TECHNOLOGY LICENSING
SUMMER 2004
INTELLECTUAL PROPERTY SUMMER INSTITUTE

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FINAL EXAMINATION

This is a two-hour (with more time 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

Attached is a hypothetical license agreement, which contains more bad examples than good. Please comment on the shortcomings of Articles II, IV, V, and VI, with suggestions for modifications and improvements **[40 points]**

PROBLEM II

A. Facts

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

B. Question

How should the court rule in this situation and why? **[20 points]**

PROBLEM III

A. Facts

In a hybrid patent/trade secret license agreement

- the licensed patent and trade secret rights are about equally important,
- the stipulated royalty rate is 5% of net sales of the licensed product for the duration of the agreement,
- the "Term and Termination" clause provides for duration of the agreement "until the last-to-lapse of the Licensed Patent and Trade Secret Rights," and
- the patent rights in fact expire at one point during the term of the agreement while the trade secrets continue and survive as trade secrets.

So far the licensee has paid all royalties due under the agreement in a timely manner. Another royalty payment will be due soon.

B. Questions

Can the licensee stop making royalty payments to the licensor now? If so, why? If not, why not? What would your answer be if the trade secrets ceased to be enforceable while patent rights continued in full force and effect? **[20 points]**

PROBLEM IV

In what particular respects do patent, trade secret and trademark license agreements differ, that is, what particular major features or provisions are characteristic of each of these agreements? **[20 points]**

END OF EXAMINATION

KFJ/RUH/7.1.04

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