TECHNOLOGY LICENSING
SPRING 2006-2007

PROFESSOR DELLENBAUGH

FINAL EXAMINATION

This examination is a two-hour (with more time for certain ESL students), open-book examination. You may consult your course materials or any other materials you wish, but your answers must be your own work. Do not discuss it with anyone else, including other students.

Please write your answers in the blue books supplied, using only ONE SIDE of the page and observing the margins. If you use more than one book, please number them (e.g., "book 1 of 3 books"). Your score will be adversely affected if I cannot read your answer, so PLEASE write legibly.

Since grading will be anonymous, please put the course title and your EXAMINATION NUMBER on the cover of each blue book. DO NOT put your name on your answers.

PROBLEM I [45 points]

Attached is a hypothetical license agreement which contains problems related to some of the issues we have been studying in this course. Please comment on the shortcomings of Articles II, IV, V, VI, and VIII, and suggest modifications or improvements.

PROBLEM II [25 points]

Please answer **five** of the following seven questions:

1. What are some significant differences between a technology license for government-sponsored technology from an American university to a private company and a technology license between private companies?

2. What are grantbacks, and what licensing and anti-trust issues do they raise?

3. Why are cost and market approaches in royalty setting inapplicable or unreliable?

4. What is the "Black Box" problem and how can it be managed?

5. What is a "most favored licensee" provision? What is a negative "most favored licensee" provision? What is each one designed to accomplish?

6. What are the customary exceptions to the recipient's confidentiality obligations in a confidentiality agreement or trade secret license?

7. What is the so-called ***Brulotte*** problem and how can it be avoided?

PROBLEM III [10 points]

John Standish invented a new antibiotic and a method of using it to treat infection while he was an employee of Big Pharma, Inc. In connection with the filing of a patent application on this invention, Standish assigned all right title, and interest in his invention and the resulting patent rights to Big Pharma in return for "one dollar and other good and valuable consideration". He also signed a declaration asserting that he was the first and true inventor and that he believed the invention to be patentable.

After a falling out with his supervisor, Standish left Big Pharma and founded Newco to develop his antibiotic in competition with Big Pharma. When Big Pharma sued Newco and Standish for infringement of the Standish patent, Newco and Standish raised several defenses asserting that the patent in suit was invalid. Big Pharma moved that these defenses be stricken.

How should the court rule on this motion and why?

PROBLEM IV [10 points]

Alpha Company (licensor) and Beta Corporation (licensee) entered into a hybrid patent/trade secret license agreement in which:

- the Licensed Patent Rights and Licensed Trade Secrets are about equally important;
- the royalty rate is 5% of the Net Sales of the Licensed Product for the Term of the agreement;
- the "Term and Termination" clause provides that the Term of the agreement lasts until "the later of a) the expiration of the last to expire Licensed Patent and b) the lapse of the Trade Secrets"; and
- the Trade Secrets would lapse once they were no longer secret.

The Licensed Patents have all expired, but the Trade Secrets continue and survive as trade secrets. Beta Corporation has paid all royalties due under the agreement in a timely manner, and another royalty payment will be due soon.

Can Beta Corporation stop making royalty payment to Alpha Company? Why or why not? What would your answer be if the trade secrets had lapsed and ceased to be enforceable while the Licensed Patents continued in full *force and effect*?

PROBLEM V [10 points]

Please list and discuss the principal differences between a patent license agreement and a trademark license agreement.

ATTACHMENT

AGREEMENT

This Agreement, effective as of January 1, 1986, is between ABC Corporation (hereafter "Licensor") and the Mid-West Division of XYZ Company (hereafter "Licensee").

WHEREAS Licensor owns and will maintain certain patents and patent applications relating to electrical fuses and their manufacture; and

WHEREAS Licensee desires and Licensor is willing to grant a license under such patents and applications to make and use electrical fuses.

NOW, THEREFORE, the parties agree to the following terms and conditions.

Article I—Definitions

1.1 "Licensed Patents" shall mean the patents and applications listed in Attachment A hereto.

1.2 "Licensed Products" shall mean electrical fuses covered by Licensed patents.

1.3 "Widget Control System" shall mean a remotely-operated, speed variable controller incorporating at least two electrical fuses and only one thyristor.

1.4 "Contract Products" shall mean "Widget Control Systems" incorporating Licensed Products.

Article II—License Grant

2.1 Licensor agrees to grant to Licensee a non-transferrable, indivisible, non-exclusive license under the Licensed Patents to make, use and sell Contract Products, with right to sublicense.

Article III—Royalties

3.1 In consideration for the license, Licensee agrees to pay Licensor a fixed license fee of one million dollars ($1,000,000), payable in ten annual payments due on the anniversary of the effective date of this Agreement. If Licensee fails to make any such annual payment within thirty days of the anniversary date, the entire unpaid balance of such fixed fee shall be due and payable.

3.2 In further consideration for the license, Licensee agrees to pay five percent (5%) of the net sales price of each Contract Product sold during the term of the Agreement.

3.3 To maintain this Agreement in force, Licensee agrees to pay a minimum annual royalty of fifty thousand dollars ($50,000).

3.4 Licensee shall be liable to Licensor for fifty (50%) percent of all royalties accruing under any sublicense.

3.5 Licensee will maintain accurate books of account sufficient to permit determination of the royalties due under this Agreement. Licensee shall make such books available for inspection and copying by Licensor.

3.6 Within thirty days after the end of each calendar quarter, Licensee shall submit to Licensor a written report setting forth all sales of Contract Products during the previous calendar quarter.

Article IV—Improvements

4.1 All improvements to the Licensed Product hereafter acquired or developed by Licensor shall be included in the Licenses Patents, and Licensor shall provide Licensee with sufficient information to use such improvements in performance under this Agreement.

Article V—Termination

5.1 Either party may terminate this Agreement thirty days after written notice to the other party of a material breach of the Agreement if the other party has not remedied such breach.

Article VI—Most Favored License

6.1 At Licensee's option, Licensor agrees to modify this Agreement to conform to the terms and conditions of any subsequent license to a third party for manufacture and sale of electrical fuses if such subsequent license is more favorable.

Article VII—Third Party Infringement

7.1 On receipt of written notice from Licensee of unlicensed infringement of the Licensed Patents by a third party, Licensor shall bring suit against such infringer with the intention of eliminating such unlicensed activity. If Licensor has not brought suit within sixty days of receipt of such notice, Licensee shall be relieved of the payment of royalties hereunder until such unlicensed activity is discontinued.

Article VIII—Indemnity

8.1 If Licensee's activity under this Agreement is the basis for a charge of infringement of a third party's patent, Licensor will indemnify Licensee for all costs associated with the defense of an action for infringement and for all damages awarded as a result of such action.

Article IX—Release

9.1 In consideration for execution of this Agreement, Licensor grants Licensee a personal release for any infringement of Licensed Patents which occurred prior to the effective date of this Agreement.

Article X—Miscellaneous

10.1 This is the entire agreement between the parties. This Agreement replaces all previous oral or written understandings between the parties relating to the subject matter of this Agreement. Any modification or waiver of a provision of this Agreement must be in writing signed by both parties.

10.2 This Agreement shall inure to the benefit of and be binding upon the successors, assigns or legal representatives of the parties.

10.3 If any provision of this Agreement shall be determined by a court of competent jurisdiction to be illegal or unenforceable, the remainder of the agreement shall continue in effect.

10.4 This Agreement contains no obligation, express or implied, which requires Licensee to use its best efforts to manufacture, use or sell Licensed Products.

10.5 In the event of acts of God, fire, flood, interruption of water or power, invasion, civil commotion, or any other cause beyond a party's control which render performance under this Agreement impossible for the party, that party's failure to perform as a result of such cause shall be excused. If such excused lack of performance is continuous for six months, the other party may terminate this Agreement on thirty days written notice.

10.6 This Agreement shall be construed under the law of the State of New York. The parties agree to personal jurisdiction and venue in the District of Hawaii for any dispute arising from this Agreement.

10.7 All notices required hereunder shall be effective if mailed to

Licensor at _____, Delaware

Licensee at _____, Missouri

10.8 Licensee shall mark all Licensed Products with the numbers of the Licensed Patents.

IN WITNESS WHEREOF, the parties have executed this Agreement.

ABC Corporation

Date:_____ By _____(SEAL)
I.M. Dumb, President

Mid-West Division
XYZ Company

Date:_____ By _____(SEAL)
So M. Eye, Manager