BASIC LICENSING
JUNE 15-JULY 24, 1992

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

A. Facts

For many years, eyeglass lenses made of glass (not those made of plastic) have been required by the U.S. government to be of a specified hardness (strength) so that they would not be likely to break (in normal usage) and injure the wearer. Until 1980, a special heat treatment (annealing) of the lenses was adequate to meet government specifications. In 1980 new specifications were promulgated and the old heat treatment techniques were no longer adequate.

Edward Bell invented a new process for chemically treating the lenses so they could meet the government specifications. Bell obtained a patent on his process, which was adopted immediately by the entire eyeglass lens industry.

This industry is composed of three large competitors and a large number of smaller companies. The market share of these companies is as follows:

American Opticon (AO)	30 percent
Bash and Lain Co. (B&L)	25 percent
Universal Optical Corp.	20 percent
All others (largest having 4 percent of the market)	25 percent

Bell, through his licensing expert, Elias Colt, has succeeded in licensing his process to a number of small companies, totaling about 20 percent of the market, but has not succeeded in licensing the three major companies, partly because of some questions about the validity of Bell's patent.

Thomasina Edison, Universal Optical Corporation's director of licensing, has been approached by Colt to take a license. Edison has asked Universal's patent counsel, Perry Bailey, to check out the patent.

Bailey has told Edison that it is clear that Universal and the rest of the industry got its technology from Bell's work and is infringing the patent. However, because of some prior publications and prior patents, Bell's patent may not be valid. When pressed, however, Bailey states that, all things considered, he thinks there is a 60 percent chance the patent would be held to be valid by a court.

Colt tells Edison that Bell is going to file a patent infringement suit against one of the big three companies, and Colt thinks Bell might decide to file suit against Universal, the smallest of the big three, because he might have a better chance of winning, or settling, a suit against the smaller company.

Edison has negotiated the royalty rate down about as far as she thinks she can and Universal does not object in principle to taking a license at these rates. However, Universal does not want to have to pay royalties to Bell unless its two bigger competitors are paying the same royalties.

Edison believes that Bell may sue Universal first. Edison also believes, from talking to AO's and B&L's patent and licensing people, that neither AO or B&L will take a license until Bell wins a patent infringement suit against either AO or B&L. Also, Edison is afraid that if Universal is sued, and loses,

Bell could obtain an injunction which would, in effect, require Universal to pay much higher royalties to Bell (before Bell would have the injunction removed) than Edison has negotiated.

Edison's objectives are, therefore:

1. Not get sued by Bell because of the years which would be spent in the litigation, the cost of the litigation, estimated as at least $1,000,000, and disruption the litigation would cause to Universal's management, its lawyers and its technical and marketing employees.

2. Not pay any royalties until AO and B&L pay.

3. Not pay any higher than AO and B&L will ultimately pay.

Bell's objectives are:

1. License all the eyeglass lens industry.

2. If the only way #1. can be accomplished is by suing for patent infringement, then Bell will sue.

B. Questions
What kind of business arrangement should be proposed that would meet the objectives of both Universal (Edison) and Bell?

Please prepare 2-4 pages of discussion of the features of your proposed business arrangement- one that would pass the fairness test and would be a win/win resolution. Do not draft an agreement or clauses for an agreement. [20 points]

PROBLEM 11

A. Facts
Astoria Hotels Inc., owner of a U.S. registration for the mark "ASTORIA", sought an injunction against the use of the mark ASTORIA TOURS by Astoria Tours Inc. in connection with tour operations. In one of several counterclaims, the defendant petitioned that the plaintiff's registration be cancelled on the basis of an abandonment of rights by virtue of the licensing arrangement of the mark to the Barbizon hotel organization, which did not

provide for any quality control by Barbizon nor for any written quality standards or guidelines. There also were no written standards employed by plaintiffs' representatives in inspecting Barbizon and such representatives did not prepare written reports based on their alleged inspections. In addition, plaintiffs did not produce any evidence that Barbizon engaged in its own quality control and that plaintiffs relied on such quality control activities.

There was evidence, however, that representatives of plaintiff made inspections of Barbizon where they inspected public and non-public areas of the hotel including approximately 10 rooms and the restaurant services. They made these inspections in the company of Barbizon management personnel and the nature of such inspections was the same as that used for inspecting other hotels in the Astoria chain at that time and found the conditions at Barbizon generally satisfactory. In addition, plaintiffs made suggestions for improving the conditions at Barbizon which, for the most part, were implemented.

B. Questions

1.How should the court rule on defendant's counterclaim and why?
2.What is the rationale behind the quality control requirement on trademark licensing? [10 points]

PROBLEM III

A. Facts

A patent licensing provision limited the license grant to the patented washing machine attachments "for use only in connection with and as a part of power-operated washing machines of the general type and design shown in the circular attached hereto."

B. Question

Does this provision constitute patent misuse and/or an antitrust violation? In your answer please discuss the difference between the two in addition to providing an explanation of your answer. [10 points]

PROBLEM IV - MISCELLANEOUS QUESTIONS

1. What is the so-called "black box" dilemma and what are ways and means for resolving it? [4 points]
2. What is a "hybrid" trade secret license and what are some of the problems involved? How does one solve these problems? [4 points]
3. What are so-called "grant-backs" and "grant-forwards" and what is the rationale for employing them in licensing arrangements? [4 points]
4. What are the customary exceptions to the confidentiality obligations in secrecy agreements or trade secret licenses? [4 points]
5. Briefly discuss "sublicensing rights" in the context of an exclusive as well as a non-exclusive license? [4 points]

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