EXAM #_____

PATENT, TRADE SECRET & TRADEMARK LICENSING
SUMMER 2002
INTELLECTUAL PROPERTY SUMMER INSTITUTE

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FINAL EXAMINATION

This is a two-hour (three hours for ESL students), open-book exam. You may consult any 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**.

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PROBLEM I

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 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

How should the court rule on defendant's counterclaim and why? **[25 points]**

PROBLEM II

A. Facts

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. A special heat treatment (annealing) of the lenses was adequate to meet government specifications. But then 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 new 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 Lam 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 their technology from Bell's work and are 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, therefore, are:
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:
License all the eyeglass lens industry, including in particular AO and B&L, without litigation.

B. Question
What kind of licensing arrangement would you propose that would meet the objectives of both Universal (Edison) and Bell and would be a win/win resolution of the dispute for all parties?

Please discuss the major steps and features of your proposed strategy and licensing arrangement. Do not draft an agreement or clauses for an agreement. **[50 points]**

PROBLEM III

A. Facts
A gourmet cook who is also an amateur chemist and a tinkerer, has come up with a novel formula for flavoring tablets that can make a cup of coffee taste like you just ground the beans. She wants to sell or license her formula to a big food products company like RJR Nabisco. If a big corporation has no interest in it, she will try to sell or license it to someone regional. She plans to start contacting these companies soon. However, she is concerned that when she discloses her formula to companies, they will steal it. She is not sure it is patentable, and it might not be a trade secret, either.

B. Question
What can she do to protect herself in her dealings with any of these companies? **[25 points]**

END OF EXAMINATION

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