

**EXAMPLE ANSWER**  
**COMPILED FROM STUDENT ANSWERS**  
**FOR**  
**LICENSING FINAL EXAMINATION**  
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**NOTES:**

The answers given below are compiled from several student answers. That is, the answer for one section may have been written by a different student than the answer written for another section, etc.

The answers below were selected because they were among the highest point-obtaining answers for a specific area from student answers that earned a high grade on the examination. The answers are provided directly as written by the student, without any spelling or any other type of correction or editing.

These answers do not necessarily touch upon all point-obtaining issues, nor do they necessarily state all points of law and fact correctly. Moreover, they may discuss issues that are not point-obtaining. They are provided as a point of comparison, not as a suggestion that they are a perfect answer.

A. *Section A*

## P Sues D for Patent Infringement

Throughout this analysis, infringement and contractual issues will be indicated by the parentheticals next to the stated issues - (patent) or (covenant)

c1devices (2008-2009)

## Make, Use and Sell (patent)

Patty granted a nonexclusive license to D to sell devices under D's account, mark and warranty that embody any of the claims of the '123 patent with the geographical limitation that all sales reach only west of the Mississippi. The license is classified as a nonexclusive license because P retains many rights in the patent. However, it can be said that the license is an exclusive license to sell in the western continental U.S., i.e., P nor anyone else can sell devices falling within the '123 patent in the western continental U.S.

As to the actual rights granted, the patent law grants the patentee an exclusive right to make, use, sell and offer to sale the patented invention. Thus, in stating that D may "sell" devices under the '123 patent, P is impliedly excluding a transfer to D of any rights to make or use products within the scope of the '123 patent. However, once the amendment went into effect in 2009, D obtained the right to make all devices covered by the '123 patent, subject to the requirement that he purchase 75% of his inventory from P. Thus, any manufacture and subsequent sale in the western U.S. of patented devices after execution of the agreement are OK.

P may claim that D is improperly using FRUI as a source for c1devices in breach of the license. P would argue that although the license is silent as to source, that the custom between the two parties indicates that only P can serve as a source to D. P may further contend that the amendment requiring that D buy at least 75% of his inventory from P and that he make the rest evidences this intent. D will counter that the license is silent, and that he only "typically" buys from P - indicating that he has used other sources in the past. Ultimately the license allows for D to use any source he wishes, and thus he is not breaching the license in any way.

## Geographical Limitations (covenant)

D was buying c1devices from FRUI and selling them in Hawaii during 2008 and 2009. First, it must be noted that D is selling in Hawaii while the license expressly provides that D's sales can reach "only to the continental U.S. west of the Mississippi river." Accordingly, all sales to Hawaii, which is not part of the continental U.S., are outside of the scope of the license and infringing. D will argue that his exclusive right extended only to the western continental U.S., but that he also received an implied non-exclusive license with respect to other geographical

regions. A license may be implied where: (1) there is an existing relationship between the parties, (2) within that relationship P transfers a right to D; (3) the right was transferred for valuable consideration; and (4) P is now denying the existence of a right it transferred to D. *Wang Labs v. Mitsubishi*. These factors are all somewhat present in the instant case, but it's not clear at all from the actual license that D received rights to sell in the Eastern U.S. or in Alaska or Hawaii. If the parties had intended such a result, they would have expressly provided for it. It's not for the court to add such terms into an agreement where two sophisticated parties have bargained. *Hilgraeve v. Symantec*. Accordingly, D's argument will likely fail, and there will be no implied license for him to make sales in the Eastern U.S., Alaska or Hawaii.

D may also raise a misuse defense to P's conduct surrounding the '123 patent. Misuse inheres in the patentee attempting to extend the scope of its patent outside of the protection provided for by the Patent Act. The licensing negotiations with D were actually said to be a concession for P - thus it is highly unlikely that P coerced D to accept any of the provisions in the license. Furthermore, P is not extending the scope of the patent beyond the duration of the patent, and is not demanding any sort of package licensing. Lastly, the royalties required by P are not indicated as being disjunctive with the royalty base or excessively high. However, P did say, during a meeting regarding the script of her movie, that she could foresee allowing D to sell products within the scope of the '123 patent through the entire U.S. if the script goes well. This is a clear attempt to extend the reach of her patent beyond the scope of the rights provided by the Patent Act - i.e., she's trying to get a script produced by leveraged her patent arrangement with D. Accordingly, a court may find that P's statement constitutes misuse of her patent. Evidence of this misuse may rest in the royalty provisions in the movie script agreement whereby D promises to pay P 50 cents per 3D Instance - which is defined as any 3D technology designed to make use of any device embodying the claims of the '123 patent. This appears to be an extension of her patent rights outside the scope of patent law and into a copyright agreement.

c2devices (2007)

#### Patent Exhaustion (patent)

During 2007, in buying c2 devices from the One-Laptop-Per-Child project and reselling them under its mark, D is attempting arbitrage. P will argue that D's resales of the donated devices are outside the scope of the sales agreement it made with the project, i.e., P restricted the use of the devices and D is using the devices in violation of that restriction. D, however, will argue that P's rights in the c2devices were exhausted when it sold the units to the project. The doctrine of patent exhaustion provides that an authorized and unrestricted sale of a patented product exhausts the patentee's power over that particular product. Here, P's argument that the use was restricted is probably the prevailing argument. In *Mallinckrodt v. Medipart*, the court held that anticompetitive effects, such as the restriction here, that are not per se violations of law are reviewed in accordance with the rule of reason. The rule of reason essentially provides that only contracts unreasonably restraining trade are subject to actions under the antitrust laws. Here, the

devices are still available elsewhere, and these particular devices are being used in a donative manner to benefit the public. Accordingly, P's charging a different price in a niche market and attempting to prevent arbitrage from market to market is an allowable restriction, and D is operating in violation of that restriction. Accordingly, patent exhaustion does not prevent P from reaching D on the sales of c2devices during 2007. D will be liable for infringement of any such sales.

#### Geographical Limitations (covenant)

Even if D were permitted to sell the c2devices purchased from the project, he is selling them in violation of the licensing agreement which expressly provides that he can only make sales in the western continental U.S. Alaska is clearly not in the continental U.S., and D would be found in breach of the agreement for any such sales.

#### c3devices (2006)

#### Make, Use, Sell (patent)

D retooled a factory in 2006 and began making chips that embodied claim 3 of the '123 patent ("c3 device"). As stated previously, D was not able to "make" devices under the license from P since it was expressly stated that he could only sell devices. Accordingly, any manufacture by D of devices embodied by the '123 patent are outside the scope of the license and could be found infringing. D will argue that the renegotiation entered into between he and P at the end of 2008 resulted in an amendment granting D the make right for devices falling under the '123 patent. According to D, this was always implicit in the agreement, and the renegotiation merely made it express, i.e., the amendment should be seen as part of the original agreement. P will argue that the renegotiation was the first time the parties recognized this right, and that D had no right to make any devices covered by the '123 patent prior to execution of the amendment.

Courts must give effect to the express language in a contract absent any ambiguities. Here there are certainly no ambiguities as D did not have a right to make prior to the execution of the amended agreement. Accordingly, P will prevail on an infringement action for any making by D of c3 devices prior to execution of the amendment (including all sales made during 2006). However, after execution of the 2009 amendment, it is fairly clear, again from the express terms of the agreement, that D has the right to make devices that embody any claims of the '123 patent - subject to the limitation that he buy at least 75% of this required inventory from P first.

#### Geographical Limitations (covenant)

Furthermore, D is selling the c3devices east of the Mississippi, again in breach of the express terms in the license. Thus, all sales of the c3devices by D during 2006 were made outside of the scope of the license.

### P Sues D to have Script Produced

P delivered the script of Avert-TAR to D, and D promptly paid P for the script. However, P will argue that D must use best efforts to exploit the underlying subject matter and thus produce the movie. P's argument will be based on the fact that the agreement between P and D contains a royalty provision wherein P stands to make substantial money. P will further argue that she gave D an exclusive license to the rights in Avert-TAR, and thus he is her only source of revenue as far as this copyright is concerned. D, on the other hand, will argue that he has no obligation to use best efforts because he has already paid P an up-front fee, i.e., not all of P's revenue will derive from royalty payments. Here, there were no express provisions in the agreement regarding best efforts, and D has already given up substantial consideration to P for the rights. Accordingly, a court should hold that D prevails, and thus has no obligation to use best efforts to get the movie produced.

### FRUI Sues D for Patent Infringement

Nonexclusive licensees have no standing to sue for infringement. On the other hand, exclusive licensees with all substantial rights in the patent may sue in their own name. Here, it is expressly stated that FRUI is a nonexclusive licensee in the patent. Although the license between P and FRUI explicitly states that FRUI has "the right to sue for patent infringement of the '123 patent for infringements of claim 1," this provision runs contrary to the law of patents, and would likely be struck from the agreement a court. It is nonsensical for P to give FRUI such a right to sue on claim 1 infringements considering that P still has substantial rights in claim 1, and may not want FRUI running around asserting the patent in that its validity may get overturned at some point. Accordingly, FRUI has no standing to sue on the patent. D should submit a 12(b)(1) motion seeking dismissal and the court should grant this motion..

*B. Section B*

Patty v. Dony - taking of TripleNnar cry

Patty sues Dony for taking of TripleNnar. This is a case of idea submission, where a submitter can sue to recover under breached implied contract or the tort of misappropriation, or - because here Patty fixed her "idea" as a recording, she has a claim for copyright infringement. A submitted idea is protected on a contract basis if the idea is novel to the receiver. An idea that is novel in an absolute/broad sense is protectable on a property basis. I will focus on the implied contract basis for this course.

Is the idea new to Dony?

Dony asserts that the idea is not new - to Dony or anyone else.

The court will consider many factors in what is often a difficult determination: the idea's specificity or generality (here the sound is recorded- extremely specific - weighs in Patty's favor), its commonality (presumably only Patty and the executive initially new about the TripleNnar - weighs in Patty's favor), its uniqueness (may require expert testimony; my guess - weighs in Patty's favor), and its commercial availability (based on the facts, the sound has not been used ever prior to the ringtone use - weighs in Patty's favor). It will weigh in Patty's favor that she endeavored to maintain the limited "commonality" (secrecy) of her idea by first describing the idea to the Dony executive to gauge interest, rather than immediately disclosing it (tho it would have been better to have a Non-disclosure agreement).

Dony may not claim that the TripleNnar ringtone was independently developed, because the audio expert identified it as Patty's TripleNnar.

The TripleNnar will be found novel to Dony, and likely to the world.

Was an implied contract formed?

The court will consider industry standard behavior in handling idea submissions (tho those standards are not described in the prompt). The court will also consider Patty's email evidence, where she reminds the Dony executive of his promise to pay for the audio file she attached if Dony chose to use it.

Due to this showing of the executive's promise to pay and the novelty of TripleNnar, the court will find an implied-in-fact contract that Dony breached by using the TripleNnar recording without compensating Patty.

- are Patty's claims preempted by copyright? is TripleNnar a derivative work?

Dony v. Patty - breach of contract and copyright infringement

### 1) Breach of Contract:

The amended 2009 agreement states that Patty will not TRANSFORM the movie script work after it has been submitted to Dony. This will serve as the basis for the breach of contract claim that Patty either copied or "transformed" her movie script by writing the epic poem.

Patty's only option is to argue that her epic poem is an entirely different work from her movie script. Because the story arc and main characters are the same, this will be difficult to do. However, she did incorporate new minor characters, and different thematical emphases in the poem.

However, the work will be viewed by the court in its entirety - not by its components. Patty will be liable for breach of contract.

### 2) Copyright Infringement:

A copyright grants the author 5 exclusive rights: reproduce, prepare derivative works, distribute, perform, and display. Dony's copyright infringement claim will focus on Patty's right to create derivative works. The original contract granted Dony an exclusive license for "any use" of the movie script for the full term of the copyright. However, Patty retained "copyright authorship" of the movie script. The court will focus on determining what exactly which of the copyrights were transferred from Patty to Dony - did Patty grant Dony the right to create derivative works?

While "use" has meaning in the context of patents due to its appearance in the patent statute, the copyright statute does not state "use" when describing the exclusive rights. This means that there is an ambiguity in the language of the license, and the court will look to factors external to the contract itself to determine the parties intent for the meaning of the works "any use".

Patty will focus on the party's clear (and documented) intent to create a movie - and try to confine the term "use" to the meaning "use script to make a movie."

Dony will focus on the use of the word "ANY". It will argue that "any use" is meant to convey all copyright rights; if the intent had been limited to executing the movie, that Patty would have explicitly reserved her derivative right.

The court will not require Patty to explicitly reserve rights, but it will likely construe the grant of "ANY use" as conveying the rights to derivative works. The fact that Patty assigned the rights prior to writing the script - implying that she created the work expressly for the agreement - also weighs in favor of assigning the rights (or at a minimum including the derivative rights) all to Dony.

FRUI challenges the validity of TriChip mark

FRUI has strong grounds to challenge the validity of the TriChip mark. Patty has granted a naked license to Dony. A naked license occurs when a Trademark owner licenses a licensee to use the trademark on the licensee's goods, but then the licensor fails to monitor the goods produced by the licensee in order to ensure that they are consistent with the standards consumers have come to associate with the brand. The doctrine supports the idea that if a Trademark no longer signifies consistency of quality (due to different standards between licensor and licensee), then the trademark has lost its significance in the market and the TM owner no longer maintains its rights in the TM.

Because Patty never gave Dony any standards to maintain (absence of Exhibit A), and then she also failed to investigate or monitor Dony's manufacturing processes, the license was undoubtedly naked.

Patty will lose rights to the TriChip trademark due to naked license.

Dony challenges validity of TriChip mark



*C. Section C*

(Mallinckrodt v. Medipart) v. (Jazz Photo v. ITC)

Mallinckrodt v. Medipart provided the situation where a "single use only" restriction on patented medical devices constituted a valid restriction on a sale. Violations of this restriction were able to be remedied under the Patent Act as the restriction presented no antitrust issues.

Jazz Photo v. ITC presented the situation where patentee authorized the initial sale of disposable cameras, and where defendants were taking the trashed camera components and preparing them for subsequent uses, that this preparation constituted permissible repair as opposed to improper reconstruction.

(a) Exhaustion

As to exhaustion, the two cases do not reveal any conflicting viewpoints expressed by Judge Newman. Newman was particularly in favor of supporting the patentee's right to expressly restrict its sale in Mallinckrodt. Jazz Photo, on the other hand, merely involved a use of the camera where, at best, a restriction could be implied by the nature of the product - it is a "disposable" camera so it should be limited to one use. I see nothing wrong with the distinction that Judge Newman draws. It is reasonable for the legal system to reward parties like the patentee in Mallinckrodt who have taken it upon themselves to put the public on notice of the intended usage of their products.

Furthermore, the patentee in Mallinckrodt, in attaching the single-use restrictions to the devices, is evidencing an intent that it does not want to be bound by the patent exhaustion doctrine. It recognizes that parties may attempt to use its product more than once, and is letting such parties know that if they try this they will be violating its rights. Again, Jazz Photo's patentee made no effort to reserve its right to go after users that would reuse the camera shells. Had Jazz Photo expressly included such a restriction on its cameras, Judge Newman may have likened the case more to Mallinckrodt and held that Jazz Photo was not prohibiting by the doctrine of patent exhaustion from going after users.

(b) and (c) The "Make Right" and Repair v. Reconstruction

As to the make right, the Jazz Photo case is more on point. This is because the Mallinckrodt case focuses on the use right, not the make right. However, it could be argued that Judge Newman's analysis of uses in violation of the single-use only restriction constituted a making of a new product which would infringe the patent. Jazz Photo more directly addressed the make right in that it considered whether taking the shell of the patented cameras, and refitting the

device with film constituted a making. The shell of the camera was the actual patented item. Judge Newman stated that "the replacement of unpatented parts [the film], having a shorter life than is available from the combination as a whole, is characteristic of repair, not reconstruction." Additionally, the court stated that "reconstruction . . . requires a more extensive rebuilding of the patented entity." These two statements exemplify the feeling of Judge Newman that the refurbished cameras were mere "repairs." Similarly, the patented item in *Mallinckrodt* was the delivery apparatus, not the contents. Thus, it would be analogous to the cameras in *Jazz Photo*, and likely held to be permissible repair, were it not for the valid restriction contained on the label.

Moving forward, we have a fairly straightforward framework to apply to similar cases thanks to Judge Newman's two opinions. Where an unpatented element of an apparatus having a shorter life than the patented elements is replaced, this is mere repair. If the patented elements are replaced, then this is almost certainly an improper "making" in violation of the patentee's rights in the patent. Next, we must look and see if there was a permissible restriction as was the case in *Mallinckrodt*. If such a restriction is present, and this restriction does not violate an antitrust law, then it may prevent the end user from even making what would normally be a permissible repair. If this is the case, and an end user makes a repair in violation of the sale, the patentee's rights are not exhausted with respect to that particular product.