IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF DELAWARE

DIEBOLD INCORPORATED,	)	
	)	
Plaintiff,	)	C.A. No. 02-374 GMS
	)	
v.	)	
	)	
POSITRAN MANUFACTURING, INC.,	)	
LARRY KEENEY, and JOSEPH UHL,	)	
	)	
Defendants.	)	

<u>MEMORANDUM AND ORDER</u>

I. INTRODUCTION

The plaintiff, Diebold, Inc. ("Diebold"), filed the above-captioned action in the United States District Court for the Northern District of Ohio, alleging, *inter alia*, trademark infringement and trade secret misappropriation. In January 2002, the Ohio court transferred this action to the District of Delaware. Thereafter, Diebold amended its complaint to include a claim for patent infringement.

Presently before the court is Positran Manufacturing, Inc.'s motion for summary judgment. For the reasons that follow, the court will grant this motion in part and deny it in part.

II. STANDARD OF REVIEW

The court may grant summary judgment only if there are no genuine issues of material fact and the moving party is entitled to judgment as a matter of law. FED. R. CIV. P. 56(c). An issue is "genuine" if, given the evidence, a reasonable jury could return a verdict in favor of the non-moving party. *See*, *e.g.*, *Abraham v. Raso,* 183 F.3d 279, 287 (3d Cir. 1999) (citing *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 248-51 (1986)); *Lloyd v. Jefferson*, 53 F. Supp. 2d 643, 654 (D. Del. 1999) (citing same). A fact is "material" if it bears on an essential element of the plaintiff's claim.

See, e.g., Abraham, 183 F.3d at 287; *Lloyd*, 53 F. Supp. 2d at 654. On summary judgment, the court cannot weigh the evidence or make credibility determinations. *See Anderson*, 477 U.S. at 255 ("Credibility determinations, the weighing of the evidence, and the drawing of legitimate inferences from the facts are jury functions, not those of a judge, whether he is ruling on a motion for summary judgment or for a directed verdict."); *International Union, United Auto., Aerospace & Ag. Implement Workers of America, U.A.W. v. Skinner Engine Co.*, 188 F.3d 130, 137 (3d Cir. 1999) ("At the summary judgment stage, a court may not weigh the evidence or make credibility determinations; these tasks are left to the fact finder."). Instead, the court can only determine whether there is a genuine issue for trial. *See Abraham*, 183 F.3d at 287. In doing so, the court must look at the evidence in the light most favorable to the non-moving party, drawing all reasonable inferences and resolving all reasonable doubts in favor of that party. *See, e.g., Pacitti v. Macy's*, 193 F.3d 766, 772 (3d Cir. 1999). With this standard in mind, the court will now describe the facts leading to the present motion.

III. BACKGROUND

Prior to filing for Chapter 11 bankruptcy, Mosler, Inc. ("Mosler") provided security equipment, products, and services to banks and other commercial institutions. In 1999, Mosler entered into a contract with Positran Manufacturing, Inc. ("Positran") to manufacture and assemble pneumatic tube remote transaction security systems and electronic security systems. On February 2, 2000, Mosler and Positran entered into two agreements (the "Agreements") that provided the terms under which Positran would assemble Mosler products. Specifically, Mosler would supply Positran with an annual Master Purchase Order that authorized Positran to manufacture specified quantities of specified Mosler products. The Master Purchase Order provided a month-by-month forecast of the production that was authorized. Mosler was entitled to modify the Master Purchase Order at any time. Under the Agreements, any costs to Positran as a result of Mosler cutting the product forecast were Mosler's responsibility and would be reimbursed to Positran. The Agreements further specified the parties' rights, responsibilities, and obligations in the event that Mosler cut the production forecast or terminated the Agreements. Positran was not authorized to manufacture any products in excess of the revised forecast.

Furthermore, as a condition of the Agreements, Positran agreed to certain quality control measures. Specifically, the Agreements provided that Mosler would not accept any products until after they passed Mosler's receiving inspection. Thus, Positran was only authorized to ship Mosler products directly to locations specified by Mosler, where Mosler representatives inspected the products before installation.

Mosler filed for bankruptcy protection on August 6, 2001. At that time, Positran maintains that it had completed manufacturing a substantial amount of inventory, but had not yet delivered that inventory to Mosler. There was additional inventory on the "shop floor" in various stages of completion that Positran completed and moved off the floor. In October 2001, pursuant to Section 263(b) of the Bankruptcy Act, Diebold purchased substantially all of Mosler's assets, including its intellectual property, trademarks, patents, and trade secrets. Additionally, Diebold purchased all Mosler contracts not expressly excluded by the Asset Purchase Agreement. Mosler rejected the executory manufacturing portion of its contract with Positran on November 5, 2001. Positran remains in possession of the inventory it purchased to meet its obligations under the Agreements and under open purchase orders from Mosler.

IV. DISCUSSION

A license agreement, express or implied, is a contract governed by state law. *See Intel Corp. v. Broadcom Corp.*, 173 F. Supp. 2d 201, 210 (D. Del. 2001). Under Ohio state law, the express terms of a contract control over any terms that might be "implied," particularly where the contract is the complete and entire expression of the parties' agreement. *See* Ohio Rev. Code § 1302.05 (U.C.C. § 2-202).[1] In the present case, Positran maintains that it has an implied license to sell the products that it produced prior to Mosler's bankruptcy. It further argues that its implied license includes the right to complete the manufacture of any unfinished goods or parts that it had purchased prior to Mosler's bankruptcy. In response, Diebold contends that the Agreements between Mosler and Positran covered the same subject matter as the alleged implied license. Therefore, Diebold maintains that no implicit license applies in this case.

The court must disagree with Diebold. While the Agreements may have covered the present situation, namely, remedies for one party's default on the contract, Diebold was not a party to the Agreements. Nor is Diebold Mosler's successor to the Agreements. *See* Sale Order ¶ 31. Finally, Diebold offers no argument as to how the Agreements, and their remedies, survived Mosler's rejection of the Agreements in its bankruptcy case. Thus, the court does not understand Positran to ask it to infer an implied license into the preexisting Agreements. Rather, the implied license at law arises as a result of Mosler's breach of the Agreements by rejecting the them. Positran's remedies thus include the ability to resell and recover damages. *See* U.C.C. § 2-703.

Having determined that the Agreements do not preclude the finding of an implied license, the court must now determine whether Positran has otherwise met its burden of proving that such

[1]It is undisputed that Ohio law governs the Agreements. *See* Agreements, ¶ 14.3.

a license exists. For the following reasons, the court concludes that Positran has met its burden.

The first inquiry the court must undertake is whether Mosler wrongfully rejected or revoked acceptance of the goods at issue. In the present case, Mosler notified Positran that, due to its bankruptcy, it would not be accepting further deliveries on goods it had previously ordered, effective immediately. This action places this case squarely within the subject matter of section 2-703 of the Uniform Commercial Code. That section states in relevant part:

> [w]here the buyer wrongfully rejects or revokes acceptance of goods or fails to make a payment due on or before delivery or repudiates with respect to a part or the whole, then with respect to any goods directly affected and, if the breach is of the whole contract, then also with respect to the whole undelivered balance, the aggrieved seller may . . .
>
> (d) resell and recover damages as hereafter provided (in section 2-706).

Section 2-706 in turn provides:

> (1) [u]nder the conditions stated in Section 2-703 on seller's remedies, the seller may resell the goods concerned or the undelivered balance thereof . . .
>
> (2) [e]xcept as otherwise provided in subsection (3) or unless otherwise agreed resale may be at public or private sale including sale by one or more contract to sell or of identification to an existing contract of the seller . . . . The resale must be reasonablely identified as referring to the broken contract, but it is not necessary that the goods be in existence or that any or all of them have been identified to the contract before the breach.

Finally, section 2-704 of the Uniform Commercial Code states that:

> (1) an aggrieved seller under the previous section [2-703] may:
>
> (a) identify to the contract conforming goods not already identified if at the time he learned of the breach they were in his possession or control;

(b) treat as the subject of resale goods which have demonstrably been intended for the particular contract even though those goods are unfinished.

(2) [w]here the goods are unfinished an aggrieved seller may in the exercise of reasonable commercial judgment for the purposes of avoiding loss and of effective realization either complete the manufacture and wholly identify the goods to the contract or cease manufacture and resale for scrape or salvage value or proceed in any other reasonable manner.

In light of these provisions of the Uniform Commercial Code, Diebold's argument that there is no legal authority for an extension of the implied license doctrine to include goods not yet completed must also be rejected. Rather, Positran's implied license is available for any goods or parts ordered by Mosler before rejection, and for which Positran has likewise ordered goods or parts or made commitments to deliver.[2]

Positran additionally argues that Diebold's claims against it for registered trademark infringement under the Lanham Act, common law trademark infringement, and false designation of origin, must be dismissed. The court agrees insofar as Positran's actions are covered by the license. In order to establish a trademark infringement claim or an unfair competition claim, a plaintiff must establish that the allegedly improper conduct will result in a likelihood of confusion. *See McCoy v. Mitsuboshi Cutlery, Inc.*, 67 F.3d 917, 923 (Fed. Cir. 1995). The court concludes that, as a matter of law, Diebold cannot establish a likelihood of confusion because the Positran-produced Mosler products are genuine Mosler products. *See Matrix Essentials, Inc. v. Emporium Drug Mart, Inc.*,

[2]To the extent that Diebold argues that Mosler instructed Positran to cease manufacturing more than three months prior to its bankruptcy filing, the court concludes that this argument goes to the scope, not the existence, of a license. Given the disputed factual issues arising from what Mosler may have communicated to Positran at that time, this issue cannot be resolved on a motion for summary judgment.

988 F.2d 587, 590-593 (5th Cir. 1993). This is so because the sale, authorized or not, of the genuine article cannot lead to confusion. *See Monte Carlo Shirt, Inc. v. Daewoo Int'l Corp.*, 707 F.2d 1054, 1057 (9th Cir. 1983).[3] In the *Monte Carlo* case, the Ninth Circuit held that:

> [a] showing of likely buyer confusion as to the source, origin, or sponsorship of goods is part of a cause of action for infringement of a registered trademark . . . . No such confusion was possible in this case. The goods sold by Daewoo were not imitations of Monte Carlo shirts; they were the genuine product, planned and sponsored by Monte Carlo and produced for it on contract for a future sale.

Id. The alleged trademark violations in this case arise under the same circumstances, namely, goods manufactured to specification, by approval, under a contract for future sales.

Diebold, however, argues that there can be no guarantee that the goods are genuine and conforming because Mosler cannot exercise its right to inspect any goods before sale. This argument must fail. While the court does not dispute that, under the Mosler-Positran Agreements, Mosler retained the right to inspect finished goods, Diebold waived any claims to inspection when the Agreements were rejected on November 5, 2001.

Furthermore, Mosler is the only party with adequate knowledge of the products and processes to perform a quality inspection of the goods. Mosler, however, no longer exists, thus rendering such an inspection impossible. Diebold itself has admitted that it never manufactured the products and indeed, claims to lack the knowledge to do so. Therefore, an inspection of the goods by Diebold is a similar impossibility.

Diebold additionally argues that the "genuine goods" defense does not apply to the present

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[3]Although the court is mindful that the *Monte Carlo* case involved a California common law infringement action, at least one other court has also applied this holding in a federal trademark infringement action. *See e.g., Ballet Makers, Inc. v. U.S. Shoe Corp.*, 633 F. Supp. 1328, 1333 (S.D.N.Y. 1986).

case because there was no authorized initial introduction of the goods into commerce. Specifically, Diebold maintains that neither it, nor Mosler, sold the Mosler products to Positran for distribution. Furthermore, it contends that Positran never had the right, contractual or otherwise, to sell products that it manufactured for Mosler to any party other than Mosler. The court must disagree that the "first sale rule" precludes Positran's actions in this case. In so holding, the court finds the following reasoning from the Federal Circuit to be persuasive:

> [i]n this case, the knives resold by Mitsuboshi were genuine. They were the same knives that Mitsuboshi would have delivered to McCoy if McCoy had not wrongfully refused to pay for them. Because the knives were genuine, *Matrix Essentials*, dictates that Mitsuboshi did not cause consumer confusion by reselling them. That McCoy did not authorize resale is immaterial. Therefore, this court holds as a matter of law that Mitsuboshi did not commit trademark infringement or unfair competition by reselling the knives.

McCoy, 67 F.3d at 924.

Adopting the above reasoning, the court concludes that Positran's sale of genuine Mosler products, in accordance with its implied license, does not, as a matter of law, constitute trademark infringement.

V. CONCLUSION

For the foregoing reasons, IT IS HEREBY ORDERED that:

1. Positran's Motion for Summary Judgment (D.I. 11) is GRANTED with respect to the existence of a license. It is DENIED with respect to the scope of the license.

2. Diebold's Motion for Partial Summary Judgment (D.I. 47) is dismissed as MOOT.

Dated: September 26, 2002

Gregory M. Sleet
UNITED STATES DISTRICT JUDGE