LICENSING INTELLECTUAL PROPERTY
TECHNOLOGY TRANSFER

FINAL EXAMINATION

Professor Jorda December 19, 1994

Instructions:

This is a three-hour, open-book exam (four and one-half hours for certain foreign students). You may consult the course materials as well as 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 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 I

A. Facts

When ABC Corporation sued XYZ Inc. for patent infringement, XYZ counter-attacked with a Motion for Summary Judgment on the grounds that ABC had misused its patents and they were therefore unenforceable.

XYZ's misuse charge focuses on the clause in the license agreement which gives ABC the right to terminate the agreement should XYZ sell recombinant insulin produced or derived without using either ABC microorganisms or ABC patented technology.

B. Question

1. How should the court rule on this Summary Judgment Motion and why? In your answer consider the effect of the 1988 Patent Misuse Reform Act. [14 points]

PROBLEM II

Given that under Rule 19 of the Federal Rules of Civil Procedure an exclusive licensor is not a necessary and indispensable party to an infringement action brought by an exclusive licensee, can the latter sue for patent infringement in its own name where the "exclusive" patent license in question provided that the licensor retain the following rights: manufacturing rights under the patent for itself and its affiliates, veto power over transferability, right of first refusal on infringement actions, right to a percentage of infringement damages, and a reversionary right to the patent in the case of licensee bankruptcy and, in addition, the licensor retained the right to question whether infringing sales had actually occurred, and, upon licensee's request, the licensor had the power (but not the obligation) to allow the licensee the right to sue in its own name'? [8 points]

PROBLEM III

A. Facts

You are acting as a licensing counsel for A Company, the owner of four U.S. patents covering process techniques for making electrical cable (U.S. Patent Nos. 3,957,681; 3,957,682; 3,957,683; and 3,957,684), and two patents, U.S. patent Nos. 4,875,600 and 3,976,428, each covering a different new electrical cable of novel construction and properties. The four process patents are useful in making the two patented cables. But the four process patents are also useful in making several types of unpatented electrical cable that are being sold in high volume.

Representatives of A Company and B Company have negotiated a tentative agreement calling for A Company to grant B Company a nonexclusive license under the four process patents (a) to make, use and sell products covered by U.S. Patent No. 3,976,428, and (b) to make any unpatented electrical cable. No know-how or trade secrets are to be licensed in connection with the patent license agreement.

A Company has licensed, to third parties on an exclusive basis in several foreign countries, counterpart patents to each of the five patents involved in the proposed license. B Company has not asked for and is not expecting a license under any foreign patent rights. A Company wants to maintain its exclusive rights to make, use and sell product covered by U.S. Patent No. 4,875,600. In this connection, A Company has uniformly refused to grant a license under the four process patents that is any broader in scope than permitting use of the process patents to produce unpatented electrical cable and electrical cable covered in A Company's U.S. Patent No. 3,976,428.

Under the negotiated tentative agreement, B Company will pay to A Company (1) $400,000 on the effective date of the agreement and (2) a running royalty of $0.01/linear foot of cable sold by B Company which is either covered by Patent No. 3,976,428, or made using one or more of the four process patents.

B. Questions

1. Draft a grant clause and any related definition clauses needed to express the tentative agreement of A Company and B Company. [6 points]

2. Draft payment provisions that express the agreement of the parties. [5 points]

3. Is this proposed license agreement legal? If so, why? If not, why not? [5 points]

PROBLEM IV

A. Facts

Big Computer Co. ("BC") is a maker and seller of computers and computer systems that require operating system software known as "JACS... ..JACS" and the computers upon which it runs has no more room for improvement and will be unable to meet performance requirements for the next generation of computers due to hit the market in the near future.

BC, due to various corporate "downsizings" over the last few years, has decimated its ability to develop both a new computer and a new operating system in the time required. It has decided to give WindowSoft Software Co. ("WSS") a contract to develop the operating system

software "JACS2". WSS has special engineering talent, software development tools and expertise in developing complex operating system software.

The "JACS2" operating system will have as its basis (its core) substantial portions of the existing JACS operating system now in use. BC has substantial proprietary intellectual property rights in and to the JACS operating system software. BC obtains a significant portion of its revenues from licensing JACS to its customers for computers and computer systems, which use the JACS operating systems software, and expects to do the same with JACS2. JACS2 will also include portions of software proprietary to WSS which WSS uses in software it is presently licensing in the market to other companies for which it does similar software development.

JACS2 will also include substantial amounts of software which does not presently exist and which WSS will develop for this project, either as modifications to existing software owned by BC or WSS, or totally new software. BC will pay WSS $IoM dollars to develop the new JACS2 operating system software. BC will lose revenues should anyone else but BC be able to license JACS2 to customers for BC's computers and computer systems. BC does not, however, believe that distribution by WSS of improvements to or additions to JACS created by WSS for JACS2, for use with operating systems other than JACS2, will be detrimental to BC.

The software techniques to be used by WSS to modify this existing operating system software and the modifications themselves are useable by WSS to modify other operating system software in addition to the JACS operating system software. The totally new software which WSS will create to add to the JACS operating system software is also useable by WSS to improve the operation of other operating system software besides JACS.

B. Questions

1. Discuss the considerations BC and WSS should take into account regarding who should own the intellectual property rights, including copyrights rights, in the new JACS2 operating system software, as a whole, and, as to the portions of that software to be developed by WSS. [5 points]

2. Assuming BC is to own the copyright rights to the new JACS2 software what portion of that software might WSS wish to license for its future use and what are the considerations BC should take into account in evaluating that license request, including restrictions on that license which may be required by BC. [5 points]

3. Assuming that the developed software comes within one of the categories of copyrightable works which may be "works made for hire" under the copyright law, what must be done to insure that the software created by WSS will be treated as a work made for hire for copyright purposes. [3 points]

4. Alternatively, assuming the software does not come within any of the categories of copyrightable works which may be "works made for hire", what must BC do to obtain ownership of the copyright in the developed software. [3 points]

5. What is the difference between obtaining ownership of the copyright rights under the mechanisms described in answering 3 and 4. [1 point]

PROBLEM V - MISCELLANEOUS QUESTIONS

1. Can a trademark owner, who files for bankruptcy after entering a license agreement, reject the license and thus unilaterally deny licensee the right to use the licensed trademark'? If so, why? If not, why not? [4 points]

2. What are grantbacks and what potential licensing and antitrust issues do they raise? Draft an illustrative win-win, problem-free grantback clause. [7 points]

3. What estoppel doctrine applies, if any, where Jane Doe as an employee of Contronic Inc. 1) invented and patented a reflow solder method and apparatus, 2) assigned her patent rights to Contronic, 3) then left and founded and became president and CEO of Ceptronic Corporation, 4) practiced said patented invention and 5) when sued for patent infringement by Contronic, defended on the ground that the patent in suit was invalid and not infringed? Who prevails'? [4 points]

- END OF EXAMINATION -

KFJ/Ruh/12.16.94