutual nondisclosure agreement was also executed to protect the confidential information of Star. That agreement provided that any information to be protected as confidential should be marked with the word "Confidential", and any oral disclosures meant to be kept confidential should be reduced to writing, marked with the word "Confidential", and submitted to Siemens within thirty days.

During the negotiations, although much confidential information was given to Siemens, little of it was marked "Confidential". But the Siemens employees understood that what they were receiving was confidential. It included critical business information regarding Star's past and present personnel, employee compensation, manufacturing facilities, material suppliers, material costs, confidential license agreements, its product, marketing programs, and price and cost information. Also included was confidential information on Star's sales and profit margins on an individual product-by-product basis. Star's inventories by product groups were also provided to Siemens, together with ¡nventory projections for the next three years. Technological confidential ¡nformation was also disclosed; Siemens' engineers toured Star's entire manufacturing facility and obtained details concerning Star's latest designs for equipment and other research and development programs.

During all of this time, Siemens was meeting with Midwest and maintaining its discussions regarding acquiring Midwest. Through all of this period, Midwest did not know that Siemens was dealing with Star, and Star did not

know that Siemens was dealing with Midwest, and in fact had been expressly told a number of times that Siemens was not dealing with Midwest.

After a thorough investigation of Star, in an abrupt about-face Siemens decided not to go forward with the purchase of Star, and within a short period of time began to go forward once again with the acquisition of Midwest. Star brought suit against Siemens and petitioned the court to grant an injunction against Siemens' acquisition of Midwest for a period of three years.

B. Question
How should the court rule on Star's petition and why? [10 points]

PROBLEM III

A. Facts
ACE Corporation entered into an oral agreement pursuant to which ACME Corporation was permitted to use ACE's trademark on goods manufactured and sold by ACME. At least 90% of the components for ACME's goods were manufactured by ACE. ACE told ACME that if ACME chose to use its own parts, ACE wanted to know about it. ACE tested parts of ACME's goods. Further, ACE had been associated with ACME for over ten years and respected its ability and expertise. ACE never received any complaints about ACME's goods. Subsequently, the parties had an irreconcilable disagreement about royalties and ended up in court with ACE suing ACME for breach of contract. In defending itself, ACME contended that the agreement between them was a naked license and hence unenforceable.

B. Question
How should the court rule in this situation and why? [10 points]

PROBLEM IV - MISCELLANEOUS QUESTIONS

1. What are some of the factors that go into a determination or setting of an appropriate "royalty rate"? What is the "royalty base" and what role does it play in relation to the "royalty rate"? [4 points]
2. What parameters and limitations should a "most-favored licensee" (MFL) clause have to be fair and equitable to all involved parties? What's the

rationale behind a MFL clause'? [4 points]

3. What is an easy, simple test for determining the legality of intellectual property license restrictions? [4 points]
4. What is the so-called *Brulotte* problem and how can it be neutralized or circumvented? [4 points]
5. How do the grant clauses in patent assignments and patent licenses as well as in trademark assignments and trademark licenses differ'? (The differences might be highlighted best by reciting the key or magic phraseology employed in each.) [4 points]

KFJ/Ruh/7.20.93

EXCLUSIVE LICENSE AGREEMENT

THIS AGREEMENT is made at Los Angeles, California this 30th day of October, 1985, by and between VORTRAN CORPORATION, a California corporation (hereinafter "VORTRAN"), VORTRAN MEDICAL TECHNOLOGY, INC., a California corporation (hereinafter "VMT") and NATHANIEL HUGHES (hereinafter "HUGHES").

VORTRAN is the owner and/or the exclusive licensee of certain technology in the form of a number of inventions, patents and patent applications having application to atomization of fluids, vortex energy, and flowmeter technology. HUGHES is the President of the owner of the majority of the outstanding stock of VORTRAN.

VMT desires an exclusive license to make, use, sell, or lease medical products embodying VORTRAN's technology for medical use.

VORTRAN and VMT previously entered into license agreements dated September 30, 1983 and March 15, 1984, which they desire to supersede and replace with this Agreement.

Accordingly, the parties agree to the following terms and conditions:

1. [redacted]. The term "Licensed Inventions" shall mean those inventions claimed in the patents, pending patent applications and inventions listed on Exhibit "A" attached hereto, as they pertain to medical uses. VMT shall have the right to designate additional countries in which patent applications concerning Licensed Inventions are

to be filed, provided such applications satisfy the legal requirements of such additional countries. "Licensed Inventions" shall include any improvements to the patents, patent applications, and inventions listed on Exhibit "A", as they pertain to medical uses and as more particularly described in Paragraphs 2 and 9.

2. Licensed Products. The term "Licensed Products" shall mean all aerosol products, including medical applications of flowmeters, made, used, or sold for medical uses and covered by any Licensed Invention, any improvements to a Licensed Invention, and as more particularly described in Paragraph 9.

3. Medical Uses. The term "Medical Uses" shall mean human or other animal treatment, diagnosis or other testing.

4. Licensed Territory. The term "Licensed Territory" shall mean every country in the world.

5. Grant of License. VORTRAN grants to VMT the exclusive right under the Licensed Inventions to make, use, sell, or lease Licensed Products in the Licensed Territory. The license shall include the unrestricted right to sublicense others to make, use, sell, or lease Licensed Products subject to the terms, conditions and limitations contained herein.

6. Royalties. Subject to the exception set forth below, VMT shall pay VORTRAN, until the patents expire, a running royalty of seven percent (7%) of VMT's gross receipts as defined hereinafter, in quarterly installments, due within

thirty (30) days after the close of each calendar quarter. The royalties, based on any portion of a quarter beginning prior to execution of this Agreement and ending after execution of this Agreement, shall be due at the end of the next succeeding full quarter. The term "gross receipts", as used herein, means receipts from cash sales, leases and licenses, but not on an accrual basis, in connection with the Licensed Products. No royalty shall be due on Licensed Products which are not accepted by the customer.

The exception shall be that a running royalty of three and one half percent (3.5%) only shall be paid by VMT to VORTRAN with respect to royalties generated by the device depicted in patent application CPH Doc. No. 16830.

7. Best Efforts Obligation. VMT shall exercise its best efforts to exploit the Licensed Products.

8. Records and Reports. VMT shall maintain and keep full and accurate records of all sales of License Products and provide VORTRAN with quarterly statements of those sales. VORTRAN shall have the right to inspect VMT's records during normal business hours. Inspection of records may be made by appointees of VORTRAN.

9. New Technology/Inventions. In the event VORTRAN or HUGHES discovers, invents, improves, or patents any invention, concept, idea, technology, or patent (hereinafter "Future Technology/Invention") which may have medical uses as defined in Paragraph 3, derived directly from the existing patents set forth in Exhibit "A" attached hereto, VORTRAN and/or HUGHES shall promptly grant to VMT the

exclusive opportunity to make, use, sell, or lease such Future Technology/Inventions, and if VMT so elects to make, use, sell or lease said Future Technology/Invention, said Future Technology/Inventions shall become a Licensed Invention as defined in this Agreement. If VMT does not so elect, the right to make, use, sell or lease medical uses of said Future Technology/Inventions shall remain in VORTRAN. VMT shall notify VORTRAN in writing of its election within six months (6 months) of its presentation.

In disclosing such Future Technology/Inventions, such disclosure shall be in writing and include a complete description

VMT shall have the right to exclude any such Future Technology/Inventions from the scope of the Agreement by written notice to VORTRAN and HUGHES.

10. Protection of Inventions. VORTRAN and HUGHES shall take steps to protect all inventions relating to Licensed Inventions through appropriate secrecy agreements, patent applications, or copyright registrations, and VMT shall have the right to file patent applications relating to such inventions on behalf of VORTRAN and HUGHES, should VORTRAN or HUGHES not take steps within a reasonable time.

11. Ownership of Patents, Patent Application and Inventions. Subject to Paragraph 12, all inventions of HUGHES which are related to the Licensed Inventions shall be assigned by HUGHES to VORTRAN, along with all patent applications and patents issuing therefrom in the United States and in foreign countries, with rights to those

inventions granted to VMT according to the terms of this License Agreement. All joint inventions of HUGHES and VMT employees shall be the property of VORTRAN and assigned to VORTRAN and shall be subject to this Agreement.

It is understood that inventions that are not related (with respect) to the Licensed Inventions may be retained by HUGHES or that he may assign same to an entity other than VORTRAN. Any VORTRAN patents or patent applications now in existence but not included on Exhibit "A" shall be added to Exhibit "A" as though now thereon.

12. Prosecution and Maintenance of Patents, Patent Applications, Inventions, and Improvements Thereto. VMT and VORTRAN shall share equally all expenses relating to drafting, filing, maintaining, and otherwise protecting any patents, patent applications, or any invention relating to Licensed Products (now existent and within this License Agreement or to be added pursuant to Paragraph 9) in the United States and in foreign countries. Such joint obligations shall pertain to all future and currently outstanding patent costs and attorney fees. In the event VORTRAN does not have funds sufficient to pay its portion of patent expenses, VMT shall pay, VORTRAN'S share, which advance shall be recovered out of VORTRAN'S royalties. Full reimbursement shall be made to VMT out of royalties before any royalties are paid to VORTRAN. While such an advance is outstanding, VMT shall be entitled to interest thereon at the Bank of America prime rate plus one percent from the date each payment is made by VMT. While such a balance is

outstanding, VMT shall have reasonable inspection rights to VORTRAN financial records.

VORTRAN warrants that it is the owner or exclusive licensee (with right to sublicense) of the entire right, title and interest in and to the Licensed Inventions and has the right to grant the License set forth herein. VORTRAN agrees to indemnify and hold harmless VMT from any and all claims relating to VORTRAN's rights to grant this License or receive such royalties. In the event any party is found to be entitled to royalties on the Licensed Inventions, such royalties shall be deducted from the royalty payable to VORTRAN.

13. Term and Termination. This Agreement shall remain in full force and effect until the last patent, or claim on a licensed Invention, expires.

14. Marketing. VMT and VORTRAN agree to mark all LIcensed Products sold under this Agreement with a patent notice in the manner required by the appropriate Patent Statutes of the United States where Licensed Patent Rights resulting from the patents or patent applications are in force, or according to the appropriate Patent Statutes of the country where Licensed Patent Rights result from patents or patent applications in the respective country.

15. Execution of Documents by VORTRAN and HUGHES Relating To Protection of Inventions. VORTRAN and HUGHES shall take responsible steps to execute all lawful documents, divisional, substitute, continuation, and reissue applications and other formal papers relating to the

protection of rights in future inventions within the scope of this Agreement in the United States and in designated foreign countries.

16. Confidential Information. Subsequent to execution of this Agreement, VORTRAN and VMT may disclose to, and exhcange with, each other confidential information, including samples, devices, models, prototypes, know-how and data, and specifications thereof relating to the Licensed Product ("Information") for the purpose of designing, manufacturing and marketing the Licensed Product and evaluating other related product opportunities.

The parties to this Agreement agree that each will keep confidential Information disclosed or exchanged under this Agreement for a term of five (5) years after disclosure, whether or not this Agreement contnues to exist. Each party shall treat the Information provided by the other as though the Information were the receiving party's own proprietary information. Each party shall take all reasonable steps to ensure that the Information received from the other shall not be communicated to unauthorized third parties, except that each party shall have the right to disclose the information to any affiliated company who agrees to be bound by the terms of this Agreement.

17. Assignment. Unless otherwise provided in this Agreement, neither party may encumber, assign or transfer its interest in this Agreement or any part thereof without the written consent of the other party. Subject to the provision of the preceding sentence, this Agreement shall be binding

upon and inure to the benefit of both parties and their respective successors in interest, including subsidiaries.

18. Default of VMT, VORTRAN or HUGHES. In the event of default of VMT in performing its obligations under this Agreement, including payment of royalties, VORTRAN may notify VMT in writing by certified mail of such default, and the rights granted under this License shall revert to VORTRAN after ninety (90) days from receipt of such written notice. However, such rights shall not revert in the case where VMT rectifies such default before the termination of the ninety (90) day period following receipt of such written notice.

In the event of default of either VORTRAN or HUGHES in performing their obligations under this Agreement, VMT may notify VORTRAN or HUGHES in writing by certified mail of such default is not corrected within ninety (90) days from the receipt of such written notice, the obligation of VMT to pay royalties under Paragraph 6 shall be suspended until the default is corrected. The death or physical incapacity of HUGHES to perform his obligations shall not affect the obligation of VMT to pay royalties under Paragraph 6.

19. Waiver of Breach. A waiver of any breach of any provision of this Agreement shall not be construed as a continuing waiver of other breaches of the same, or other, provision of this Agreement.

20. Product Liability Insurance. VMT shall obtain suitable product liability coverage for liability based on the sale and use of the Licensed Product.

21. Enforcement of Patents and Rights to

Inventions. VORTRAN and VMT shall jointly prosecute actions against third parties for infringement of any patents or inventions licensed hereunder and relating to medical products. VORTRAN and VMT shall share equally all litigation costs and expenses associated with such action, and shall participate equally in any recovery derived therefrom.

22. Third Party Claims. If any claim upon, or action for, patent infringement is made by a third party against VMT by reason of VMT's use of the Licensed Products, VORTRAN shall pay the costs of defending and/or settling such action or claim and discharging any liability.

23. Notices. Any notice to any party shall be in writing and mailed, if to VORTRAN or HUGHES at c/o Terry Marcellus, 5757 W. Century Blvd. Suite 700, Los Angeles, CA 90045, or if to VMT at 1600 Sacramento Inn Way, Suite 132, Sacramento, California 95815, or to such other address as to either party may designate in writing.

24. Invalid Provisions. If any provision contained in this Agreement shall be held invalid, illegal or unenforceable, such invalidity, illegality or unenforceability shall not affect any other provision of this Agreement, and this Agreement shall be construed as if the provision were not present.

26. Impossibility of Performance; Obligations Suspended. If performance of this Agreement is hindered or prevented by act of God, action of the elements, fire, labor disturbances, failure or lack of transportation facilities, inability to obtain equipment or parts, breakdown of

equipment, interruption of power or water, war, invasion, civil commotion, commander, enactment of legislation or issuance of government orders or regulations, death of HUGHES, or other casualty or cause, whether similar or dissimilar, beyond either party's control, performance by either party hereunder, to the extent to hindered or prevented, shall be excused.

26. Scope of License. Nothing herein shall be deemed to create an agency, joint venture, or partnership relation between the parties.

27. Integration. No claimed oral agreement in respect hereto shall be considered as any part hereof. No waiver of, or change in, the terms of this Agreement subsequent to the execution hereof, claimed to have been made by a representative of a party, shall have any force or effect, unless in writing signed by duly authorized representatives of the parties.

28. Execution of Further Documents. Each party hereto shall perform all other acts necessary or appropriate and shall execute and deliver such further papers and agreements as may be reasonably necessary or desireable to effectuate the purpose of this Agreement.

29. Jurisdiction. This Agreement shall be construed according to the laws of the State of California and any legal or equitable action or proceeding shall be commenced and maintained in the Superior Court of Sacramento County.

30. Attorney Fees. In the event any action is

commenced by any party to this Agreement to enforce or for the breach of this contract, or for a declaration of the rights and/or obligations of the parties hereunder, the prevailing party shall be awarded reasonable attorneys' fees.

DATED: October 30, 1985

VORTRAN CORPORATION

By _____

NATHANIEL HUGHES, President

DATED: October 30, 1985

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NATHANIEL HUGHES

DATED: Oct 30, 1985

VORTRAN MEDICAL TECHNOLOGY, INC.

By _____

GORDON A. WONG, M.D., President