LICENSING INTELLECTUAL PROPERTY
(TECHNOLOGY TRANSFER)
JUNE 17-JULY 26,1991

PROFESSOR KARL F. JORDA

FINAL EXAMINATION

This is a two hour, 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

A. Facts

A licensee paid the licensor $150,000 plus an advance on royalties of $100,000 for a non-exclusive license under three patents. Subsequently the licensee exercised his option to convert the non-exclusive license to an exclusive license by paying a second $150,000 fee and a second advance against royalties of $100,000. Seven years later the licensor brought suit against the licensee on the grounds that it had breached the contract by not fulfilling an obligation to use the best efforts to exploit the patents, on the basis that although the license did not contain a best efforts clause it must be implied because the contract contemplates the payment of royalties.

B. Questions

How should the court decide this issue? In your answer discuss also the rationale behind a "best efforts" clause and at least two examples of alternative means for accomplishing the same. [14 points]

PROBLEM II

A. Facts

A licensor developed a software program for creating a template of a cardboard cutout on a computer screen. The infringer, not a licensee, bought a copy of the program, then circumvented the protective devices and made three unauthorized copies of the software. Beyond that it created its own program which was almost a direct copy of the licensor s and marketed it as its own. There was no question that the infringer had engaged in unauthorized copying. But, when accused of copying, the infringer charged that the licensor misused its copyright and that the copyright was unenforceable because the licensor had misused it based on language in the licensor's standard licensing agreement to the effect that

> licensee agrees during the term of this agreement (99 years) and for one (1) year after the termination of this agreement, that it will not write, develop, produce or sell or assist others in the writing, developing, producing or selling of computer assisted die making software, directly or indirectly without licensor's prior written consent.

B. Questions

Was there a copyright misuse issue? How should the court decide this issue'? In your answer discuss also the general nature of the "Patent Misuse" doctrine. [12 points]

PROBLEM III

A. Facts

A Hoist Corporation (Hoist) inventor invented and patented a special synthetic belt for a papermaking machine which in time all but replaced metal belts in the market place. That patent issued in 1976. Auburn International (Auburn), among others, took out a license (in 1985) whose

money terms were as follows:

1. $600,000 for worldwide license
   $400,000 for all countries except the U.S.
   $300,000 for any individual country
2. payable in ten equal annual installments irrespective of extent of use of the patented invention.

After some years, Auburn found the payment obligation a bit "onerous," made a patent validity study, unearthed several invalidity grounds under Sections 102, 103 and 112 of the Patent Act and stopped all payments. Hoist sued Auburn for patent infringement and Auburn counterclaimed for patent invalidity and patent misuse having to do with the duration of the payment obligation in relation to the patent term.

B. Questions

1. Is Auburn's counterclaim subject to dismissal under any estoppel theory? If not, why not? If so, why? [7 points]
2. Is Auburn's patent misuse theory defensible? If so, why, If not, why not? 17 points]

PROBLEM IV

A. Facts

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

B. Questions

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

PROBLEM V - MISCELLANEOUS QUESTIONS

1. Give at least three "do's" and "don't's" in licensing negotiations. [4 points]
2. Discuss the possibility of licensing pending patent applications. What's behind the question as to whether pending patent applications can be licensed? If you conclude that patent applications can be licensed, what's the rationale for doing so? [4 points]
3. Give at least three examples of implied and/or compulsory licenses. [4 points]
4. What are some of the factors that go into royalty rate determinations'? What is the "royalty base" and what role does it play in relation to the royalty rate? [4 points]
5. What is a "most-favored license" provision? What is it supposed to accomplish? What is a negative "most-favored license" clause? [4 points]

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