

EXAM NO. _____

FRANKLIN PIERCE LAW CENTER

INTELLECTUAL PROPERTY SUMMER INSTITUTE

**INTELLECTUAL PROPERTY UNDER THE UCC AND THE
BANKRUPTCY CODE**

FINAL EXAMINATION

Professor Ward
Two Hours

July 10, 2003
8:30 am - 10:30 am

INSTRUCTIONS

1. This examination contains two questions weighted in proportion to the recommended time specified for each one.
2. You are permitted to use your copy of SELECTED COMMERCIAL STATUTES and your copy of UNFAIR COMPETITION, TRADEMARK, COPYRIGHT AND PATENT. No other materials may be taken into the examination room. The fact situations in the questions arise in Mainshire, a mythical jurisdiction that has adopted the Official Version of the Uniform Commercial Code (including Revised Article Nine). Do not assume the existence of other special state legislation unless the question directs or invites you to do so.
3. Use a pen and write on only one side of the page.
4. Although no page limitation has been imposed, a concise, tightly reasoned answer will receive more credit than one which rambles. Read the questions carefully. Answer only the question or questions asked.
5. Do not write your name on any part of the examination, but be sure to put your examination number on each blue book you turn in. Please write legibly. GOOD LUCK!

Question # 1

[Recommended time: 1 hour and 30 minutes]

Cap Seal Inc. is in the business of placing various foils and seals over the corks on wine bottles. It does not make or sell wine, but it seals wine bottles for a number of independent wineries in New York and New England. On August 1, 2002, Cap Seal's principal asset was its patented "Quick Seal" machine used in applying the seals over the corked bottles (PATENT NO. 45034) and the patented process it uses in connection with the machine's operation (PATENT NO. 24990).

On September 1, 2002, First Bank made a \$200,000 loan to Cap Seal. As part of the loan transaction, First Bank took a security interest in Cap Seal's patent collateral. The signed security agreement described both the '034 patent and the '990 patent and provided that the security interest also attached to "all other patents hereinafter acquired by the debtor." The security agreement provided further that the debtor was not authorized to assign or license any of the patent collateral covered in the security agreement without the express written consent of First Bank. A proper financing statement covering all of the Cap Seal's "accounts and general intangibles - now owned or hereinafter acquired" was duly filed with the Mainshire Secretary of State on September 2, 2002. No other filing or recording was made by First Bank.

On October 1, 2002, Cap Seal conceived a radically new version of its "Quick Seal" machine and process. On December 1, 2002, Cap Seal's president filed patent applications covering the new machine (Application No. 245) and the process developed for using this new technology (Application No. 488). On December 15, 2002, Cap Seal sold a prototype of their new machine to Grand Isle Vintners [GIV] in Michigan. As part of the deal, Cap Seal and Grand Isle entered into a nonexclusive licensing agreement that gave GIV the right to use the new technology beginning on the date of the license and running for 15 years from that date or from the date that the first patent issues - at the election of the licensee (GIV). The nonexclusive

license provided for a royalty of ½ % of the wholesale price on every wine bottle sold by GIV using the new technology. Cap Seal and GIV mutually promised to keep the new technology secret and confidential until January 1, 2004 or until the first of the expected new patents issued. Under an express proviso in the license, Cap Seal promised to furnish technical support and “know-how” during the first two years of GIV’s use of the new technology. The license also provided that GIV could suspend the royalty payments provided for under the license if “for any reason Cap Seal fails to live up to its promise to provide technical support or essential ‘know-how.’ “

On March 1, 2003, Cap Seal filed a petition for reorganization under Chapter 11 of the Bankruptcy Code. On March 15, the debtor in possession filed a motion to reject the GIV license agreement under section 365 of the Bankruptcy Code. On April 15, 2003 the two expected patents (on the new machine and the new process) were issued to Cap Seal. On April 20, the Bankruptcy Judge approved the rejection of the GIV license.

1. First Bank claims that it has a valid perfected security interest in both the patents in existence on the date of its security agreement and on the patents that issued to Cap Seal on April 15, 2003. What issues are raised by First Bank’s secured claim and how should the Bankruptcy Judge decide them? Explain.

2. In a motion made to the Bankruptcy Judge, GIV claims a right to retain its use of the new technology under the rejected license with Cap Seal as well as the right to force Cap Seal to perform its technical support and “know-how” obligations by withholding royalty payments until Cap Seal renders the technical support called for under the terms of the license. What issues are raised by GIV’s proposed retention of rights under section 365(n) of the Bankruptcy Code and how should the Bankruptcy Judge decide them? Explain.

3. What rights, if any, does First Bank have against GIV? Explain.

Question # 2

[Recommended time: 30 minutes]

Capital Bank is considering a secured loan to Columbia River Winds, Inc. (CRW), a company that makes windsurfing boards, sails and other gear. The Bank knows how to perfect its security interest in CRW's tangible assets (inventory and equipment) but it is unsure about what steps it should take to perfect its security interest in "Airtrack." Airtrack is a piece of software developed and owned by CRW that allows the company to design simulated models of its various boards and sails and to run simulated friction, force and resistance tests on its designs. The original version of "Airtrack" was registered with the Copyright Office in May of 2002. However, the two most recent updates ("Airtrack 1.1 and 1.2") are currently protected by CRW as trade secrets.

Taking into account the Bank's need to protect itself against third parties and against the possible bankruptcy of CRW's as well as the likely concerns of the debtor, what steps you would recommend to the Bank to insure the perfection and priority of its proposed security interest in the Airtrack software.