CHAPTER 4

OTHER PRINCIPAL RIGHTS AND OBLIGATIONS

§23. Prefatory

In addition to main granting and compensation clauses, a conventional patent license agreement will usually include many other substantive provisions concerning the rights and obligations of the parties. The licensor may release the licensee for past infringement, make certain express warranties, agree not to grant other licenses on more favorable terms, and authorize the licensee to grant sublicenses. (Although commonly used in the past, an express agreement by the licensee to acknowledge the validity of the licensed patent is not enforceable.) The effect of a judicial holding of invalidity of a licensed patent, and who has the responsibility for enforcement of the patent, are also frequent contractual subjects. With respect to exploitation of the licensed invention, the licensor may agree to furnish know-how and technical assistance to the licensee; the licensee may undertake exploitation in quantitative and qualitative terms, and agree to follow prescribed patent marking procedures; and the parties may cover in advance the possibility of infringement by the licensee of patents of third parties. Further license provisions may establish the respective rights of the parties in their improvements on the licensed invention, the responsibility for prosecution of licensed patent applications, the rights of the parties in regard to foreign exploitation of the licensed invention, and the right of the licensee to purchase the licensed patent. Provisions of the foregoing nature will be reviewed hereinafter in the order in which they have been noted.

§24. Release for Past Infringement

If the licensee has been practicing the patented invention, without authority, prior to the license agreement, a provision releasing the licensee for past infringement is normally included in the agreement. Such release may be extended to the licensee alone, but usually extends to the licensee and its customers. The release may be absolute and unconditional; or, for the protection of the licensor, may be conditioned either on the continuance of the agreement for a period of years or on the payment of a prescribed sum.[1] The latter sum may be made payable either in a single payment or in installments, and may be either maintained independent of other royalties payable or treated as an advance against future accrued royalties. A claim for past infringement of the licensed patent may be released either alone in a specific release, or together with other claims, for example, in a general release. Of course, any claims, or portions thereof, which the parties wish to leave for separate settlement, may be expressly excluded from the immediate release.

FORM 24.01 UNCONDITIONAL RELEASE FOR PAST INFRINGEMENT

ABC hereby releases XYZ and its customers from any and all liability resulting from the manufacture, use or sale of automatic transmissions infringing the Licensed Patent prior to the effective date of this Agreement.

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[1]See Ransburg Electro-Coating Corp. v. Spiller & Spiller, Inc., 489 F 2d 974 (CA 7, 1973).

§25. Warranties by Licensor[1]

A transfer of all "right, title and interest" in a patent is comparable to a quit claim deed of realty and carries with it no warranty of title. However, the grant of an exclusive license that constitutes an assignment carries an implied warranty of title and draws to it any after-acquired right or title of the licensor.[2] Also, there is an implied warranty by the licensor that it has the right to grant the license.[3] Generally, there are no implied warranties by the licensor:

1. That the licensed invention has commercial utility.[4]
2. That the licensed invention is patentable (e.g., when the invention is the subject of a patent application).[5]
3. That the licensed patent is valid.[6]
4. That the licensed invention does not infringe any patents owned by third parties. [See §34.]

If a licensor is to be bound on any warranties that are not implied in law, they must be expressly

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[1] In addition to the discussion in this section, see Vukowich, Implied Warranties in Patent, Know-How and Technical Assistance Licensing Agreements, 50 JPOS 307 (1968).

[2] All Steel Engines, Inc. v. Taylor Engines, Inc., 88 F Supp 745 (ND Cal, 1950), affirmed, 192 F 2d 171 (CA 9, 1951).

[3] Kent v. Addicks, 126 F 112 (CA 3, 1903). Also see Seal v. Beach, 113 F 831 (DNJ, 1901).

[4] Appliance Corp. of America v. Speed Queen, 186 F 2d 798 (CA 7, 1951); Johnson v. Brewer-Titchenor Corporation, 28 F Supp 1002 (NDNY, 1939).

[5] Beattie v. Product Design & Engineering, Inc., 173 USPQ 757, 760-761 (Minn Sup Ct, 1972).

[6] Troxel Mfg. Co. v. Schwinn Bicycle Co., 465 F 2d 1253, 1260 (CA 6, 1972); Eno v. Prime Mfg. Co., 58 USPQ 681 (MA Sup Ct, 1943); M. Nirenberg Sons, Inc. v. Trubenizing Process Corporation, 49 USPQ 464 (NY Sup Ct, 1941). Also see: Barber Asphalt Paving Co. v. Headley Good Roads Co., 284 F 177 (D Del, 1922), affirmed, 292 F 119 (CA 3, 1923); Huber v. Guggenheim, 89 F 598 (SDNY, 1898).

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§26. Most Favored Licensee

In the absence of an express prohibition, a licensor ordinarily may grant two or more nonexclusive licenses on different terms.[1] However, there may be an exception to this rule in the event competition among the licensees is adversely affected as a composite result of the different terms and of the licensor's related business activities. [See §18C.]

For the benefit of a licensee, a nonexclusive license agreement commonly incorporates a "most favored licensee" clause. This type of clause, in general, provides that if the licensor grants any other license on more favorable terms, such more favorable terms shall automatically, or at the original licensee's option, apply to the original license. Such clause, which may refer to all terms of the license or merely to those terms concerning royalties, serves to eliminate discrimination among licensees to the extent agreed upon, and will be enforced in accordance with its terms.[2] The legality of a most favored licensee clause has been specifically upheld.[3]

In general, a most favored licensee clause has only prospective application.[4] Under the ordinary most favored licensee provision, neither the mere failure of a licensor to proceed against infringers, nor a release by the licensor of damages for past infringement, relieves the licensee from liability for the payment of royalties accruing during the

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[1]McKay v. Smith, 39 F 556 (D Mass, 1889).

[2]Cold Metal Process Co. v. McLouth Steel Corp., 170 F 2d 369 (CA 6, 1948); Newport News Shipbuilding & Dry Dock Co. v. Isherwood, 5F 2d 924 (CA 4, 1925).

[3]Technograph Printed Circuits, Ltd. v. Bendix Aviation Corp., 218 F Supp 1, 51 (D Md, 1963),affirmed, 327 F 2d 497 (CA 4, 1964). However, in one notable case the Supreme Court held that proof of "concert of action" among a licensor and its multiple licensees to restrain and monopolize trade was "established by the favored licensee clause of the standard license agreement." United States v. United States Gypsum Co., 340 US 76, 83 (1950).

[4]Plastic Contact Lens Co. v. Guaranteed Lenses, Inc., 283 F Supp 850 (SDNY, 1968).

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when the licensor grants another a paid-up license, the original licensee is entitled, upon request, to receive a paid-up license in return for the payment of the same lump sum; but the original licensee cannot continue to make royalty payments under the original license and at some later date request a paid-up license and have such royalty payments credited against the stipulated lump sum.[11]

If the other licensees are given the option of paying either a percentage of total sales or a fixed annual sum, and the original licensee under a most favorable "rate of royalty" clause elects to continue paying a percentage of total sales, the original licensee is not entitled to have its rate of percent factor reduced to the lowest rate of percent factor that would be obtained by dividing the stipulated fixed annual sum by the largest total annual sales of any licensee who has elected to pay the fixed annual sum--"the two rates of royalty are substantially different types and ... there is no basis in fact for the conversion of a lump sum rate of royalty into a rate of percent of selling price royalty".[12] Other controversies can arise concerning the scope and effect of a most favored licensee clause that mentions royalties only. One court has held that when another licensee is given non-royalty concessions that have the effect of reducing the stipulated royalties, the original licensee is entitled to the benefit of such concessions.[13] Another court, however, has held that non-royalty concessions are not covered by a limited "favorable royalty" clause.[14] Still another court has concluded that if extra non-royalty consideration is given by another licensee for a reduced royalty rate, the licensor is not re-

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[11]Harley C. Loney Co. v. Mills, 205 F 2d 219 (CA 7, 1953).

[12]Hazeltine Corporation v. Zenith Radio Corporation, 100 F 2d 10 (CA 7, 1938).

[13]Prestole Corp. v. Tinnerman Products, Inc., 271 F 2d 146 (CA 6, 1959). Also see Shatterproof Glass Co. v. Libbey-Owens-Ford Co., 179 USPQ 3 (CA 6, 1973).

[14]The India Machine and Rubber Mold Company v. The B. F. Goodrich Company, 4 USPQ 310 (ED Ohio, 1930).

FORM 26.01 MOST FAVORED LICENSEE; ALL TERMS GENERALLY

In the event that ABC should grant a license to another (other than a license to or for the benefit of any corporation more than fifty percent (50%) of the voting shares of which are owned or controlled directly or indirectly by ABC) under the same patents herein licensed and on terms different than the terms of this Agreement, XYZ shall, at its option, have the right to incorporate such different terms in this Agreement.

FORM 26.02 MOST FAVORED LICENSEE; ROYALTY RATES AND OTHER TERMS

In the event ABC grants other licenses under said patents on terms or royalty rates more favorable to the licensee than the terms and royalty rates set forth in this Agreement, it shall so advise XYZ, and XYZ may elect to substitute for the license herein granted, a license duplicating any of said other licenses.

FORM 26.03 MOST FAVORED LICENSEE; ROYALTY RATES AND OTHER TERMS

If ABC grants a license to any other party under one or more of the patents or applications for patent, which are the subject matter of this Agreement, upon more favorable terms and/or royalty rates than those specified herein, ABC shall give immediate written notice thereof to XYZ. If XYZ so elects, it shall automatically become entitled to such more favorable terms and/or royalty rates.

FORM 26.04 MOST FAVORED LICENSEE; ROYALTY RATES AND OTHER TERMS

In the event ABC shall hereafter grant a license under the aforesaid patent at a royalty rate or rates lower than the corresponding rate or rates provided for herein, or on any more favorable terms and conditions, XYZ shall be entitled to the benefit of such lower royalty rate or rates or such more favorable terms or conditions for its manufacture, use and sale hereunder subsequent to the date of such grant.

United States providing for a lower or more advantageous royalty rate, then and thereafter XYZ shall, under substantially similar conditions, have the benefit of such lower or more advantageous royalty rate.

FORM 26.09 MOST FAVORED LICENSEE; ROYALTY RATE ONLY

If ABC hereafter grants any license for the practice of an invention of said patents for manufacturing Products at a rate of royalty lower than that stated herein for such Product, ABC will promptly so advise XYZ and such lower royalty rate will be applicable to the license granted hereunder effective as of the effective date of such other more favorable license.

FORM 26.10 MOST FAVORED LICENSEE; ROYALTY RATE; CONDITIONAL

If ABC shall in the future grant another license for the same purpose and for the same territory as provided herein, at a rate of royalty less than ten percent (10%) for future manufacture and sale, then XYZ shall thereafter have the benefit of such lower rate of royalty, provided that XYZ at the same time accepts all the other conditions and obligations imposed on the licensee by such other license. ABC shall notify XYZ upon the granting of such other license.

FORM 26.11 MOST FAVORED LICENSEE; ROYALTY RATE ONLY; SPECIFIED LICENSE EXCEPTED

In the event that ABC shall, at any time during the life of this Agreement, grant to another a license in the United States, at a more favorable rate than the rate herein required, the royalty rate for this license shall at the same time be reduced to said more favorable rate and shall continue at said more favorable rate during the remaining life of this license. It is understood by XYZ that ABC has heretofore granted a certain license to MNO, dated January 1, 2000, at a more favorable royalty rate than in this license; but the operation of said license shall not be considered as being a

§27. Sublicensing

An analysis of the case law indicates that, in the absence of a provision specifically concerning sublicensing, a licensee under a "transferable" license *may* have the right to grant sublicenses, while a licensee under a "non-transferable" license does not have such right.[1]

Preferably, the subject of sublicensing should be covered by an express provision. Sublicensing may be prohibited absolutely, or permitted generally, or permitted only with the consent of the licensor.[2] One court has indicated that a licensor may properly (1) require the licensee to grant sublicenses to third parties designated by the licensor, (2) allow the licensee to retain a percentage of royalties paid by sublicensees, (3) limit the royalty rate that the licensee may charge sublicensees, and (4) agree not to grant other licenses at a royalty rate lower than the royalty rate charged sublicensees.[3] Absent an express requirement, sublicenses need not be in writing, and copies of sublicenses need not be furnished the primary licensor.[4]

If sublicensing is to be permitted, it would seem desirable that the primary license agreement specify (a) the terms and conditions that may, or must, be embodied in any sublicenses; (b) whether the sublicenses may have a duration independent of the primary license, or are to terminate automatically at the termination of the primary license; (c) whether the sublicenses must be in writing; (d) whether the licensee must furnish the licensor

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[1]Walen v. United States, 273 F 2d 599 (CA 1, 1959); Rock-Ola Corp. v. Filben Mfg. Co., 168 F 2d 919 (CA 8, 1948); Heywood-Wakefield Company v. Small, 96 F 2d 496 (CA 1, 1938); Simmen Automatic Railway Signal Company v. General Railway Signal Company, 72 F 2d 232 (CA 2, 1934).

[2]Benger Laboratories, Limited v. R. K. Laros Company, 209 F Supp 639 (ED Pa, 1962), affirmed, 317 F 2d 455 (CA 3, 1963).

[3]Congoleum Industries, Inc. v. Armstrong Cork Co., 180 USPQ 264 (ED Pa, 1973).

[4]National Pigments & Chemical Co. v. C. K. Williams & Co., 94 F 2d 792, 796 (CA 8, 1938).

the written consent of ABC thereto; except, however, that XYZ shall have the right to grant sublicenses to any corporations or other enterprises in which Joe Doe shall directly or indirectly control a majority of the stock.

FORM 27.03 LIMITED SUBLICENSING AUTHORIZED

XYZ is hereby authorized to sublicense one corporation now contemplated by it to be formed to handle the manufacture of adhesive products embodying any one or more of said inventions herein licensed, provided however, the granting of any said sublicense by XYZ shall in no wise relieve XYZ from accounting directly to ABC under this Agreement for the actions or conduct of said sublicensee, the acts of said sublicensee being for all purposes herein, the acts and conduct of XYZ. Said sublicensee shall be under the control of XYZ and no plywood company or user of adhesive shall own any stock or other interest in said sublicensee. Before any sublicense is issued by XYZ the written approval thereof of ABC shall first be obtained. ABC shall not withhold its approval arbitrarily.

FORM 27.04 SUBLICENSING PERMITTED

XYZ shall have the right, at any time, upon thirty (30) days' notice in writing to ABC to grant sublicenses under any of the licenses herein granted under paragraph X hereof, subject to the restriction that any such sublicense shall not be on any terms less favorable to ABC than the terms of the present Agreement.

In the event that XYZ grants any sublicenses to others under the inventions covered by this Agreement it shall make the same terminable, at ABC's option, with this Agreement, shall furnish ABC within thirty (30) days with a true and complete copy of each sublicense and any changes or additions thereto, and shall assume full responsibility for the payment of all royalties due ABC on Licensed Devices made, used or sold by any such sublicensees.

§28. Acknowledgment of Validity and Admission of Infringement

A licensee is not estopped to deny the validity of the patent under which it is licensed.[1] And, as a general rule, an express covenant by a licensee not to contest validity of a patent is unenforceable.[2] Ordinarily, the presence of an express covenant not to contest validity in a license agreement does not constitute patent misuse.[3] However, one court has suggested that, in certain circumstances, the imposition of this type of covenant may involve an unlawful extension of the patent monopoly in violation of the antitrust laws.[4]

A licensee ordinarily is not estopped to deny infringement in an action for royalties and may show the state of the art to construe, narrow or qualify the claims.[5] However, an express agreement not to contest the scope of claims may preclude the licensee

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[1]Lear, Inc. v. Adkins, 395 US 653 (1969).

[2]Panther Pumps & Equipment Co. v. Hydrocraft, Inc., 175 USPQ 577, 581-582 (CA 7, 1972); Blohm & Voss AG v. Prudential-Grace Lines, Inc., 174 USPQ 484, 503-505 (D Md, 1972), reversed on other grounds, 489 F 2d 231 (CA 4, 1973); Plastic Contact Lens Co. v. W.R.S. Contact Lens, Inc., 169 USPQ 684, 686 (SDNY, 1970); Kraly v. National Distillers and Chemical Corp., 319 F Supp 1349 (ND Ill, 1970); Rialto Products, Inc. v. Rayex Corp., 166 USPQ 222 (NY Sup Ct, 1970). Also see §57.

[3]Panther Pumps & Equipment Co. v. Hydrocraft, Inc., 175 USPQ 577, 581-582 (CA 7, 1972); Blohm & Voss Ag v. Prudential-Grace Lines, Inc., 174 USPQ 484, 503-505 (D Md, 1972), reversed on other gounds, 489 F 2d 231 (CA 4, 1973).

[4]Bendix Corporation v. Balax, Inc., 421 F 2d 809 (CA 7, 1970), further proceedings, 321 F Supp 1095 (ED Wis, 1971), 471 F 2d 149 (1972).

[5]Midland Steel Products Co. v. Clark Equipment Co., 174 F 2d 541 (CA 6, 1949); Freeman v. Altwater, 129 F 2d 494 (CA 8, 1942); Kessel v. Vidrio Products Corporation, 113 F 2d 381 (CA 7, 1940); Galion Iron Works & Mfg. Co. v. J. D. Adams Mfg. Co., 105 F 2d 943 (CA 7, 1939); Baldwin Rubber Co. v. Paine & Williams Co., 99 F 2d 1 (CA 6, 1938); Pressed Steel Car Co. v. Union Pacific R. R. Co., 270 F 518 (CA 2, 1920); Timken-Detroit Axle Company v. Alma Motor Company, 47 F Supp 582 (D Del., 1942), modified, 144 F 2d 714 (CA 3, 1944). Also see Westinghouse Electric & Mfg. Co. v. Formica Insulation Company, 266 US 342 (1924).

has held that such admission precludes the licensee, in a proceeding for royalties, from denying infringement as to any features in its machine at the time of suit that were in its machines at the time the license agreement was entered into.[11] Another court chose to disregard the admission on the ground that the agreement otherwise obligated the licensee to pay royalties solely for products embodying the licensed invention.[12]

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[11]Lathrop v. Rice & Adams Corporation, 17 F Supp 622 (WDNY, 1936). Also see: H. D. Smith & Co. v. Southington Mfg. Co., 247 F 342 (CA 2, 1917); American Specialty Stamping Co. v. New England Enameling Co., 176 F 557 (CA 2, 1910).

[12]White v. Lee, 14 F 789 (D Mass, 1882).

§29. Invalidity of Licensed Patent[1]

While the law is not entirely settled, the following principles have been evolving.

Ordinarily, a patent licensee may at any time cease paying royalties and defend an action for royalties on the basis of patent invalidity.[2] If the patent is subsequently held invalid, the licensee's liability for royalties is terminated as of the date that it ceased paying royalties on the ground of patent invalidity.[3] The licensee may challenge validity of the licensed patent without terminating or repudiating the license agreement.[4] However, the decisions generally indicate that the licensor could terminate the license for breach of the licensee's obligation to pay royalties and then sue for patent infringement.[5] If the patent were held valid, the former licensee would be subject to not only damages but also an injunction prohibiting further use of the patented subject matter.

Additionally or alternatively, a licensee may file an action for a declaratory judgment of invalidity of the licensed patent.[6] The licensee

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[1]In addition to the discussion in this section, see McCarthy, "Unmuzzling" the Patent Licensee: Chaos in the Wake of Lear v. Adkins, 45 Geo Wash L R 429 (59 JPOS 475 and 544)(1977).

[2]Lear Inc v. Adkins, 395 US 653 (162 USPQ 1)(1969).

[3]Lear Inc v. Adkins, 395 US 653 (162 USPQ 1)(1969). See: PPG Industries Inc v. Westwood Chemical Inc, 530 F 2d 700 (189 USPQ 399)(CA 6, 1976); Cardinal of Adrian Inc v. Keystone Consolidated Industries Inc, 195 USPQ 26 (ED MI, 1977); Bahamas Paper Co Ltd v. Imperial Packaging Corp, 58 FRD 355 (177 USPQ 440)(SD NY, 1973).

[4]PPG Industries Inc v. Westwood Chemical Inc, 530 F 2d 700 (189 USPQ 399)(CA 6, 1976); American Sterilizer Co v. Sybron Corp, 526 F 2d 542 (188 USPQ 97)(CA 3, 1975).

[5]Nebraska Engineering Corp v. Shivvers, 195 USPQ 227 (CA 8, 1977); Morton-Norwich Products Inc v. International Salt Co, 183 USPQ 748 (ND NY, 1974). Also see: Milton Roy Co v. Bausch & Lomb Inc, 418 F Supp 975, 981 (191 USPQ 433, 439)(D DE, 1976)(Whether the contract may be cancelled if royalties are withheld "is at least initially one of state law, and not federal policy."); National Patent Development Corp v. Bausch & Lomb Inc, 191 USPQ 629 (NY Sup Ct NY Cty, 1976).

[6]PPG Industries Inc v. Westwood Chemical Inc, 530 F 2d 700 (189 USPQ 399)(CA 6, 1976); American Sterilizer Co v. Sybron Corp, 526 F 2d 542 (188 USPQ 97)(CA 3, 1975); Atlas Chemical Industries Inc v.

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When the licensed patent is held invalid in a suit involving a third party, the licensee may repudiate its license on the ground of failure of consideration or constructive eviction.[12] If the licensee had not earlier ceased paying royalties on the ground of patent invalidity or filed a declaratory judgment action, the licensee's liability for royalties is terminated as of the date of eviction.[13] If the evicted, former licensee is sued as an infringer, it may take advantage of the prior adjudication of invalidity under the doctrine of collateral estoppel.[14] Also, when there has been an eviction, the licensee is entitled to recover royalties paid after the date of eviction.[15]

Even though there may have been fraud in the procurement of the patent held invalid, at least one court has refused to permit the licensee to recover all royalties that were paid to the licensor from the inception of the license agreement.[16] However, an agreement by a licensor to refund part of the royalty collected from its licensees in the event that its patent is held invalid does not con-

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(184 USPQ 281)(CA 6, 1974). Also see USM Corp v. Standard Pressed Steel Co, 524 F 2d 1097 (188 USPQ 52)(CA 7, 1975).

[12]Troxel Mfg Co v. Schwinn Bicycle Co, 465 F 2d 1253 (175 USPQ 65)(CA 6, 1972), further proceedings, 489 F 2d 968 (180 USPQ 290)(CA 6, 1973); Drackett Chemical Co v. Chamberlain Co, 63 F 2d 853 (17 USPQ 114)(CA 6, 1933); Touchett v. E Z Paintr Corp, 150 F Supp 384 (113 USPQ 16)(ED WI, 1957); Ross v. Fuller & Warren Co, 105 F 510 (ED NY, 1900). But compare Sherr v. Difco Laboratories Inc, 401 F 2d 443 (159 USPQ 257)(CA 6, 1968).

[13]Troxel Mfg Co v. Schwinn Bicycle Co, 465 F 2d 1253 (175 USPQ 65)(CA 6, 1972), further proceedings, 489 F 2d 968 (180 USPQ 290)(CA 6, 1973). Accord: Drackett Chemical Co v. Chamberlain Co, 63 F 2d 853 (17 USPQ 114)(CA 6, 1933); Barber Asphalt Paving Co v. Headley Good Roads Co, 284 F 177 (D DE, 1922), affirmed, 292 F 119 (CA 3, 1923). Also see PPG Industries Inc v. Westwood Chemical Inc, 530 F 2d 700 (189 USPQ 399)(CA 6, 1976).

[14]Blonder-Tongue v. University Foundation, 402 US 313 (169 USPQ 513)(1971).

[15]Magee Carpet Co v. Mohasco Corp, 194 USPQ 550 (ED PA, 1976).

[16]Zenith Laboratories Inc v. Carter-Wallace Inc, 530 F 2d 508 (189 USPQ 387)(CA 3, 1976). But see Troxel Mfg Co v. Schwinn Bicycle Co, 465 F 2d 1253 (175 USPQ 65)(CA 6, 1972), further proceedings, 489 F 2d 968 (180 USPQ 290)(CA 6, 1973); Pollack v. Angelus Block Co Inc, 171 USPQ 182 (CA Superior Ct, 1971).

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FORM 29.01 CLAIMS HELD INVALID; RIGHT TO TERMINATE

XYZ hereby reserves the right to terminate this Agreement and be relieved from further obligation thereunder, except as to the assignment of any foreign rights to ABC as provided in paragraph X, should claims covering the Licensed Devices, as manufactured by XYZ, be declared invalid by a court of final jurisdiction.

FORM 29.02 CLAIMS INVALIDATED OR CONSTRUED; EFFECT ON ROYALTY PAYMENTS

If in any suit involving the validity or infringement of claims of said Letters Patent, such claims have been held to be invalid, or not infringed, by a final judgment or decree from which no appeal can be taken, then in that event XYZ shall be free of any obligation hereunder to the same extent, as and to the same or equivalent subject matter, as the party in whose favor said judgment or decree shall have been entered, while said final judgment or decree shall be in effect.

FORM 29.03 CLAIMS INVALIDATED OR CONSTRUED; EFFECT ON ROYALTY PAYMENTS

If any decision by a lower court of competent jurisdiction in a suit for infringement brought by ABC should be unfavorable to said Letters Patent, either on the question of validity or infringement, no further royalties shall be due from XYZ, unless said unfavorable decision is reversed, with respect to Licensed Devices manufactured by XYZ, substantially of the same design and construction as that involved in said suit and within the scope of the claims involved. Should said unfavorable decision be reversed by a court of appellate jurisdiction, all royalties which would have been payable except for said unfavorable decision shall thereupon immediately become due and payable upon notice from ABC.

§30. Enforcement of Licensed Patent

In the absence of an express covenant requiring enforcement of the licensed patent, there is no obligation on the part of the licensor to protect the licensee against the competition of infringers.[1] However, if the licensor under an *exclusive* license fails to take action to stop unauthorized competition within the scope of the licensed patent, the licensee may be able to surrender its license.[2] Also, a licensee under an exclusive license that is in legal effect an assignment may itself bring suit for infringement of the licensed patent.[3] In such circumstances, the licensor is not under any implied obligation to contribute to the cost of infringement suits brought by the licensee.[4]

Many times, the responsibility for enforcing the licensed patent against infringers is expressly established in the license agreement.

One approach, which has been held to be neither patent misuse nor a violation of the antitrust laws, is to impose full responsibility on the licensor.[5] Failure of the licensor to comply with a covenant to

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[1]Lathrop v. Rice & Adams Corp., 17 F Supp 622 (WDNY, 1936); Martin v. New Trinidad Lake Asphalt Co., 255 F 93 (DNJ, 1919);National Rubber Co. v. Boston Rubber-Shoe Co., 41 F 48 (D Mass, 1890); Hazeltine Research, Inc. v. DeWald Radio Mfg. Corp., 79 USPQ 446, 449 (NY Sup Ct, 1948); Universal Oil Products Company v. Vickers Petroleum Company, 49 USPQ 333 (Del Sup Ct, 1941). Also see: Nachod & United States Signal Co., Inc. v. Automatic Signal Corporation, 105 F 2d 981 (CA 2, 1939); Sea Gull Specialty Co. v. Humphrey, 242 F 271 (CA 5, 1917); McKay v. Smith, 39 F 556 (D Mass, 1889), appeal dismissed, 161 US 355 (1896).

[2]Schutte & Koerting Co. v. Wheeler Condenser & Engineering Co., 295 F 158 (ED Pa, 1924).

[3]Waterman v. MacKenzie, 138 US 252, 255 (1890); Independent Wireless Telegraph Company v. Radio Corporation of America, 269 US 459, 469 (1926).

[4]Simplex Phonograph Corp. v. Rudolph Wurlitzer Co., 47 USPQ 161 (ND Ill, 1940); Photochart v. del Riccio, 83 USPQ 401 (Cal Ct App, 1949).

[5]Virtue v. Creamery Package Co., 227 US 8 (1913); Illinois Tool Works Inc. v. Solo Cup Co., 179 USPQ 322, 371-372 (ND Ill, 1973); Baker Mfg. Co. v. Whitewater Mfg. Co., 298 F Supp 1389, 1401 (ED Wis, 1969), reversed on other grounds,

option, at its own expense and with the right to all recoveries, to sue infringers. Somtimes, the licensee is required to share recoveries with the licensor, and is restricted in regard to the terms on which any infringement suit may be settlted.[12] Granting an exclusive licensee in one field the right for one year to institute infringement suits against third parties whose activities extended into other than the licensed field has been held not to constitute patent misuse.[13] An exclusive licensee may even be given the right to collect and recover for infringements occurring prior to the license.[14] Usually, the licensor is expressly obligated to cooperate with the licensee. Failure to cooperate precludes the licensor from recovering royalties accruing thereafter.[15]

Still another approach is to have the parties participate jointly in suits against infringers. In such case, the parties will usually share expenses and recoveries in accordance with a predetermined formula. For example, the licensor's obligation to contribute to expenses might be limited to a defined percentage of royalties payable by the licensee during the period of the suit. And, the licensor's share in the recoveries might be limited to the percentage of its contribution to expenses. In any event, when joint participation is contemplated, the agreement should prescribe which party has the right to select counsel and to control prosecution of suits.

Express remedies for inaction or default by one party in regard to enforcement of the licensed patent are desirable. For example, the agreement might provide that the licensee shall have the right

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[12]TWM Mfg. Co. v. Dura Corp., 189 USPQ 518, 526 (ED MI, 1975).
[13]Peterson Filters & Engineering Co. v. Eimco Corp., 155 USPQ 89 (D UT, 1967).
[14]Ceramic Process Co. v. Cincinnati Advertising Co., 28 F Supp 794 (SD OH, 1939), appeal dismissed, 116 F 2d 497 (CA 6, 1940).
[15]Penly Bros. Co. v. Hall, 84 F 2d 371 (CA 1, 1936).

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FORM 30.01 ENFORCEMENT OF LICENSED PATENTS; LICENSOR HAS EXCLUSIVE RIGHT

XYZ agrees to keep diligent watch over the Licensed Territory during the term of this Agreement in order to detect any equipment which infringes, or possibly infringes, the Licensed Patents. Upon discovery of any such infringement, or possible infringement, XYZ shall promptly notify ABC thereof, and ABC shall thereupon have the exclusive right, but shall not be obligated, to take appropriate legal action in connection therewith. In the event that ABC shall elect to take such action, the conduct of the action shall be entirely directed by ABC, and the parties agree to share equally all costs and recoveries of any such action.

FORM 30.02 ENFORCEMENT OF LICENSED PATENTS; LICENSOR HAS FIRST RIGHT

It is mutually understood and agreed that XYZ shall have the right to call to the attention of ABC any infringement of the patent rights set forth in Exhibit A hereof, which infringement, if continued, might affect the rights of XYZ herein, and if after giving notice to ABC, ABC does not file suit or cause such alleged infringement to cease within a period of six (6) months from the date of such notice, then ABC agrees to grant XYZ the right to sue in its own name, at its own expense and for its own benefit, any such infringer under any of the patents listed or included in Exhibit A.

FORM 30.03 ENFORCEMENT OF LICENSED PATENT; LICENSOR'S OBLIGATIONS

ABC agrees to prosecute all substantial claims of infringement of said Letters Patent, at its own cost and expense, but it shall not be required to prosecute at one time more than one suit or action under said patent.

might have accured from the sixth and through the twelfth month after the date of said written notice and until ABC shall abate such unlicensed sales, bring suit for infringement of Licensed Patent by reason of such sales, or otherwise given satisfaction to XYZ, and shall give written notice thereof to XYZ.

FORM 30.06 ENFORCEMENT OF LICENSED PATENTS; LICENSOR'S OBLIGATIONS

ABC agrees to use all reasonable measures, whether by action, suit, proceeding or otherwise, to prevent the infringement of any Licensed Patents by others and for that purpose agrees to diligently maintain any action, suit or proceeding against any person, firm or corporation so infringing any Licensed Patents necessary to prevent such infringement and to recover damages resulting therefrom,but ABC shall never be required to prosecute more than one infringement action at any one time. XYZ shall have the right to select the infringer against whom ABC files an action. All costs, disbursements and expenses of such action, suit or proceeding, unless collected from the person against whom the same is brought, shall be borne by ABC. Any damages recovered in such action shall be first applied to the reasonable expenses incurred in prosecuting the infringement action, and any remainder shall be divided equally between XYZ and ABC. XYZ agrees to cooperate with ABC in any way necessary, but without expense to XYZ, in the prosecution of any action, suit or proceeding for infringement.

FORM 30.07 ENFORCEMENT OF LICENSED PATENTS; DEFENSE OF INFRINGEMENT SUITS; LICENSOR'S OBLIGATIONS

ABC will, at its own cost and expense, defend and protect XYZ in the exclusive making, using and vending of Licensed Devices against all infringers, licensees, or others in the countries where applications for patents are now pending,and where patents have been or may be issued for Licensed Devices,and

expenses of such suit or suits shall be paid for by XYZ, and any and all recoveries from said suit or settlements thereof shall go to XYZ. Should XYZ fail to take the necessary steps by litigation or otherwise to stop infringement of said Letters Patent, then ABC may conduct at its own expense, and with the right to all recoveries, such litigation as it may deem necessary, provided that ABC has first given a written sixty (60) day notice to XYZ of its intention to initiate such litigation, and provided further, that XYZ fails during said sixty (60) day period to indicate its willingness to initiate said suggested litigation or fails to initiate said suggested litigation within four (4) months after said notice.

FORM 30.11 ENFORCEMENT OF LICENSED PATENTS; LICENSEE HAS FIRST RIGHT

In the event of infringement of the aforesaid patents, or either of them, XYZ shall be privileged but not required to bring suit and to control the conduct thereof against the infringer, and to join ABC as a party plaintiff in such suit. In the event XYZ exercises the privileges here conferred, it shall have the right to first reimburse itself out of any sums recovered in such suit or in settlement thereof for all costs and expenses of every kind and character, including reasonable attorney's fees, necessarily involved in the prosecution of any suit, and if after such reimbursement, any funds shall remain from said recovery, it shall be divided one-half to ABC and one-half to XYZ. In the event ABC receives notice of infringement, ABC shall promptly notify XYZ in writing of such infringement, and if XYZ does not bring suit against said infringer, as herein provided, within 90 days after receipt of such notice, ABC shall have the right, but shall not be obligated to bring suit for such infringement and to join XYZ as a party plaintiff, in which event ABC shall hold XYZ free, clear and harmless from any and all costs and expenses of

event, however, that ABC should undertake such litigation, then ABC has the right to cancel the exclusive features of this license and may thereupon license others to make or sell the Licensed Devices.

FORM 30.13 ENFORCEMENT OF LICENSED PATENT; LICENSEE'S CONTRIBUTION TO EXPENSE

XYZ hereby covenants and agrees to bear the expense, not exceeding Twenty-five Thousand Dollars ($25,000), of conducting an action for infringement of said Letters Patent to be filed by ABC against an infringer of said Letters Patent, such expense to be paid by XYZ when, as and if bills for services and/or disbursements are rendered by the attorneys conducting such action. All sums paid by XYZ under the terms of this paragraph shall be credited to XYZ on the books of ABC as advances against royalties to be paid by XYZ to ABC, and XYZ shall be entitled to deduct quarter annually from royalties hereafter to become due, a sum equivalent to two and one-fourth percent (2 1/4%) of the amount standing to the credit of XYZ on the books of ABC at the time of payment of such royalties.

FORM 30.14 PATENT LITIGATION FUND

A patent litigation fund of Twenty Thousand Dollars ($20,000.00) shall be built up and maintained out of royalties received by ABC from XYZ. It shall be kept in a Chicago, Illinois bank as a special fund in the name of ABC, as trustee. This fund shall be for the joint benefit of the parties, and ABC shall contribute to it from time to time out of royalties to build it up and to maintain it at Twenty Thousand Dollars ($20,000.00) by depositing to the fund when necessary for such building or maintenance 50% of all royalties received by ABC from XYZ as provided herein. This fund shall be used only to defray cost of defense or prosecution of litigation, the preparation for the defense of threatened litigation and the preparation for the prosecution of proposed litigation and payment of

§31. Know-How and Technical Assistance

One court has suggested that it would be improper to effect a compulsory tying together of know-how and a license under a patent.[1] However, when considerable technology and experience are involved in practicing the licensed invention, the licensee will usually desire to receive know-how developed by the licensor and general technical assistance. In this connection, the license agreement may provide that the licensor shall furnish the licensee with necessary know-how and engineering and manufacturing information. Such information may be: (a) confined to existing information only or extended to both present and future developments; (b) restricted to information that the licensor has a right to divulge without incurring any obligation or liability to a third person; (c) limited to the furnishing of written or printed material prepared in the normal course of the licensor's operations.[2]

Ordinarily, there is nothing inherently confidential in the relationship between a licensor and a licensee under a patent.[3] Therefore, if know-how and technical information furnished by the licensor to the licensee is to be received in confidence and is not to be used except during the life of the license and for the purposes of the license, an express provision to this effect should be incorporated in the

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[1]Technograph Printed Circuits, Ltd. v. Bendix Aviation Corp. 218 F Supp 1 (D Md, 1963), affirmed per curiam on other grounds, 327 F 2d 497 (CA 4, 1964).

[2]An agreement by a licensor to provide such technical assistance and know-how as necessary in the licensor's "opinion" to enable the licensee to practice the inventions licensed and such additional information as has in the licensor's "judgment" been successfully reduced to practice in commercial production is not illusory; the agreement imposes a duty which the licensor can not blithely disregard or refuse to perform arbitrarily, capriciously or without reason. Deering Milliken Research Corp. v. Textured Fibres, Inc., 310 F Supp 491, 498-499 (DSC, 1970).

[3]Laughlin Filter Corporation v. Bird Machine Company, 69 USPQ 23 (Mass Sup Ct, 1946).

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FORM 31.01 FURNISHING OF KNOW-HOW

ABC agrees to disclose to XYZ, from time to time during the term of this Agreement, for XYZ's sole use, know-how relating to the production of Licensed Products, but only to the extent that such know-how is owned by ABC on the date of this Agreement or acquired by ABC during the term of this Agreement, and further only to the extent that ABC can permit XYZ to use such know-how without incurring breach of contract, breach of confidence or any obligation or liability, by reason of the transfer thereof or by reason of the use thereof by XYZ, to pay, grant or transfer any money, property or right to any third person.

FORM 31.02 FURNISHING OF TECHNICAL INFORMATION

ABC agrees that it will give XYZ benefit of the knowledge and experience which ABC or its officers or engineers may have to enable XYZ to make Licensed Products to the extent that the same can be done and furnished by written or printed instructions with drawings or prints of developments ABC may have made, and to continue transmitting to and for the benefit of XYZ such knowledge and experience during the life of this Agreement.

FORM 31.03 FURNISHING OF TECHNICAL INFORMATION; VISITATION RIGHTS OF LICENSEE

ABC agrees to provide XYZ, to the extent to which it has not heretofore done so, with complete sets of detail and assembly drawings, physical and metallurgical specifications of its parts and complete engineering data for the size or sizes of Licensed Products which XYZ proposes to manufacture; and further agrees to make available its plant at Chicago, Illinois for representatives of XYZ who may be sent there by XYZ for supplying such representatives with any manufacturing assistance required by XYZ. ABC assumes no responsibility for the designing or engineering of any parts except those used as standard upon ABC products.

that the designs will be retained in confidence and that, if the components of such apparatus are fabricated by others for XYZ, the manufacture of such components will insofar as it may be possible be divided among such others in such manner that the entire apparatus or design will not be disclosed to any one such other person, and further, that XYZ will insofar as it may be possible perform the assembly of such components in its own plant. In the event of any breach by XYZ of the provisions of this paragraph, it agrees to indemnify and hold ABC harmless from and against any damage or loss that may result, including, but not limited to, loss of profits or royalties, and without prejudice to any other rights or remedies that ABC might have.

FORM 31.06 MAINTENANCE OF INFORMATION SECRET; RESTRICTIONS ON USE; SECRECY SURVIVES TERMINATION

It is recognized by the parties hereto that information delivered by ABC to XYZ pursuant to this Agreement will contain and incorporate confidential information in which ABC has and will continue to have a property interest as the owner of such information, and XYZ agrees to maintain, and will maintain, as confidential any and all information disclosed to XYZ, directly or indirectly, pursuant to this Agreement. XYZ will obtain from its employees, contractors, consultants, agents, stockholders and other persons having access to information acquired by XYZ from ABC, pursuant to this Agreement, duly binding agreements by such persons, in form acceptable to ABC to maintain in confidence any such information disclosed to such person by XYZ. XYZ agrees to reveal information furnished to it by ABC pursuant to this Agreement, only to such persons and only to the extent as may be required to permit XYZ to make possible the utilization of such information pursuant to this Agreement. The provisions of this paragraph shall survive the termination of this

FORM 31.09 TRAINING OF LICENSEE'S PERSONNEL

During the two (2) year period commencing with the date of this Agreement, ABC will permit no more than three (3) representatives of XYZ, together but not individually, to visit ABC's plant in Chicago, Illinois, for a period of training, which shall not exceed four (4) weeks in the aggregate, in the manufacture of Licensed Products.

FORM 31.10 TRAINING OF LICENSEE'S PERSONNEL

ABC agrees to train, in its plant in Chicago and at its convenience, not more than six (6) XYZ personnel in the manufacture of Licensed Devices. It is understood that ABC does not assume responsibility,and shall not be liable, for any injury which may occur to any such trainee during any training period or otherwise. XYZ agrees to pay all expenses of such trainees.

FORM 31.11 ASSUMPTION OF RISK BY LICENSEE

XYZ agrees that it shall be responsible for damage to its property and for injury or death of its employees and agents caused by any acts or omissions to act, including negligence, of the employees or agents of ABC during the performance of this Agreement. XYZ agrees to release ABC from any and all liability for loss or damage so caused to its properties, and further agrees to indemnify and hold harmless ABC against all claims and causes of action arising out of such damage to property or such injury or death of employees or agents.

§32. Exploitation of Licensed Invention

For the benefit of the licensor, a license agreement may include a provision that the licensee will use its best efforts to promote diligently the licensed invention. Unless expressed in the agreement there does not appear to be any obligation on the part of a *non*exclusive licensee to practice the invention. However, many courts have adopted the view that an exclusive licensee or assignee under a royalty agreement has an *implied* duty to work or exploit the invention.[1] And, in the absence of clear intent to the contrary, a minimum royalty provision may not suffice to discharge this implied duty.[2] But, when a "best efforts" provision is deliberately omitted from a license agreement, or when express provisions of the agreement demonstrate a contrary intent, an obligation by the licensee to exploit diligently the licensed invention will not be implied.[3]

An exclusive license agreement may legitimately provide that its exclusive nature can be terminated by the licensor if the licensee's use of the patents falls below a prescribed level.[4] Upon failure of a licensee to comply with a duty to exploit, the licen-

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[1]Willis Bros., Inc. v. Ocean Scallops, Inc., 176 USPQ 53 (EDNC, 1972);Dwight & Lloyd Sintering Co. v. American Ore Reclamation Co. 44 F Supp 391 (SDNY, 1937); Caron v. Nickel Process Corporation, 106 USPQ 124 (NY Sup Ct, 1955); Guardino Tank Processing Corp. v. Olsson, 81 USPQ 318 (NY Sup Ct, 1949).

[2]Driver-Harris Co. v. Industrial Furnace Corporation, 12 F Supp 918 (WDNY, 1935); Eno Systems, Inc. v. Eno 53 USPQ 393 (Mass Sup Ct, 1942); Brawley v. Crosby Research Foundation, Inc., 68 USPQ 406 (Cal Ct of App, 1946). Also see Mechanical Ice Tray Corporation v. General Motors Corporation, 144 F 2d 720 (CA 2, 1944).

[3]Eastern Electric, Inc. v. Seeburg Corp., 427 F 2d 23 (CA 2, 1970); Bellows v. E. R. Squibb & Sons, 184 USPQ 473 (ND Ill, 1974); Vacuum Concrete Corp. v. American Mach. & Foundry Co., 321 F Supp 771 (SDNY, 1971).

[4]Hensley Equipment Company v. Esco Corporation, 383 F 2d 252 (CA 5, 1967).

competing patent do not necessarily in themselves constitute a violation of the implied obligation to use due diligence in working the licensed patent.[11] Nor does a licensee incur any liability for promoting devices that are equivalent to devices covered by claims under which payment of royalties is expressly excluded by reason of the claims having been held invalid.[12] Also, specific performance and damages have been denied for an alleged breach of duty to exploit, in view of the licensee's inability to develop a marketable article.[13] Similarly, it has been held that a "best efforts" provision does not require the licensee to pawn off an inferior product,[14] and an agreement by a licensee to "use its best efforts to supply the demand" for licensed products does not require the licensee either to create a demand or to sell any licensed products when no demand exists.[15] Finally, specific performance of an agreement by a licensee to create, promote and supply a demand for licensed products has been denied on the ground that the acts directed to be done were of such character that it was impracticable for a court to oversee and compel the performance of them.[16]

To minimize controversy, the license agreement should, at least in the case of an exclusive license, specifically indicate whether the licensee is, or is not, under an obligation to exploit the invention. When a duty to exploit is expressly imposed on the licensee, the agreement should recite the precise nature of the duty, for example, in terms of filling

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[11]Dwight & Lloyd Sintering Co. v. American Ore Reclamation Co., 44 F Supp 391 (SDNY, 1937).

[12]Mechanical Ice Tray Corp. v. General Motors Corp., 144 F 2d 720 (CA 2, 1944).

[13]Peck v. Shell Oil Company, 142 F 2d 141 (CA 9, 1944).

[14]Western Geophysical Co. v. Bolt Associates, Inc., 173 USPQ 284 (D Conn, 1972).

[15]Krantz v. Van Dette, 165 F Supp 776 (ND Ohio, 1958); Dixie Cotton Picker Co. v. Bullock, 188 F 921 (ND Ill, 1911).

[16]Daniels v. Brown Shoe Company, Inc., 77 F 2d 899 (CA 1, 1935).

FORM 32.01 DUTY TO EXPLOIT; APPROVAL OF LICENSEE'S ADVERTISING

XYZ agrees to use its best efforts to promote diligently the sale of Licensed Products. XYZ agrees to use all reasonable means to advertise and promote acceptance of Licensed Products, at XYZ's expense. All such advertising shall indicate that XYZ is licensed by ABC to manufacture and sell Licensed Procucts under this Agreement. All such advertising shall be submitted to ABC in proposed form, in advance of publication or other dissemination, and no such advertising shall be published or disseminated unless and until it shall have been approved in writing by ABC.

FORM 32.02 DUTY TO EXPLOIT; CREATE AND SUPPLY DEMAND

XYZ hereby covenants and agrees that during the life of this license it will diligently and continuously manufacture, sell and market in and through its own plant, the products contemplated under the within license, and XYZ shall exert its best efforts to create a demand therefor and to increase and extend its business and to supply the demand of said products.

FORM 32.03 DUTY TO EXPLOIT; QUALIFICATIONS

XYZ will use its best efforts to promote diligently Licensed Devices. However, XYZ will have the right to determine for itself whether the competitive conditions and costs are suitable for the manufacture of any particular device at a given time, will not be bound to manufacture all Licensed Devices at the same time, and will not be bound to do the marketing of any Licensed Devices which in its judgment have become obsolete or do not meet market requirements.

FORM 32.04 DUTY TO EXPLOIT; REMEDY FOR BREACH

It is understood and agreed that XYZ undertakes to itself manufacture or to have manufactured for it and under its supervision and to supply and to sell Licensed Equipment and parts thereof as may be

sand dollars ($10,000) per annum. Such advertising shall include appropriate reference to XYZ.

FORM 32.07 ADVERTISING FUND

In addition to the royalties hereinbefore provided for, XYZ agrees to pay to ABC an amount equal to two and one-half percent (2 1/2%) of the net selling price of Licensed Products to be used and spent by ABC for the purpose of nationally advertising Licensed Products.

FORM 32.08 APPROVAL OF LICENSEE'S ADVERTISING

XYZ agrees that it will not advertise the sale of Licensed Products, without first submitting such advertising to, and obtaining ABC's written approval thereof, which approval in all instances shall be contingent upon the entire cost of said advertising being paid by XYZ.

FORM 32.09 ESTABLISHMENT OF MANUFACTURING FACILITIES

With prompt expedition, but not later than four (4) months after the signing of this Agreement, XYZ guarantees to complete such arrangements for space, tooling, machinery and labor as will enable XYZ to produce if required a minimum of two hundred (200) Licensed Devices per day, the cost of preparation and such manufacture to be at the sole expense of XYZ.

FORM 32.10 COMMENCEMENT OF PRODUCTION; REMEDIES FOR BREACH

XYZ agrees to exert every reasonable effort to sell Licensed Devices under the license herein granted and to provide the necessary manufacturing facilities to take care of its sales. If, by December 31, 1999, XYZ is not producing in commercial quantities Licensed Devices under the license granted herein, and/or has failed to comply with the provisions of this paragraph, or if XYZ thereafter discontinues commercial production of Licensed Devices, ABC may, at its option, cancel this Agreement by giving XYZ sixty (60) days' written notice

within a period not to exceed six months from the date of each order. In the event XYZ is unable to fill any order, which would otherwise be acceptable by XYZ, ABC shall have the right to have Licensed Machines manufactured elsewhere to fill such order.

FORM 32.15 INABILITY TO SUPPLY DEMAND; REMEDY

In the event of or at the time XYZ should be unable to supply the demand for Licensed Devices as evidenced by bona fide orders, ABC shall have the right after thirty (30) days' notice to XYZ to engage in the manufacture and/or sale of such devices for the purpose of fulfilling such demand over and above XYZ's capacity and may continue to fulfill such demand over and above XYZ's capacity but only so long as XYZ shall be unable to fulfill said demand. This shall not constitute a default.

FORM 32.16 MULTIPLE-FIELD LICENSE; REMEDY FOR FAILURE TO EXPLOIT ANY FIELD

In the event XYZ does not enter into commercial production in each and every one of the fields covered by this Agreement before December 31, 1999, ABC shall have the right to grant other licenses in those fields in which XYZ has not entered into commerical production.

FORM 32.17 PRODUCT STANDARDS

XYZ agrees that all Licensed Devices manufactured or sold by it under this license shall meet in every detail, the specification attached hereto as Exhibit A.

FORM 32.18 PRODUCT STANDARDS; REMEDY FOR BREACH

XYZ agrees that the design and specifications of Licensed Devices which it proposes to build under this Agreement shall be first submitted to ABC and that XYZ will not build and sell during the life of this Agreement a design of Licensed Device which is not approved in writing by ABC unless ABC fails to furnish or indicate any design or specifications which it does approve. XYZ agrees that ABC shall

is mutually understood and agreed that the quality of service to be rendered by XYZ as provided for herein shall equal the quality of service rendered by XYZ with respect to equipment heretofore and now being made by XYZ; and that replacement parts made by XYZ shall be properly manufactured in accordance with the designs and specifications approved by ABC under which the original Licensed Devices for which the replacement parts are intended was manufactured.

FORM 32.21 EXCHANGE OF COMMERCIAL INFORMATION

ABC agrees to furnish to XYZ all commercial and marketing information and contacts which it has heretofore obtained or developed in connection with the exploitation of Licensed Products in the Licensed Territory, and XYZ agrees to furnish to ABC all commercial and marketing information and contacts which it shall obtain or develop in connection with the exploitation of the licensed products within the Licensed Territory.

§33. Patent Marking

The Patent Code provides that notice may be given to the public that a patented article is patented, "either by fixing thereon the word 'patent' or the abbreviation 'pat.', together with the number of the patent, or when, from the character of the article, this can not be done, by fixing to it, or to the package wherein one or more of them is contained, a label containing a like notice." [35 U.S.C. §287 (1952).] If patented articles are not marked, "no damages shall be recovered by the patentee in any action for infringement, except on proof that the infringer was notified of the infringement and continued to infringe thereafter, in which event damages may be recovered only for infringement occuring after such notice." [35 U.S.C.§287 (1952).]

In view of this statutory provision, it has been held that if patented devices sold by a licensee are not properly marked there can be no recovery by the licensor against third parties for infringement occurring prior to actual notice.[1] Therefore, a licensor normally requires its licensee to mark licensed devices either as specified by statute, as specified in the agreement, or as specified by the licensor from time to time during the term of the agreement. An express clause requiring marking by the licensee has been held to be specifically enforceable.[2]

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[1]Gordon v. Easy Washing Machine Corporation, 39 F Supp 202 (NDNY, 1941); Hazeltine Corporation v. Radio Corporation of America, 20 F Supp 668 (SDNY, 1937).

[2]Daniels v. Brown Shoe Company, Inc., 77 F 2d 899 (CA 1, 1935).

§34. Indemnification and Defense of Infringement Suits

In the case of any licensed patent there is always the possibility that a dominating patent owned by a third party may exist. Ordinarily, there is no implied warranty or covenant of quiet enjoyment in the sale or lease of a patent right.[1] However, license agreements sometimes include provisions concerning claims which may arise because of asserted infringement by the licensee's use of the patent.

The licensor may properly warrant non-infringement and/or agree to defend, and hold harmless, the licensee against infringement suits involving activities under the licensed patent.[2] The licensor's commitment may extend to the licensee alone or also cover the licensee's customers. Usually, the licensor's liability is conditioned on prompt notification by the licensee of any claims and on the licensee's full cooperation. In some instances, the liability of the licensor is limited to an arbitrary amount, or to the amount of compensation paid by the licensee under the license agreement.

If the licensor fails to protect the licensee in accordance with a warranty or indemnity provision, the licensor is precluded from recovering royalties, the licensee may cancel the license agreement, and the licensor is liable in damages for the amount expended by the licensee as the result of the failure of the licensor to comply with the license agreement.[3] But a licensor is not obligated, under the usual indemnification clause, to reimburse the licensee for

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[1]Wynne v. Allen, 112 USPQ 405, 410 (NC Sup Ct, 1957).

[2]Virtue v. Creamery Package Co., 227 US 8, 32-3 (1913); Plastic Contact Lens Company v. Butterfield, 366 F 2d 338 (CA 9, 1966); Covell v. Bostwick, 39 F 421 (SDNY, 1889).

[3]Kool Vent Metal Awning Co. of America v. Bottom, 95 F Supp 798 (ED Mo, 1951), affirmed, 205 F 2d 209 (CA 8, 1953). Also see Macneale v. Lalance & Crosjean Mfg. Co., 276 F 491 (CA 6, 1921); Gray Industries, Inc. v. Keibler Industries, Inc., 176 USPQ 216 (ND Ill, 1972); M. Nirenberg Sons, Inc. v. Trubenizing Process Corporation,49 USPQ 464 (NY Sup Ct, 1941). Compare Victory Bottle Capping Machine Co. v. V. O. & J. Machine Co., 280 F 753 (CA 1, 1922).

sale of Licensed Products infringes the United States patent rights of such third person, or the institution of any proceeding predicated upon such claimed infringement and to be guided in its actions with reference to such claim or proceeding by the instructions issued by ABC with respect thereto, all costs and expenses of which actions by XYZ shall be paid by ABC.

FORM 34.03 DEFENSE OF INFRINGEMENT SUIT

If XYZ or any customer of XYZ shall be charged with or sued for infringement of any United States patent of another by doing acts necessary to practice the inventions of said Licensed Patent, XYZ shall promptly notify ABC of the name and address of each such other or others charging infringement or suing therefor. XYZ and ABC shall cooperate in the dispostion of each such charge and the defense of each such suit, and ABC will undertake the defense thereof or at ABC's option permit XYZ to defend and in such event XYZ shall have the right to reimburse itself from future royalties becoming due hereunder, following the filing of each such suit, for all its expenses arising out of, or in connection with, the defense of each such suit.

FORM 34.04 DEFENSE OF INFRINGEMENT SUIT; RECIPROCAL QUALIFIED INDEMNIFICATION

ABC agrees to defend at its expense and with counsel of its choice any action for patent infringement which may be brought against XYZ, its customers, or ABC because of sales of the Licensed Subject Matter as illustrated in Exhibit A. XYZ agrees that it will defend and save ABC harmless in any action for patent infringement brought against XYZ , its customers, or ABC because of sales of Licensed Subject Matter which include any modification made by XYZ without the written approval of ABC. XYZ shall be relieved from this obligation in the event modifications made by XYZ shall have been approved in writing by ABC prior to any sale.

§35. Improvements by Licensor or Licensee

During the life of the license agreement, either the licensor or the licensee or both may make improvements in the field of the licensed invention. Ordinarily, in the absence of an express provision, neither party acquires rights in the future inventions of the other.[1] Frequently, the licensee is given the right to use improvements developed by the licensor; sometimes, the licensee is obligated to pay royalties on exploitation of its own improvements; and, occasionally, the licensor is accorded rights, under a so-called "grant back" provision, in the improvements developed by the licensee. Such arrangements require consideration of decisions concerning the interpretation of "improvement" clauses, and the legality of grant backs.

On the matter of interpretation, such phrases as "improvements *to* (or *in* or *of*) the licensed invention" have been construed narrowly. They may cover additions to or alterations in the original invention that do not change its identity, and developments that make the original invention work better; but they do not cover improvements to the art in general, nor develoments that are substantially different, either in construction, mode of operation or purpose, than the original invention.[2] Also, this type of phrase does not cover prior art or prior inventions.[3] Some courts, in effect, equate the scope of phrases of the above class with the scope of the claims of the licensed patent, and then apply a conventional test of infringement to the improvements

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[1]Monsanto Chemical Works v. Jaeger, 31 F 2d 188 (WD Pa, 1929), affirmed per curiam, 42 F 2d 1018 (CA 3, 1930).

[2]American Cone & Wafer Co. v. Consolidated Wafer Co., 247 F 335 (CA 2, 1917); Jenkins Petroleum Process Co. v. Sinclair Refining Co., 32 F 2d 247 (D Me, 1928, modified and affirmed, 32 F 2d 252 (CA 1, 1929). Also see Barlow v. United States, 28 USPQ 499 (Ct Cl, 1936).

[3]Krantz v. Van Dette, 165 F Supp 776 (ND Ohio, 1958), affirmed per curiam, 272 F 2d 709 (CA 6, 1959).

ment-back provisions or license-back provisions illegal per se.[12] Such conditions have been condemned only against the background of monopolistic practices and other illegal restraints of trade.[13] Courts have approved specific grant backs on the basis of one or more of the following reasons: (a) the grant backs were not employed with the purpose or effect of violating the antitrust laws; (b) the licensees were required to license back only patents which could not be exploited without risking infringement of the licensor's basic patent; (c) the improvements gained by the licensor through grant backs were disseminated among all licensees without extra charge; (d) no adverse effect on competition by the grant backs was shown; (e) the rights granted pursuant to the grant back provisions did not in fact enhance the licensor's power; (f) no one was refused a license by the primary licensor.[14]

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[12]Transparent-Wrap Machine Corp. v. Stokes & Smith Co., 329 US 637 (1947).

[13]United States v. General Electric Co., 82 F Supp 753 (DNJ, 1949); United States v. General Electric Co. 80 F Supp 989 (SDNY, 1948).

[14]Stokes & Smith Co. v. Transparent-Wrap Machine Co., 161 F 2d 565 (CA 2, 1947); Illinois Tool Works Inc. v. Solo Cup Co., 179 USPQ 322, 372 (ND Ill, 1973); Barr Rubber Products Company v. Sun Rubber Company, 277 F Supp 484, 506 (SDNY, 1967), affirmed on antitrust issues, 425 F 2d 1114 (CA 2, 1970); Old Dominion Box Co. v. Continental Can Co., 273 F Supp 550 (SDNY, 1967), affirmed on other grounds, 393 F 2d 321 (CA 2, 1968); Swofford v. B & W, Inc., 251 F Supp 811, 821 (SD Tex, 1966), affirmed on other grounds, 395 F 2d 362 (CA 5, 1968); United States v. Huck Mfg. Co., 227 F. Supp 791 (ED Mich, 1964), affirmed per curiam by an equally divided court, 382 US 197 (1965); International Nickel Company v. Ford Motor Company, 166 F Supp 551 (SDNY, 1958); Modern Art Printing Co. v. Skeels, 123 F Supp 426 (DNJ, 1954), reversed on other grounds, 223 F 2d 719 (CA 3, 1955); United States v. E. I. du Pont de Nemours & Co., 118 F Supp 41 (D Del, 1953), affirmed on other grounds, 351 US 377 (1956). Also see Zajicek v. Koolvent Metal Awning Corp. of America, 283 F 2d 127, 132 (CA 9, 1960); Binks Mfg. Co. v. Ransburg Electro-Coating Corp., 281 F 2d 252 (CA 7, 1960); Blohm & Voss AG v. Prudential-Grace Lines, Inc., 174 USPQ 484, 501-502 (D Md, 1972), reversed on other grounds, 489 F 2d 231 (CA 4, 1973); San Marino Electronic Corp. v. George J. Meyer Co., 155 USPQ 617 (CD Cal, 1967), affirmed, 422 F 2d 1285 (CA 9, 1970); Malco Mfg. Co. v. National Connector Corp., 151 USPQ

FORM 35.01 IMPROVEMENTS BY LICENSOR INCLUDED IN LICENSE

ABC agrees that all inventions, Letters Patent, and applications therefor which are acquired by it during the term of this Agreement and which constitute improvements on Licensed Devices shall automatically become a part of ABC's Patent Rights under which XYZ is licensed by this Agreement.

FORM 35.02 IMPROVEMENTS BY LICENSOR INCLUDED IN LICENSE

ABC shall communicate to XYZ any improvement or further invention it may discover or acquire in connection with metal awnings and shall disclose to XYZ the manner of making and using the same and XYZ shall be at liberty to manufacture and sell metal awnings containing any such improvement or further invention within the limits aforesaid during the subsistence of this license free of all further royalties, charges, or payments whatsoever.

FORM 35.03 IMPROVEMENTS BY LICENSOR INCLUDED IN LICENSE

The license granted hereinabove also extends to future improvements wholly owned, wholly acquired, or wholly controlled by ABC. "Improvement" as used in this Agreement shall mean any invention in any Licensed System or parts thereof which, at the time of reduction to practice or acquisition by ABC, come within the scope of the subject matter being claimed in the Licensed Patents and Applications. ABC will, during the period this Agreement is in effect, promptly disclose to XYZ from time to time each such improvement.

FORM 35.04 IMPROVEMENTS BY LICENSOR INCLUDABLE IN LICENSE

ABC agrees that in the event it should make any improvements upon the machine which is the subject of this Agreement, it shall communicate the same to

matter claimed in the Licensed Patent, XYZ agrees to grant, and hereby does grant, ABC a royalty-free nonexclusive license, together with the right to grant sublicenses, to make, use and sell the inventions of such patent or patents for the full term or terms thereof.

FORM 35.08 IMPROVEMENTS BY LICENSEE; LICENSE TO LICENSOR; APPLICATIONS FOR PATENTS

XYZ, as a part consideration for the license hereby granted to it, hereby agrees to submit to ABC, during the life of this Agreement, all developments or improvements in automatic transmissions made by or at the instance of XYZ, and XYZ agrees that, during the life of this Agreement and after the termination of this Agreement, ABC and each of its licensees, both past and future, shall have the right to make, use and sell said developments or improvements, whether patented or unpatented. XYZ agrees that upon inquiry of it by ABC it will disclose to ABC whether it has applied for United States patent protection upon said developments or improvements, and if ABC so requests XYZ will either apply for patent protection upon said developments or improvements at its own expense or will permit ABC to apply for patent protection at the expense of ABC, in which latter event said developments or improvements shall be assigned to ABC and shall be the sole property of ABC, except, however, that XYZ shall have a nonexclusive license thereunder for the term of any patent or patents granted thereon.

FORM 35.09 IMPROVEMENTS BY LICENSEE SUBJECT TO TERMS OF PRIMARY LICENSE; LICENSE TO LICENSOR

In the event XYZ now owns or controls, or if during the term of this Agreement XYZ or any of its officers or employees shall make any inventions which constitute improvements on the Licensed Devices, title thereto shall remain in XYZ, but during the term of this Agreement they shall be regarded

make, use and sell, including the right to sublicense, such improvements in any field not relating specifically to the Licensed Field herein defined. XYZ also agrees, whenever requested to do so by ABC, to execute any and all documents and to take any and all action which may be necessary or appropriate to assign and transfer to ABC all the right, title and interest in and to such improvements.

FORM 35.12 IMPROVEMENTS BY LICENSEE SUBJECT TO TERMS OF PRIMARY LICENSE; ASSIGNMENT TO LICENSOR

XYZ agrees that any ideas or improvements, either in the Licensed Products or apparatus for manufacturing the same, patentable or otherwise, designed or otherwise obtained by XYZ or any person or persons working for XYZ shall be disclosed promptly to ABC and shall be considered to come under the terms of this Agreement. XYZ agrees to assign to ABC, or to cause to be assigned to ABC, the entire right, title and interest in and to such ideas or improvements, and to aid and assist ABC in acquiring patent protection therefor, at the option and expense of ABC.

FORM 35.13 IMPROVEMENTS BY LICENSOR OR LICENSEE PROPERTY OF LICENSOR SUBJECT TO TERMS OF PRIMARY LICENSE

Any improvements that XYZ may make within the scope of said Licensed Patent shall be by XYZ made known immediately to and assigned to ABC, and ABC may at its expense endeavor to secure patents thereon and also on such improvements made by ABC deemed by it patentable; and all patents obtained thereon, whether originated by XYZ or ABC, shall be the property of ABC and shall automatically come under, and be subject to, all the terms and conditions of this Agreement.

party shall be compelled to contribute to the expenses of further prosecution if it does not desire to. If further sharing of expenses relative to any application is discontinued by a party, it shall thereafter, upon request of the other party, convey to the other party all its right, title and interest in, to and under the application for patent, the improvement covered thereby and any patent granted thereon.

FORM 35.17 DEFINITION OF "IMPROVEMENT"

As used herein, "improvement" means any part, or a combination of parts, or a method of using or manufacturing either of the foregoing, the use of which affects Licensed Devices in any one or more of the following ways: (1) reduces production costs, (2) improves performance, (3) increases service life, (4) broadens applicability, (5) increases marketability, or (6) improves appearance.

FORM 35.18 AGREEMENTS WITH EMPLOYEES REGARDING INVENTIONS MADE BY THEM

Each party agrees that it will obtain from its officers, engineers and consultants duly binding agreements by such persons to disclose, and to assign, to it inventions and improvements made by them within the field of the license herein granted.

§36. Prosecution of Licensed Application

When one or more patent applications are being licensed, the parties should have an express understanding concerning who is to assume prosecution of the application and pay all costs relating thereto. The parties may provide, for example, that either the licensor or the licensee shall assume total responsibility for prosecution of the application, or that the licensor shall attend to prosecution of the application while the licensee pays all expenses and costs. Not infrequently, the party prosecuting the application is further obligated to keep the other party fully informed of all communications to and from the Patent Office involving the application. To avoid a possible charge of improper prosecution or abandonment, it would seem wise for a licensee, who undertakes to prosecute the application, to consult with the licensor regarding all proceedings in the Patent Office relating to the application.[1] In the absence of an express provision on the subject, responsibility for prosecution is ordinarily borne by the licensor. However, such responsibility may fall on the licensee as a result of the conduct of the parties.[2]

Additionally, when a patent application is being licensed, a special provision concerning royalties should be incorporated in the agreement to cover the contingency of non-allowance of claims or of denial of a patent by the Patent Office. Such provision might specify that, if within a certain period (e.g., three years) allowed claims of an application for patent have not been obtained by the licensor with respect to all of the licensed subject matter, then the licensee may cease paying royalties on devices not covered by allowed claims, unless and until allowed claims are thereafter obtained on such devices.[3]

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[1] See Beattie v. Product Design & Engineering, Inc., 173 USPQ 757 (Minn Sup Ct, 1972).

[2] General Finance Corp. v. Dillon, 172 F 2d 924 (CA 10, 1949).

[3] In connection with a requirement for the payment of compensation provided that the patent issued on a licensed application comprises claims granting "significant coverage", see Modrey v. American Gage & Machine Co., 478 F 2d 470 (CA 2, 1973).

§37. Exploitation of Licensed Invention in Foreign Countries

If either party contemplates exploitation of the licensed invention in foreign countries, a specific provision on the subject is usually warranted. At one extreme, the licensee may be granted a license under the licensor's foreign patents and applications and/or the right to apply itself for foreign patents.[1] In this connection, the costs of applying for and maintaining foreign patents, and possible sublicensing rights of the licensee, are factors that should be carefully considered by the parties. Under one type of intermediate arrangement, the domestic licensee may be accorded the right to export licensed products from the United States to foreign countries, while foreign licensees are accorded a corresponding right to export licensed products from foreign countries to the United States. At the other extreme, license agreements may provide that the domestic licensee will not export licensed products from the United States, at least to countries where the licensor has patent protection, that the licensor will not import licensed products into the United States, and that foreign licensees will not export licensed products from foreign countries to the United States.[2]

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[1]Esco Corp v. Hensley Equipment Co Inc, 251 F Supp 631 (148 USPQ 600) (ND TX, 1966), modified on other grounds, 383 F 2d 252 (155 USPQ 183) (CA 5, 1967). Also see Blohm & Voss AG v. Prudential-Grace Lines Inc, 346 F Supp 1116, 1132-7 (174 USPQ 484, 497-501)(D MD, 1972), reversed on other grounds, 489 F 2d 231 (180 USPQ 165)(CA 4, 1973).

[2]Dunlop Co Ltd v. Kelsey-Hayes Co, 484 F 2d 407, 417-8 (179 USPQ 129, 136)(CA 6, 1973); Brownell v. Ketcham Wire & Mfg Co, 211 F 2d 121 (100 USPQ 338)(CA 9, 1954); United States v. L D Caulk Co, 126 F Supp 693 (103 USPQ 372)(D DE, 1954); Osmose Wood Preserving Co of Canada v. Osmose Wood Preserving Co of America, 74 F Supp 435 (75 USPQ 72)(WD NY, 1947); American Optical Co v. New Jersey Optical Co, 58 F Supp 601 (65 USPQ 114)(D MA, 1944).

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FORM 37.01 LICENSE UNDER FOREIGN PATENTS

ABC hereby grants unto XYZ the nonexclusive right and license to make, have made, use and sell Licensed Devices under any and all foreign patents corresponding to said United States Letters Patent.

FORM 37.02 LICENSEE'S RIGHT TO FOREIGN PATENTS

XYZ shall be entitled to take out patents in foreign countries on the aforesaid invention and on any improvements which shall be communicated to it by ABC, and the same shall be included within the provisions of this Agreement, save only that no minimum production in any foreign country shall be required.

FORM 37.03 COSTS OF OBTAINING AND MAINTAINING FOREIGN PATENTS

It is understood and agreed that the original cost of filing applications for foreign patents shall be paid by ABC, and that all expenses thereafter, including prosecution costs, taxes and workings, shall be paid by XYZ during the life of this Agreement.

FORM 37.04 LICENSE UNDER FOREIGN PATENTS; COSTS OF OBTAINING AND MAINTAINING; SUBLICENSING ARRANGEMENTS

XYZ agrees that it is desirable to sell Licensed Devices in certain countries foreign to the United States and agrees to pay to ABC, upon demand, the cost of obtaining and maintaining foreign patent protection in Australia, Brazil, Canada, France, Great Britain, Mexico and West Germany. ABC agrees to file patent applications in all of the countries specified above and further agrees that the cost thereof when paid by XYZ shall be amortized out of royalties accruing under this Agreement. ABC hereby grants XYZ an exclusive license to make, use and sell Licensed Devices in the countries aforesaid, and XYZ agrees to pay to ABC royalties, under the conditions specified in Paragraph X hereof, on the sale of Licensed Devices in the countries aforesaid. It is further provided that should XYZ enter into a sublicensing

§38. Option to Purchase Licensed Patent

In certain circumstances, the licensee is given an option to purchase the licensed patent. There are two principal reasons why a licensee might desire such an option: (1) to permit a fixed purchase sum to be substituted for continuous unit royalties in the event commercial demand for licensed products favors such substitution as a means of reducing unit patent costs; (2) to prevent a competitor of the licensee from purchasing the patent from the licensor and gaining a competitive advantage through the receipt of royalties from the licensee or otherwise. In the first situation, an outright option to purchase the patent at any time is required, while in the second situation a first right to purchase (or right of first refusal) when and if the licensor decides to sell the patent will suffice.

FORM 38.01 OPTION TO PURCHASE PATENT

ABC hereby grants to XYZ an irrevocable option to purchase said patent and all then existing claims for infringement thereof not at the time of purchase reduced to a liquidated value, together with any licenses ABC may have issued, at a price to be negotiated between the parties but in any event not to exceed $25,000.

FORM 38.02 FIRST RIGHT TO PURCHASE PATENT

In the event ABC, during the term of this Agreement shall desire to sell said invention, or any improvements thereon, or patent relating thereto, ABC shall give to XYZ first opportunity to purchase the same at a price to be mutually agreed upon, which price shall not be greater than that for which said invention, improvement or patent is offered for sale to any other purchaser.

CHAPTER 5

DURATION, TERMINATION AND SUBSIDIARY FORMAL PROVISIONS

§39. Prefatory

The next section is concerned with the duration of the license agreement and the circumstances and manner in which it may be terminated. In the remaining sections of this chapter, various formal contract provisions will be discussed. They deal, for example, with the inability of a party to perform its obligations through no fault of its own, the effect of an illegal provision on the remainder of the agreement, the settling of disputes by arbitration, and the nature of waivers of breaches of the agreement. Also reviewed are agency and similar relationships between the parties, oral modifications of the written agreement, assignability of the license agreement, and principles concerning what law governs the agreement. Finally, general assurances in support of the agreement, and the formalities of notices under the agreement and of execution of the agreement, are considered.

§40. Duration and Termination

To fix the time limits of the rights and obligations between the parties under the license agreement, it is necessary to establish the effective date, and the term, or the expiration date, of the agreement. The effective date may be identified as such in the agreement. If not so identified, the effective date is ordinarily the specified date of making, or the date of signature, of the agreement. However, a license agreement may have an earlier effective date if it is merely the reduction to writing of a prior oral agreement.[1] The term of the agreement is usually specified. The agreement may provide, for example, that it will remain in effect until expiration of the licensed patent, or for a fixed term of years, or for an initial term subject to renewal for one or more like terms.[2] In the absence of an expressed term, a license under a patent is implicitly coextensive in time with the unexpired life of the patent.[3]

During the term of a license agreement, neither party ordinarily has a unilateral right to cancel or terminate the agreement, without cause, outside the express provisions of the agreement.[4] However, a licensee may at any time cease paying royalties, and if the patent is found to be invalid, no further

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[1]Paul E. Hawkinson Co. v. Carnell, 30 F Supp 178 (ED Pa,1939), affirmed, 112 F 2d 396 (CA 3, 1940).

[2]Rowland v. Biesecker, 185 F 515 (CA 2, 1911).

[3]St. Paul Plow Works v. Starling, 140 US 184, 195 (1891); Cold Metal Process Company v. United Engineering & Foundry Company, 107 F 2d 27, 31 (CA 3, 1939); Starke v. Mfrs. National Bank of Detroit, 174 F Supp 882 (ED Mich, 1959), affirmed per curiam, 283 F 2d 117 (CA 6, 1960); Muth v. J. W. Speaker Corporation, 151 F Supp 188 (ED Wis, 1957), affirmed, 262 F 2d 797 (CA 7, 1959); Burton v. Asbestos Limited, Inc., 92 F Supp 310 (DNJ, 1950); Commonwealth Trust Co. of Pittsburgh v. Hachmeister Lind Co., 27 USPQ 389 (Pa Sup Ct, 1935); Deye v. Quality Engraving & Electrotype Co., 89 USPQ 336 (Ohio Ct of Common Pleas, 1950).

[4]St. Paul Plow Works v. Starling, 140 US 184, 195 (1891); Automatic Radio Mfg. Co. v. Hazeltine Research, 176 F 2d 799, 809 (CA 1, 1949), affirmed, 339 US 827 (1950); Muth v. J. W. Speaker Corporation, 151 F Supp 188 (ED Wis, 1957), affirmed, 262 F 2d 797 (CA 7, 1959); Miller v. O. B. McClintock Co., 49 USPQ 458 (Minn Sup Ct, 1941); Commonwealth Trust Co. of Pittsburgh v.

may be terminated by the licensor.[8] And, advice by a licensee that it no longer considers itself obligated under its license agreement amounts to an anticipatory breach of the license agreement by the licensee and justifies termination of the license agreement by the licensor.[9]

By specific provision, a contracting party may acquire a right of termination which it would not otherwise have.[10] Clauses authorizing termination for breach have been enforced by some courts in accordance with their literal terms.[11] But clauses of this type usually are strictly construed against termination and are reluctantly enforced by the courts. Slight or inadvertent infractions of contractual obligations by one party will not permit termination of the agreement by the other party.[12] Also, all conditions precedent must be performed by the party requesting cancellation.[13] And, recission of a license agreement for a breach thereof may be denied when the breach results from a mistaken interpretation of the agreement,[14] or an

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[8]Oscar Barnett Foundry Co. v. Crowe, 219 F 450 (CA 3, 1915). Also see: Shephard v. Kinner, 86 F 638 (CA 2, 1898); Willis Bros, Inc. v. Ocean Scallops, Inc., 176 USPQ 53, 58 (EDNC, 1972); Ruby v. Ebsary Gypsum Co., 36 F 2d 244 (WDNY, 1929); Hat Sweat Mfg. Co. v. Porter, 34 F 745 (DNJ, 1888), on final hearing, 46 F 757 (DNJ, 1891); McKay v. Smith, 29 F 295 (D Mass, 1886), further proceedings, 39 F 556 (D Mass, 1889), appeal dismissed, 161 US 355 (1896).

[9]Morpul, Inc. v. Crescent Hosiery Mills, 265 F Supp 279, 302-303 (ED Tenn, 1967).

[10]Miller v. O. B. McClintock Co., 49 USPQ 458 (Minn Sup Ct, 1941). Also see Beausang, Jr. Tax Consequences of Termination Provisions of Exclusive License Agreements, 50 JPOS 717 (1968).

[11]National Rejectors v. A.B.T. Mfg. Corporation, 184 F 2d 612 (CA 7, 1950); Willis Bros., Inc. v. Ocean Scallops, Inc., 176 USPQ 53 (EDNC, 1972).

[12]Carr v. Jaeger Mach. Co., 69 F 2d 434 (CA 7, 1934); Standard Stoker Co. v. Brewster, 277 F 783 (CA 7, 1921); Critcher v. Linker, 169 F 653 (WD Wis, 1909); Dare v. Bolyston, 6 F 493 (SDNY, 1880).

[13]Dixie Cotton Picker Co. v. Bullock, 188 F 921 (ND Ill, 1911).

[14]I. F. Laucks, Inc. v. Balfour Guthrie & Co., Limited, 35 USPQ 206 (WD Wash, 1937); Slezak v. Andrews, 21 F Supp 688 (D Del, 1937).

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At the cancellation or termination of a license agreement, the licensee may have completed patented products on hand, work in process especially adapted for use in manufacturing patented products, and/or uncompleted contracts for the sale of patented products. For the protection and benefit of the licensee in these circumstances, the parties can provide that the licensee may complete such work and contracts and sell products on hand in return for the payment of royalties as scheduled in the license agreement.[22] If desired, the licensee's right to complete and sell patented products subsequent to termination may be limited in time or to a designated number of units, or the licensee's right to assemble and deliver patented products after termination may be confined to the filling of orders taken prior to termination.[23] Also, as a control over commercial sales, the licensor may reserve the right to purchase from the licensee completed devices on hand and work in process. In appropriate circumstances, the agreement may further provide that termination shall not affect (a) any other rights and remedies that the terminating party might have against the other party at law or in equity by reason of any default, or (b) any contractual rights and obligations which, by the terms of the agreement, are intended to survive the termination thereof.

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[22]See Robertshaw-Fulton Controls Co. v. Patrol Valve Co., 106 F Supp 427 (ND Ohio, 1952), affirmed, 210 F 2d 146 (CA 6, 1954).
[23]Pelzer v. City of Binghampton, 95 F 823 (CA 2, 1899).

FORM 40.01 DURATION: INITIALLY TEN YEARS; AUTOMATIC EXTENSION IF PATENT GRANTED

The term of this Agreement shall be for ten (10) years from the effective date hereof, and in the event a patent or patents issue pursuant to said applications the term of this Agreement shall be from the effective date hereof until the expiration date of the last to issue of said patents.

FORM 40.02 DURATION: INITIALLY TEN YEARS; AUTOMATICALLY RENEWABLE ANNUALLY

This Agreement shall extend for an initial term of ten (10) years from the date hereof, and shall be automatically renewable on an annual basis thereafter, unless either party, by notice in writing, at least sixty (60) days before the expiration of the initial term of this Agreement or any renewal term thereof, shall advise the other party of its desire to terminate.

FORM 40.03 DURATION: LIFE OF PATENT

This Agreement shall become effective on the 1st day of July, 1999 and, unless sooner terminated as otherwise herein provided, shall remain in effect until the expiration of said Licensed Patent.

FORM 40.04 DURATION: LIFE OF PATENTS

This Agreement shall endure and remain in full force, unless terminated or cancelled under the provisions of this Agreement, throughout the life of said patents and such patents as may be granted from said applications, and throughout the life of any other patents now or hereafter owned or controlled by ABC, its successors or assigns, which contain a claim covering Licensed Products or parts thereof manufactured by XYZ.

FORM 40.05 DURATION: LIFE OF PATENTS

It is understood and agreed between the parties hereto that the license granted herein shall continue until the expiration of the last expiring patent of the patents and/or patent applications

a like period from year to year, until the expiration of the patent last above granted on the foregoing inventions, upon the terms and conditions aforesaid, unless this Agreement shall be terminated by ABC by at least six months' notice in writing.

FORM 40.10 RIGHT OF LICENSEE TO CANCEL AT WILL

It is understood and agreed that XYZ may cancel this Agreement at any time within one year from the date hereof, and that at any time after one year from the date hereof XYZ may cancel this Agreement upon giving to ABC six months' notice in writing.

FORM 40.11 RIGHT OF LICENSEE TO CANCEL WITHIN INVESTIGATION PERIOD

For a period of thirty (30) days from the date of this Agreement XYZ is to have the privilege of investigating the merit and possibilities for Licensed Products in the market; and XYZ shall have the right to cancel this Agreement if during the thirty (30) day investigation period either the market for Licensed Products or the quality or practicability of the same has not been found by XYZ to be as anticipated at the time this Agreement was entered into.

FORM 40.12 RIGHT OF LICENSEE TO CANCEL WITHIN TRIAL PERIOD

XYZ shall have ninety (90) days from the execution of this Agreement in which to satisfy itself as to the quality of work produced, the time saved and other economies of the processes covered by the inventions of said patent and said applications, and as to the relation of said inventions and their use to prior patents. In the event XYZ within ninety (90) days is not satisfied that the inventions and processes will accomplish the results desired, or is not satisfied as to the patent situation relative thereto, it shall have the right to cancel this Agreement and be relieved of all liability thereunder by notifying ABC in writing of its desire so to do. In the

FORM 40.16 RIGHT OF EITHER PARTY TO TERMINATE ON BREACH BY OTHER PARTY

If one party shall at any time commit any breach of any covenant, warranty or agreement herein contained, and shall fail to remedy any such breach within thirty days after written notice thereof by the other party, such other party may at its option, and in addition to any other remedies that it may be entitled to, cancel this Agreement by notice in writing to such effect.

FORM 40.17 RIGHT OF EITHER PARTY TO TERMINATE ON BREACH BY OTHER PARTY.

If at any time hereafter either of the parties hereto shall fail to perform each and every of the terms, covenants and conditions hereof, at the time and in the manner herein provided for their performance, time being the essence of this Agreement, then the party not in default may forthwith cancel and terminate this Agreement by forwarding to the other party, by registered mail, a written notice of its election to so cancel and terminate this Agreement, and said cancellation and termination shall become effective upon the mailing of said notice, except that this Agreement shall thereafter continue in force for the purpose only of adjusting the rights of the parties hereto, which may have accrued prior to the termination hereof.

FORM 40.18 RIGHT OF LICENSOR TO TERMINATE ON BREACH BY LICENSEE

If XYZ shall at any time make default in the payment of any royalty, or the making of any report hereunder, or shall commit any breach of any covenant or agreements herein contained, or shall make any false report, and shall fail to remedy any such default or breach within thirty (30) days after written notice thereof by ABC, ABC may, at its option, cancel this Agreement and revoke the license herein granted, by notice in writing to such effect, but such act shall not prejudice the right of ABC to recover any royalty or other sums due to the time of such cancellation,

ents limited as to time. Also, it is expressly agreed and understood that any such cancellation by ABC, as hereinbefore provided for, shall not in anywise release XYZ from liability to make any payments due from the date hereof under this Agreement.

FORM 40.21 RIGHT OF LICENSOR TO TERMINATE ON BANKRUPTCY ETC. OF LICENSEE

In the event of any adjudication of bankruptcy, appointment of receiver by a court of competent jurisdiction, assignment for the benefit of creditors, or levy of execution directly involving XYZ, ABC may, at its option, terminate this Agreement upon not less than twenty (20) days' notice to XYZ, provided, however, that such termination shall not impair or prejudice any right or remedy that ABC might otherwise have under this Agreement.

FORM 40.22 AUTOMATIC TERMINATION ON BANKRUPTCY ETC. OF LICENSEE

If XYZ shall become insolvent, or shall make any assignment for the benefit of creditors, or if XYZ is adjudged bankrupt, or if a receiver or trustee of XYZ's property shall be appointed, this Agreement shall thereupon automatically terminate.

FORM 40.23 AUTOMATIC TERMINATION ON BANKRUPTCY ETC. OF LICENSEE

This Agreement shall be terminated automatically in any one or more of the following circumstances: (a) in the event that XYZ is ordered or adjudged bankrupt or is placed in the hands of a receiver, or otherwise enters into any scheme or composition with its creditors or makes an unauthorized assignment for the benefit of creditors; (b) in the event that the assets of XYZ are seized or attached, in conjunction with any action against it by any third party; or (c) in the event that XYZ is dissolved, or that a sale of all or substantially all of the assets of XYZ is made, or that this Agreement is attempted to be assigned by XYZ without the prior written consent of ABC.

FORM 40.27 DISPOSITION OF LICENSED DEVICES ON HAND AT TERMINATION; OPTION BY LICENSOR TO PURCHASE

Upon termination of this Agreement for any reason, XYZ may sell any completed Licensed Products manufactured by XYZ before the effective date of such termination, without authorization by ABC, such sale to be subject to all of the terms and conditions of this Agreement as though the latter were still in force, provided, first, however, that XYZ shall, within ten (10) days after the effective date of such termination, deliver to ABC a true and correct list of all Licensed Products (and all work in process which would permit the assembly of complete items), and ABC shall thereupon have the option, exercisable by written notice to XYZ, given within thirty (30) days after ABC's receipt of said list, to purchase all or any of the items or work in process set forth on said list at a price equal to the cost of manufacture.

FORM 40.28 LICENSED DEVICES ON HAND AT TERMINATION; OBLIGATION OF LICENSOR TO PURCHASE

Upon termination of this Agreement for any reason, ABC shall, at the option of XYZ, purchase from XYZ at cost all Licensed Devices then on hand; provided, however, that the obligation of ABC in this regard shall in no event exceed the sum of Ten Thousand Dollars ($10,000.00)

§41. Impossibility of Performance

During the term of a license agreement, the surrounding circumstances may change to such an extent as to make performance of the agreement, as originally contemplated, impossible. War, changes in the law or its administration, fires, floods, etc., may intervene. Such events give rise to the question of their effect on the rights and obligations of the contracting parties. There is a considerable body of general contract law on this subject; however uniformity in the decisions appears to be lacking. For example, when production by a licensee is interrupted by governmental order arising from a state of war, the licensee may or may not be excused from making monetary payments during the period of inactivity. One court suspended all terms of the license agreement for the duration of the governmental order.[1] Contrariwise, another court compelled payment by the licensee of fixed sum royalties during the period of interrupted production.[2]

To avoid uncertainties in the effect of changed circumstances, a force majeure clause should be considered. This type of clause may be used to excuse expressly, either the licensee alone, or both parties, from carrying out some or all of their obligations under the agreement during periods of inability to perform resulting, for example, from acts of God or the public enemy, or strikes, fire, flood or governmental intervention. If desired, either party may also be afforded an option to terminate the agreement in the event the inability to perform continues for a prescribed period. A force majeure clause will be enforced in accordance with its terms.[3]

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[1]Patch v. Solar Corporation, 149 F 2d 558 (CA 7, 1945).
[2]Otto v. Orange Screen Co., 57 F Supp 134 (DNJ, 1944). See Ohio Citizens Trust Co. v. Air-Way Electric Appliance Corporation, 56 F Supp 1010 (ND Ohio, 1944).
[3]Fast Bearing Co. v. Precision Development Co. 67 USPQ 349 (MD App Ct, 1945).

FORM 41.04 IMPOSSIBILITY OF PERFORMANCE; OBLIGATIONS SUSPENDED; RIGHT TO TERMINATE

Neither of the parties hereto shall be liable in damages or have the right to cancel for any delay or default in performing hereunder if such delay or default is caused by conditions beyond its control, including but not limited to Acts of God, governmental restrictions, continuing domestic or international problems such as war or insurrections, strikes, fires, floods, work stoppages, embargoes, and/or lack of materials; provided, however, that any party hereto shall have the right to terminate this Agreement upon thirty (30) days prior written notice if either party is unable to fulfill its obligations under this Agreement due to any of the above-mentioned causes and such inability continues for a period of six (6) months.

§42. Severability

A "severability" or "saving" clause in essence provides that, in the event any provision of the agreement is invalidated by law, the validity of the other provisions shall not be thereby affected. The purpose of this type of clause is to prevent the illegality of one provision from tainting the remainder of the agreement and rendering the entire agreement unenforceable or void. However, contrary to the expressed intent, a severability clause may not be effective in all circumstances. For example, in an action to recover royalties under a patent contract, a state supreme court disregarded an express severability clause, concluded that a provision for royalty payments and a provision which was found to be illegal under state antitrust laws were indivisible and inseparable, and held the entire contract void.[1] Thus, when the illegal part of an agreement is found in law to be inseparable from the lawful part, a severability clause may not be competent to preserve the otherwise lawful part of the agreement.

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[1]Patrizi v. McAninch, 102 USPQ 44 (Tex Sup Ct, 1954). Also see: MacGregor v. Westinghouse Electric Mfg. Co., 329 US 402, 407 (1947); Edward Katzinger Co. v. Chicago Metallic Mfg. Co., 329 US 394, 401 (1947).

§43. Arbitration

In the resolution of business disputes generally, arbitration offers a unique alternative to court trials: arbitration is private; arbitration usually involves less expense and delay; arbitration is not encumbered by exclusionary rules of evidence; arbitration normally minimizes hostility and is less disruptive of ongoing and possible future business dealings between the parties; arbitration often is more convenient in regard to the time and place of hearings; arbitrators are frequently better versed than judges and juries in matters of trade customs and technology underlying the disputes; and arbitration relieves court congestion.[1] For these reasons, arbitration provisions are frequently incorporated in license agreements.[2]

In general, agreements to arbitrate existing disputes or future disputes are specifically sanctioned by many state statutes[3] and by the United States Arbitration Act.[4] An arbitration provision in a contract relating to activities in interstate commerce is within the coverage of the federal Arbitration Act.[5] Again in general, agreements to arbitrate patent controversies have been held valid and enforceable,[6] and arbitration has been used to

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[1]See: Jerome Frank, Courts on Trial, 1949, Atheneum edition, New York, 1963, pp 376-9; Symposium, Arbitration--Valuable Methods for Solving Business Problems Arising in Long-Term Business Arrangements, 28 Bus Law 585 (1973); Coulson, The Business Lawyer Discovers Arbitration, 50 ABA Journal 459 (1964).

[2]For an excellent discussion of arbitration of intellectual property disputes, consult Goldsmith, Patent, Trademark and Copyright Arbitration Guide, 53 JPOS 224 (1971). Also see Aeschlimann, The Arbitrability of Patent Controversies, 44 JPOS 655 (1962).

[3]Eg, Illinois Revised Statutes, Chap 10, Sec 101, Uniform Arbitration Act.

[4]9 USC §§1-14.

[5]Prima Paint Corp v. Flood & Conklin Mfg Co, 388 US 395 (1967); Coulson, Prima Paint: An Arbitration Milestone, 23 Bus Law 241 (1967).

[6]Schweyer Electric & Mfg Co v. Regan Safety Devices Co, 4 F 2d 970, 974 (CA 2, 1925); Cavicchi v. Mohawk Mfg Co, 34 F Supp 852 (46 USPQ 371)(SD NY, 1940); Zip Mfg Co v. Pep Mfg Co, 9 USPQ 415 (D DE, 1931) (earlier ruling, 44 F 2d 184); In re Kallus, 59 USPQ 440 (NY App Div, 1943).

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FORM 43.01 AMERICAN ARBITRATION ASSOCIATION STANDARD ARBITRATION CLAUSE

Any controversy or claim arising out of or relating to this contract, or the breach thereof, shall be settled by arbitration in accordance with the Rules of the American Arbitration Association, and judgment upon the award rendered by the Arbitrator(s) may be entered in any Court having jurisdiction thereof.

FORM 43.02 ARBITRATION; ALL DISPUTES

In the event of any dispute, difference or question arising between the parties in connection with this Agreement or any clause or the construction thereof, or the rights, duties or liabilities of either party, then and in every such case, unless the parties concur in the appointment of a single arbitrator, the matter of difference shall be referred to three (3) arbitrators: one to be appointed by each party, and a third being nominated by the two so selected by the parties, or if they cannot agree on a third, by the American Arbitation Association. In the event that either party within one (1) month of any notification made to it of the demand for arbitration by the other party, shall not have appointed its arbitrator, such arbitrator shall be nominated by the American Arbitration Association. The arbitrators shall determine the place or places where meetings are to be held. The arbitrators must base their decision with respect to the difference before them on the contents of this Agreement, and the decision of any two of the three arbitrators shall be binding on both parties.

FORM 43.03 ARBITRATION; OPTIONAL

In the event of any substantial breach of this Agreement by ABC or XYZ , the other party at its option may terminate this Agreement on not less than sixty (60) days notice in writing to such breaching party of its intention to terminate on ac-

point a third arbitrator to act with them as hereinabove provided, such arbitrator to represent XYZ or said third arbitrator, as the case may be, shall be appointed by the American Arbitration Association.

FORM 43.05 ARBITRATION; SPECIFIC DISPUTES

If ABC shall consider that the quality of service being rendered or the quality of parts made by XYZ do not comply with the provisions of the preceding paragraph, ABC shall advise XYZ in writing of the deficiency in service, or quality of parts which it considers to exist, and if the parties hereto are unable to agree with respect to the issues raised, each party shall appoint a disinterested arbitrator having knowledge of the subject of automotive service, and these arbitrators shall appoint a third arbitrator. The arbitrators shall accord the parties a full hearing and if, after such hearing, the majority of them shall be of the opinion that the provisions of the preceding paragraph have not been complied with by XYZ, the exclusive license hereunder granted to XYZ shall become nonexclusive, and ABC shall have the right to grant a license to one other manufacturer to manufacture and sell replacement parts and render service of the kind provided for in the preceding paragraph.

It is further understood and agreed that the service facilities provided by XYZ are to be reasonably adequate to the commercial necessities for service of Licensed Transmissions, and that if the parties hereto are unable to agree that the service facilities provided by XYZ comply with this understanding, the controversy shall be referred to a board of arbitration constituted as hereinabove provided, and if upon full hearing said board shall be of the opinion that certain additional service stations, connections, or facilities should be provided by XYZ to comply with the above understanding, and XYZ does not within a period of ninety (90) days comply with the direction of the arbitrators, ABC shall then have the right to grant a license to one other manufacturer to manufacture and sell replacement parts and render

§44. Waiver

The performance of an obligation may be waived by the party who has a right to enforce it.[1] For example, when one party to an agreement is bound to make a certain payment within a certain time, failure to tender payment within the stipulated time is a breach of the agreement. However, acceptance of such payment by the other party after the stated period constitutes a waiver of the breach.[2] Also, a right of forfeiture may be waived when the licensor induces the licensee to continue in the performance of its obligations after a breach by the licensee, or when the licensee continues to operate under the license after a breach by the licensor.[3] To limit the effect of a particular waiver, the parties to a license agreement may provide that a waiver of one breach of a provision shall not be construed as a waiver of other breaches of the same or other provisions.

One court has held that the unilateral undertaking by a licensor to accept a lesser amount of royalty than that provided in the license agreement does not destroy the licensor's right thereafter to enforce such agreement at the reduced royalty.[4]

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[1]Automatic Radio Co. v. Hazeltine, 339 US 827, 835 (1950).
[2]Otto v. Orange Screen Company, 57 F Supp 134 (DNJ, 1944); Critcher v. Linker, 169 F 653 (WD Wis, 1909).
[3]Specialties Development Corp. v. C-O-Two Fire Equipment Co., 207 F 2d 753 (CA 3, 1953); Miami Cycle & Mfg. Co. v. Robinson, 245 F 556 (1917); Barnett v. Q. & C. Co., 226 F 935 (CA 7, 1915).
[4]Components, Inc. v. Western Electric Co., 166 USPQ 575 (Del Sup Ct, 1970).

§45. Agency and Similar Relationships

A simple license agreement alone will not ordinarily establish an agency, partnership or joint venture relationship between the licensor and the licensee. For example, a transaction involving a license agreement does not become a joint venture merely because the amount of royalty is measured in part by the licensee's profits.[1] However, when extensive commercial transactions and cooperation, ancillary to or outside the scope of the patent rights, are contemplated by the license agreement, the licensee may have a basis for assuming and asserting in good faith (albeit incorrectly) that it has authority to act on behalf of and bind the licensor in certain transactions with third parties. To protect the licensor in this regard, when an agency or similar relationship is not intended or desired by the licensor, a specific clause may be incorporated in the license agreement either expressing the nonexistence of an agency relationship and the like, or setting forth an agreement by the licensee not to act in behalf of the licensor.

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[1]McCullough v. Kammerer Corporation, 166 F 2d 759 (CA 9, 1948).

§46. Entire Agreement and Modifications

For the sake of certainty, the entire agreement between the parties should be embodied in the written agreement, and that this is the fact should be recited. A recitation of this nature is usually accompanied by a statement that the written agreement merges all prior discussions, or supercedes and cancels all previous agreements, between the parties. Such a statement will tend to nullify attempts by either party to establish prior or contemporaneous oral understandings relating to the written agreement.[1] However, unless a contrary intent is clearly expressed, a merger provision is inapplicable to matters outside the scope of the license agreement and does not extend to an independent oral contract.[2] Alternatively, or in addition to a merger provision, the existence of all warranties and conditions not set forth in the written agreement, or those of a specified nature, may be expressly denied.

Generally, a written agreement may be modified or amended, after it is made, by the express agreement of the parties either in writing or by parol, or by the conduct of the parties.[3] To minimize disputes concerning alleged modifications, a clause requiring all modifications or waivers to be in writing may be incorporated in the license agreement. However,such a clause may be applicable to oral executory agreements only, and may not be effective in the case of executed modifications.[4]

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[1]Vacuum Concrete Corp. v. American Mach. & Foundry Co., 321 F Supp 771 (SDNY, 1971).
[2]Champlin Refining Co. v. Gasoline Products Co., 29 F 2d 331 (CA 1, 1928).
[3]Hotchner v. Neon Products, Inc., 163 F 2d 672 (CA 6, 1947).
[4]Hohmann & Barnard, Inc. v. Sciaky Bros., Inc., 333 F 2d 5 (CA 2, 1964).

FORM 46.05 ENTIRE AGREEMENT; MODIFICATIONS TO BE IN WRITING

This Agreement contains the entire agreement between the parties hereto and supersedes and cancels all previous agreements, negotiations, commitments and writings in respect to the subject matter hereof, and may not be released, discharged, abandoned, changed or modified in any manner, orally or otherwise, except by an instrument in writing signed by a duly authorized officer of each of the parties hereto.

FORM 46.06 ENTIRE AGREEMENT; MODIFICATIONS TO BE IN WRITING

This Agreement contains the entire and only understanding between the parties and supersedes all prior agreements between the parties respecting the subject matter thereof, and any warranty, representation, promise or condition in connection therewith not incorporated herein shall not be binding upon either party. No modification, renewal, extension or waiver of this Agreement or any of its provisions shall be binding unless in writing.

FORM 46.07 ENTIRE AGREEMENT; MODIFICATIONS TO BE IN WRITING

The making, execution and delivery of this Agreement by XYZ have been induced by no representations, statements, warranties, or agreements other than those herein expressed. This Agreement embodies the entire understanding of the parties and there are no further or other agreements or understandings, written or oral, in effect between the parties, relating to the subject matter hereof. This Agreement may be amended or modified only by an instrument of equal formality signed by the duly authorized officers of the respective parties.

FORM 46.08 NEGATION OF CERTAIN WARRANTIES

No warranty or representation is given or made by ABC (a) that Licensed Devices are free from infringement of the patent rights of third parties; or (b) as to the scope or validity of the Licensed Patent.

§47. Assignability

In the absence of an express prohibition, it appears that a licensor can effectively assign the right to receive royalties under a license agreement.[1] However, whether a patent license is assignable by the licensee when the agreement is silent on the point is a question that is still open. Federal courts have followed the general rule that a patent license which is not in legal effect an assignment cannot be effectively assigned by the licensee unless the right of assignment is expressed.[2] But, at least one state court has refused to adhere to the federal rule in the absence of circumstances showing that the license was intended to be nonassignable.[3]

In the foregoing circumstances, the rights of assignment of the respective parties should be discussed, mutually agreed upon and expressed in the license agreement. On the one hand, the agreement may permit assignment, either unqualifiedly or restrictively, by either or both parties. Ordinarily, in the case of a permitted assignment, the assignor is not released from liability under the license agreement in the absence of an express release, while the assignee does not become liable to the non-assigning party for the obligations of the assignor in the absence of evidence that the assignee assumed such obligations.[4] On the other hand, the agreement may provide that it shall be non-transferable or non-assignable, either absolutely or with exceptions, by either or both parties. Such provision will be enforced in accordance with its terms

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[1]Gray Engine Starter Co. v. Gray & Davis, 224 F 723 (D Mass, 1914). Also see Sunnen v. Commissioner of Internal Revenue, 161 F 2d 171 (CA 8, 1947).
[2]Hapgood v. Hewitt, 119 US 226 (1886); Unarco Industries, Inc. v. Kelley Co., Inc., 175 USPQ 199 (CA 7, 1972).
[3]Farmland Irrigation Co., Inc. v. Dopplmaier, 113 USPQ 88 (Cal Sup Ct, 1957).
[4]Loose v. Bellows Falls Pulp Plaster Co., 266 F 81 (CA 2, 1920).

FORM 47.01 ASSIGNABILITY

ABC may assign and transfer its rights in this Agreement as it so desires, provided that no such assignment shall be valid as against XYZ unless a true copy of such assignment is delivered to XYZ within twenty (20) days after the execution thereof.

XYZ may assign or transfer its rights in this Agreement to any financially responsible individual, firm, or corporation, provided, however, that XYZ shall, coincident with such assignment or transfer, deliver to ABC a written assumption of all of the obligations of XYZ under this Agreement, executed by the assignee or transferee, and XYZ hereunder shall then be relieved of all obligations to ABC herein set forth.

FORM 47.02 ASSIGNABILITY

This Agreement or any interest herein is assignable and transferable by ABC, and this Agreement shall be binding upon and be for the benefit of ABC, his legal representatives, executors, administrators, heirs and assigns.

Neither this Agreement nor any interest herein is assignable or transferable by XYZ except as a part of the transfer of the entire business of XYZ to which this Agreement relates.

FORM 47.03 ASSIGNABILITY

This Agreement, or any of the rights or obligations created herein, may be assigned, in whole or in part, by ABC; however, this Agreement is restricted to XYZ and shall not be assignable by XYZ except to the successors of XYZ's entire business or of substantially all of XYZ's assets relating to the manufacture and sale of automatic transmissions.

FORM 47.04 ASSIGNABILITY

Any assignment, grant or license made by ABC conveying any rights in, to or under the licensed Invention, or the Licensed Patent, or the Licensed Patent Applications, shall be made subject to the rights of XYZ under this Agreement. ABC agrees to

first obtaining the written consent of ABC thereto shall, at ABC's option, become null and void, and shall, at ABC's option, forthwith terminate and cancel this Agreement and all rights of XYZ hereunder.

FORM 47.07 ASSIGNABILITY

ABC may assign monies due or to become due under this Agreement, but neither the Agreement, nor any of the rights or obligations created therein, shall otherwise be assignable by ABC.

The rights of XYZ under this Agreement are not assignable or transferable by operation of law or otherwise without the express written consent of ABC, except to a purchaser of XYZ's entire business.

FORM 47.08 ASSIGNABILITY

This Agreement shall not be assignable by ABC, except that ABC may assign at any time any part or all of its rights and obligations under this agreement to any subsidiary, associated or controlled company, or to any successor of its entire business and assets.

This Agreement shall not be assignable by XYZ , except that XYZ shall have the right to assign the Agreement to a corporation to be formed, provided that XYZ shall directly or indirectly control at least a majority of the stock of such new corporation. Upon such new corporation assuming in writing all of the obligations of XYZ under this Agreement, XYZ shall be released from any and all further liability hereunder.

FORM 47.09 ASSIGNABILITY

Neither this Agreement nor any interest herein may be assigned, in whole or in part, by either party hereto without the prior written consent of the other party hereto, except that without securing such prior written consent, either party may assign this Agreement to a successor of all or substantially all of its business, provided, however, that no as-

§48. Governing Law

In reference to the enforcement of agreements, several alternative theories have been advanced by the courts: (1) the law of the place of contracting governs;[1] (2) the law of the place of performance governs; (3) the law expressly or presumably intended by the parties governs.[2] Under the latter theory, the parties may contract with reference to the laws of any state or country, provided it is done in good faith, and provided the place selected has a real or substantial connection with the transaction or subject matter of the agreement. In the absence of proof as to the place of execution, the place of performance or the intent of the parties, the law of the forum may be applied.[3] Usually, a license agreement will incorporate a provision that expresses the intent of the parties with respect to the governing law. A choice of law provision in a contract does not constitute a voluntary submission to personal jurisdiction in the forum designated.[4]

FORM 48.01 GOVERNING LAW

This Agreement shall be interpreted and construed, and the legal relations created herein shall be determined, in accordance with the laws of the State of Illinois.

FORM 48.02 GOVERNING LAW

This Agreement shall be considered to have been executed in the City of Chicago, State of Illinois, and shall be governed and construed by and in accordance with the laws of the State of Illinois.

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[1]Specialties Development Corp v. C-O-Two Fire Equipment Co, 207 F 2d 753 (99 USPQ 301)(CA 3, 1953); Stentor Electric Mfg Co v. Klaxon Co, 115 F 2d 268 (47 USPQ 193)(CA 3, 1940).

[2]Hall v. Keller, 80 F Supp 763, 773 (79 USPQ 286, 293-4)(WD LA, 1948), modified on other grounds, 180 F 2d 753 (85 USPQ 32)(CA 5, 1950).

[3]American Type Founders v. Lanston Monotype Machine Co, 137 F 2d 728 (59 USPQ 44)(CA 3, 1943).

[4]McShan v. Omega, 191 USPQ 8 (CA 2, 1976).

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§49. General Assurances

To the extent possible, all documents to be executed, and all other acts to be performed by the parties subsequent to the date of the license agreement should be specifically identified in the agreement. However, occasionally additional documents or acts are contemplated, but their precise nature and character are undetermined on the date of the license. Moreover, need for additional formal action, dictated for example by changes in law or governmental regulations, may first arise and become known to the parties at some time in the future. These circumstances are frequently covered by an omnibus clause reciting general assurances to the effect that the parties will execute all documents and do all other acts that may be necessary or appropriate to carry out the purposes of the agreement.

FORM 49.01 GENERAL ASSURANCES

The parties agree to execute, acknowledge and deliver all such further instruments, and to do all such other acts, as may be necessary or appropriate in order to carry out the intent and purposes of this Agreement.

§50. Notices

Whenever the giving of notices under a license agreement is contemplated, the agreement should specify (1) whether notices must be in writing, (2) how they may be given or served, for example, by mail or in person, and if by mail, whether by regular, registered or certified mail, and (3) when they are effective, that is, upon mailing or upon receipt.[1] When appropriate, the notice clause may also include reference to reports or statements, payments and other communications.

FORM 50.01 NOTICES

Notices required under this Agreement shall be in writing and shall for all purposes be deemed to be fully given and received if sent by registered mail, postage prepaid, to the respective parties at the following addresses: to ABC,

ABC Manufacturing Company
1000 East Adams Street
Chicago, Illinois

to XYZ,

XYZ Manufacturing Company
100 Baker Street
Detroit, Michigan

Either party hereto may change its address for the purposes of this Agreement by giving the other party written notice of its new address.

FORM 50.02 NOTICES

All notices provided for in this Agreement shall be given in writing and shall be effective when either served by personal delivery, or deposited,

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[1]When the parties to a contract, by express provision, provide for cancellation by mailing the notice of cancellation, cancellation is effective as of the date of mailing, and the actual receipt of the notice is not a condition precedent to cancellation. Morpul, Inc. v. Crescent Hosiery Mills, 265 F Supp 279, 303 (ED Tenn, 1967).

§51. Execution of Agreement

After an agreement has been reached and reduced to writing, it must be executed by the contracting parties. Generally, a written agreement is concluded with a signature clause or recital of execution, and the signatures of the parties are affixed immediately under this clause. If the date of execution (or effective date) does not appear elsewhere in the agreement, it may be placed in the signature clause. To simplify proof of signature should such proof be required at a later date, the signatures of the parties may be affixed in the presence of subscribing witnesses, or, preferably, acknowledged before a notary public.

FORM 51.01 RECITAL OF EXECUTION; SIGNATURES; LICENSOR: INDIVIDUAL; LICENSEE: CORPORATION

IN WITNESS WHEREOF, the parties hereto have executed this Agreement, ABC by affixing his signature and seal in the presence of two witnesses, and XYZ by causing its corporate seal to be hereunto affixed and duly attested, and these presents to be signed by its duly authorized officers, this 1st day of July, 1999.

_____
Alert B. Conceiver

Witnesses:

_____

_____

XYZ MANUFACTURING COMPANY

[corporate seal]

By_____
President

Attest:

_____
Secretary

CHAPTER 6

SPECIAL AGREEMENTS AND PROVISIONS

§52. Prefatory

In the preceding chapters, numerous terms and conditions that might be incorporated in a conventional license agreement have been reviewed. In the present chapter, various agreements and provisions of a special nature are considered. The next two sections are concerned with an option to enter into a license agreement, and the peculiarities of a sublicense agreement. The succeeding three sections discuss the interchange of patent rights by cross license, the settlement of an interference, and the settlement of infringement disputes and litigation. The terminal section covers the requisite provisions of an agreement between a domestic licensor and a foreign licensee.

FORM 53.01 OPTION (SHORT FORM)

For and in consideration of the sum of Five Hundred Dollars ($500.00) to it in hand paid, receipt of which is hereby acknowledged, ABC MANUFACTURING COMPANY, a corporation of the State of Illinois, has granted, and does hereby grant unto XYZ MANUFACTURING COMPANY, a corporation of the State of Delaware, an Option, for a period of ninety (90) days from the date hereof, to enter into the attached License Agreement relative to United States Letters Patent No. 8,765,432.

Done at Chicago, Illinois, this 1st day of July, 1999.

FORM 53.02 OPTION (LONG FORM)

[Heading identifying the parties]

ABC represents and warrants that it is the owner of the entire right, title and interest, legal and equitable, in and to the inventions, applications for Letters Patent, and Letters Patent listed in the attached schedule.

ABC further represents and warrants that it has the right to enter into this Option Contract and the License Agreement attached hereto as Exhibit A, and that there are no outstanding assignments, grants, licenses, encumbrances, obligations or agreements, either written, oral or implied, inconsistent with the terms of this Option Contract or said License Agreement.

ABC agrees to enter into and sign a license agreement having the terms and conditions of said License Agreement attached hereto as Exhibit A if XYZ tenders a signed copy thereof to ABC at any time on or before July 1, 1999. Until after that date,ABC agrees not to sell, and not to enter into any agreement, written, oral or implied, with anyone else pertaining to, said inventions, applications or Letters Patent listed in the attached schedule; agrees not to take any other action which would encumber said inventions, applications or Letters Patent or which would be inconsistent with the provisions of this

§54. Sublicense

A sublicense agreement will normally identify the agreement under which the sublicensor has authority to grant sublicenses, and may provide for termination of the sublicense upon termination of the primary license if such is a requirement of the primary license. Before executing a sublicense agreement, the sublicensee should review the corresponding primary license to insure that the sublicense is authorized in all respects. And, if the sublicensee desires a self-sustaining term for the sublicense, good judgment dictates that the sublicensee obtain from the primary licensor an express agreement on the subject. For example, it would be satisfactory for the primary licensor to agree either that the sublicense agreement will be subject to termination solely in accordance with its own terms, or that the primary license agreement will be maintained in full force and effect during the specified term of the sublicense agreement. In all other respects, a sublicense agreement may be patterned after a conventional primary license. Finally, one court has held that a primary licensor who is not a party to the sublicense agreement cannot enforce any provisions of the sublicense directly against the sublicensee.[1]

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[1] Good Humor Corporation v. Bluebird Ice Cream & C.R., 1 F Supp 850 (EDNY, 1932), affirmed per curiam, 66 F 2d 1013 (CA 2, 1933).

§55. Cross License

A cross license agreement is one of several arrangements by which an interchange of patent rights may be effected.

With respect to matters of form, most provisions of a cross license agreement are comparable to those incorporated in a conventional license agreement. In the main, appropriate provisions selected from the many appearing throughout this book may be readily modified and adapted to the requirements of a cross license agreement. Therefore, no additional forms are presented in this section. Only one clause--the termination-on-breach clause--requires a few additional words. In a conventional license agreement, it is usually the *entire* agreement that is terminable by one party upon the breach or default of the other party. Under this type of clause, the non-defaulting party can not terminate the rights of the defaulting party without giving up its own rights. In a cross license agreement, it may be preferable to establish that the reciprocal licenses and rights of the respective parties are terminable independently. Thus, rather than making the agreement solely terminable in its entirety upon a breach, the parties can provide that the non-defaulting party shall have the right to terminate the licenses and rights granted to the defaulting party, and that such termination shall not affect the licenses and rights granted to the terminating party.

Although a cross license agreement does not present any special difficulty from the standpoint of form, such agreement can raise serious problems under the antitrust laws.[1] In general, unrestricted interchanges of patent rights have been approved by

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[1]See: Woodbridge, Recent Trends in Technology Interchanges: The Case For and Against Pooling, 54 JPOS 507 (1972); Goller, Competing, Complementary and Blocking Patents: Their Role in Determining Antitrust Violations in the Areas of Cross-Licensing, Patent Pooling and Package Licensing, 50 JPOS 723 (1968); Gallo, Patent Interchanges: An Analysis of Their Effects on Competition, 48 JPOS 669 (1966); Iandiorio, Patent Pools and the Antitrust Laws, 46 JPOS 712 (1964).

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87 F Supp 157 (83 USPQ 216)(D NJ, 1949); United States v. General Electric Co, 80 F Supp 989 (79 USPQ 124)(SD NY, 1948); United States v. Vehicular Parking, 54 F Supp 828 (61 USPQ 102)(D DE, 1944); National Harrow Co v. Hench, 84 F 226 (ND NY, 1898); National Harrow Co v. Hench, 76 F 667 (ED PA, 1896), affirmed, 83 F 36 (CA 3, 1897); National Harrow Co v. Quick, 67 F 130 (D IN, 1895), affirmed on other grounds, 74 F 236 (CA 7, 1896). Also see: Apex Electrical Mfg Co v. Altorfer Bros Co, 238 F 2d 867 (111 USPQ 320)(CA 7, 1956); In re Yarn Processing Patent Validity Litigation, 398 F Supp 31 (185 USPQ 334) (SD FL, 1975); Blount Mfg Co v. Yale & Towne Mfg Co, 166 F 555 (D MA, 1909); Remington Rand Inc v. International Business Machines Corp, 35 USPQ 532 (NY Sup Ct, 1937). Compare: Cutter Laboratories v. Lyophile-Cryochem Corp, 179 F 2d 80 (84 USPQ 54)(CA 9, 1949); United States v. Aluminum Co of America, 148 F 2d 416, 438 (65 USPQ 6, 27-8) (CA 2, 1945); United States v. Birdsboro Steel Foundry and Machine Co, 139 F Supp 244 (108 USPQ 428)(WD PA, 1956).

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§56. Settlement of Interference

When two or more applications for a patent, or an application for a patent and an issued patent (in certain circumstances), relate to the same invention, interference proceedings may be instituted by the Patent and Trademark Office. In such proceedings, the PTO, on the basis of evidence presented by the parties named in the interference, resolves questions of priority of inventorship and thereby determines which one of the parties is entitled to a patent on the interfering subject matter.

At any time during the course of the interference proceedings, the parties may enter into an agreement providing that the prevailing party will grant rights--for example, a nonexclusive license--under the subject matter of the interference to the other party. In this manner, each party is assured that it will not be foreclosed by reason of an adverse decision of priority from continuing to use the subject matter in interference. To expedite a resolution of the interference, the parties may further agree that a determination of the issues of priority shall be made informally by counsel for the parties or an arbitrator, and that the proceedings in the PTO shall be terminated in accordance with such determination. Correspondingly, the parties to a cross license agreement may include a provision for informal disposition of any future interferences that might arise between the parties and involving the subject matter of the license. In general, the courts have sanctioned settlements of patent interferences as a normal routine method of resolving such controversies.[1]

However, an informal resolution of an interference must be legitimate, and an interference settlement agreement should not be used as a vehicle to

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[1]State of North Carolina v. Chas Pfizer & Co, 384 F Supp 265, 276 (182 USPQ 657, 662-4)(ED NC, 1974), affirmed, 189 USPQ 262, 268 (CA 4, 1976).

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the interference.[6] Upon request of any party filing such agreement or understanding, the copy will be made available only to government agencies on written request or to other parties on a showing of good cause.

The statute specifies that failure to file a copy of such agreement or understanding renders the latter and any patent involved permanently unenforceable. In at least two cases, the courts have held patents unenforceable because of non-compliance with §135(c).[7] However, while §135(c) speaks in terms of a "patent" being unenforceable, one court has indicated that only the claims involved in the interference are rendered unenforceable by reason of a failure to comply with §135(c).[8]

The purpose of this legislation is to publicize interference settlement agreements so as to reduce or eliminate the incorporation of restrictive provisions therein and help prevent the use of the agreements as a means of violating the antitrust laws.[9]

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[6]See Esso Research and Engineering Co v. Brenner, 165 USPQ 486 (CA DC, 1970).
[7]Cases cited in fn 3 and fn 5, supra.
[8]Decision cited in fn 4, supra.
[9]See United States v. Singer Mfg Co, 374 US 174 (137 USPQ 808) (1963).

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FORM 56.01 SETTLEMENT OF EXISTING INTERFERENCE

Each party hereto shall submit to the attorney for the other a full showing of the evidence available to it upon the issues of priority of the inventions as to the present and any future counts of said interference, to the end that the issues of priority may be determined as between the parties hereto, and the said interference caused to be terminated, as provided hereinafter; but failure of the parties to present any evidence or to decide said issues of priority shall not affect the license rights granted and agreed to be granted herein. If, after consideration of the evidence by the attorneys for the parties, there is any uncertainty as to the determination of the issue or issues of priority of the subject matter involved in said interference, so that no decision can be reached by the attorneys for the parties, the issue or issues shall be submitted to the proper Tribunal of the United States Patent Office on the basis of stipulated facts and testimony or on the basis of testimony taken in accordance with the Rules of Practice of the United States Patent Office as may be appropriate in the premises. The decision of said Tribunal shall be accepted by all parties as final and binding and no appeal shall be taken from said decision by any of the parties to said interference.

Upon a determination of priority of invention as to any count or counts of the aforesaid interference in accordance with the preceding paragraph, whether by the attorneys or the Patent Office, each party hereto against whom such determination of priority shall be made agrees to cause to be filed in the Patent Office such concession of priority, abandonment of contest, or other appropriate action as may suit the facts and the law in the premises in order to give effect to such determination of priority.

In the event that said Thomas Jones [applicant] shall be the prevailing party in the above-mentioned interference as to any count, ABC [assignee of the Jones application] agrees to grant and does hereby

evidence by counsel for the parties, there is any uncertainty as to the determination of the issue or issues of priority of the subject matter involved in any said interference so that no decision can be reached by counsel for the parties, the issue or issues shall be submitted to an arbitrator to be selected by counsel for the parties. Should counsel for the parties fail to agree upon an arbitrator as authorized herein, then an arbitrator shall be appointed by the Judge of the District Court in the district in which ABC has its residence. It is agreed that the decision of counsel for the parties,or the arbitrator, as the case may be, shall be binding upon the parties hereto, and ABC or XYZ, as the case may be, will use its best efforts to have executed by the inventor or inventors of the patent or patents or application or applications involved in any such interference, a formal concession of priority, in accordance with the decision of said counsel, or arbitrator, as the case may be, and to file the same forthwith in the United States Patent Office.

§57. Settlement of Infringement Disputes and Litigation

An alleged infringer, either to forestall the institution of litigation or to terminate litigation already commenced, commonly will (1) accept a license from the patent owner and acknowledge validity of the patent in issue, or (2) agree to cease infringing the patent in issue and acknowledge validity of such patent, and/or (3) agree to pay liquidated damages for past infringement.

The extent to which settlement agreements will be enforced by the courts remains unsettled.[1] A few courts have held that agreements not to contest validity and not to infringe are unenforceable.[2] Some courts have held that a consent decree adjudicating patent validity alone is not res judicata;[3] other courts have recognized that a consent decree adjudicating both validity and infringement is res judicata.[4] In any event, the alleged infringer is generally not precluded from later denying the fact of infringement, at least as to products different than those made prior to the settlement agreement.[5]

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[1]See Haynes, Admission of Patent Validity and Contract Estoppel, 57 JPOS 140 (1975).

[2]Massillon-Cleveland-Akron Sign Co. v. Golden State Advertising Co., 444 F 2d 425 (CA 9, 1971); Pope Manufacturing Company v. Gormully, 144 US 224 (1892); Nachman Spring-Filled Corporation v. Kay Mfg. Co., 139 F 2d 781 (CA 2, 1943). Compare Wham-O Mfg. Co. v. All-American Yo-Yo Corp., 181 USPQ 320 (EDNY, 1973). Also see § 28.

[3]Business Forms Finishing Service, Inc. v. Carson, 452 F 2d 70 (CA 7, 1971); Addressograph-Multigraph Corp. v. Cooper, 156 F 2d 483 (CA 2, 1946). Also see Kraly v. National Distillers & Chemical Corp., 502 F 2d 1366 (CA 7, 1974).

[4]Schlegel Mfg. Co. v. USM Corp., 187 USPQ 417 (CA 6, 1975); Wallace Clark & Co., Inc. v. Acheson Industries, Inc., 394 F Supp 393 (SD NY, 1975). Also see USM Corp. v. Standard Pressed Steel Co., 188 USPQ 52 (CA 7, 1975).

[5]H D Smith Co. v. Southington Mfg. Co., 247 F 342 (CA 2, 1917); American Specialty Stamping Co. v. New England Enameling Co., 176 F 557 (CA 2, 1910); Wallace Clark & Co., Inc. v. Acheson Industries, Inc., 394 F Supp 393, 402 (SD NY, 1975).

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FORM 57.01 AGREEMENT TO CEASE INFRINGEMENT

XYZ agrees to respect the validity of said Letters Patent, and to hereafter avoid any and all infringement, directly or indirectly, thereof, either by the manufacture of products of the forms particularly complained of by ABC and sold by XYZ or otherwise.

FORM 57.02 AGREEMENT NOT TO INFRINGE

XYZ hereby expressly admits the title of ABC to each and all of the respective patents enumerated in this Agreement and the validity of each claim of each patent now granted and enumerated in this Agreement, and agrees that it will not at any time deny or contest or contribute or aid in any way either directly or indirectly in the contest of the validity of any of the respective patents enumerated in this Agreement, or the scope of any claim or claims contained therein, and further agrees that it will not infringe either directly or indirectly any of the claims of the respective patents enumerated in this Agreement.

FORM 57.03 AGREEMENT TO DISMISS PENDING SUIT

ABC agrees promptly to dismiss with prejudice the lawsuit referred to in the preamble to this Agreement and agrees not to file any suit based on the same cause, or causes, of action against XYZ, or against its successors or predecessors, or against any officer, director, employee or agent of the foregoing. XYZ agrees promptly to dismiss with prejudice all counterclaims against ABC in said lawsuit, and agrees not to file any suit based on the same cause, or causes, of action against ABC, his heirs, executors, personal representatives, administrators, employees or agents.

FORM 57.04 SETTLEMENT OF PENDING LITIGATION

XYZ shall procure the appeal in the cause first above mentioned to be dismissed, so as to leave the decree appealed from in full force; but no account-

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cal foreign bank to the account of the licensor, or that the licensor has the option of terminating the agreement. Additionally, the license agreement should include a special provision for termination in the event of expropriation, confiscation, or the like, of the licensee's business.

In certain foreign countries, annual taxes must be paid to maintain patents in force. Occasionally, the licensee is obligated to pay such taxes, with or without the right to deduct them from royalties. Often, the licensee is required to acknowledge validity of the licensed patent rights, and to agree not to participate, directly or indirectly, as a party adverse to the licensor, in any opposition, revocation or complusory licensing proceedings involving the licensed patent rights.[2] What right each party may have in future improvements developed by the other party should be explicitly recited in the agreement. One further alternative to the various arrangements outlined in reference to domestic agreements [§35] is to require the foreign licensee to grant the licensor a nonexclusive license under foreign rights and an assignment of United States rights. Disputes arising under foreign license agreements may, as in the case of domestic agreements [§43], be settled by arbitration.[3] Frequently, the International Chamber of Commerce is relied on, in whole or in part, in such matters.

It is generally desirable to specify that the license ageeement is to be governed by the law of a particular place.[4] Commonly, the law of one of the states of the United States is selected.[5] How-

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[2]The status of these contractual obligations under foreign law should be carefully checked. As outlined in Section 28, an obligation to acknowledge, or not contest, validity is not enforceable in the United States.

[3]See: Scherk v. Alberto-Culver Co., 417 US 506 (1974); Hanes Corp. v. Millard, 189 USPQ 331 (CA DC, 1976).

[4]§48. Also see The Bremen v. Zapata Off-Shore Co., 407 US 1 (1972).

[5]Crucible Inc. v. Stora Kopparbergs Bergslags AB, 188 USPQ 182, 185 (WD PA, 1975).

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§58. Foreign Licensee

A license agreement between a domestic licensor and a foreign licensee will normally contain many provisions comparable to those incorporated in domestic license agreements. However, such foreign license agreement usually requires certain special or modified provisions and the more important of these will be discussed below.

In a number of foreign countries, patents are granted without claims and/or without a novelty examination; while in other countries, the courts do not interpret the scope of claims in a consistent manner. Therefore, when negotiating and drafting a foreign license agreement, it would seem apparent that the licensed subject matter should be carefully defined independently of the scope of the patents, or claims therein, of such countries.

With respect to the manner of payment of royalties or other consideration, it is customary to specify that such payment shall be made in U.S. Dollars at a bank in the United States. When royalties are based on a percentage of the licensee's sales and are initially computed in terms of foreign currency, an exchange rate to convert such royalties to U.S. Dollars should be specified. The exchange rate may be the official rate on the date when the licensee's payment is due, the average of the official exchange rates prevailing during the period covered by the royalty payment, or the official exchange rate applicable on the last day of each royalty period or on the day of each sale subject to royalties. In special circumstances, the licensee may be required to furnish proof of financial responsibility to satisfy the licensor that payments will be made as specified in the license agreement.

Many foreign governments impose local income taxes on royalties, turnover taxes based on volume of business, and stamp taxes on various forms of written agreements. Not infrequently, the parties will agree that the licensee shall be obligated to

cal foreign bank to the account of the licensor, or that the licensor has the option of terminating the agreement. Additionally, the license agreement should include a special provision for termination in the event of expropriation, confiscation, or the like, of the licensee's business.

In certain foreign countries, annual taxes must be paid to maintain patents in force. Occasionally, the licensee is obligated to pay such taxes, with or without the right to deduct them from royalties. Often, the licensee is required to acknowledge validity of the licensed patent rights, and to agree not to participate, directly or indirectly, as a party adverse to the licensor, in any opposition, revocation or complusory licensing proceedings involving the licensed patent rights.[2] What right each party may have in future improvements developed by the other party should be explicitly recited in the agreement. One further alternative to the various arrangements outlined in reference to domestic agreements [§35] is to require the foreign licensee to grant the licensor a nonexclusive license under foreign rights and an assignment of United States rights. Disputes arising under foreign license agreements may, as in the case of domestic agreements [§43], be settled by arbitration.[3] Frequently, the International Chamber of Commerce is relied on, in whole or in part, in such matters.

It is generally desirable to specify that the license ageeement is to be governed by the law of a particular place.[4] Commonly, the law of one of the states of the United States is selected. However, this raises many uncertainties in the event litigation must be commenced in a foreign court.

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[2]The status of these contractual obligations under foreign law should be carefully checked. As outlined in Section 28, an obligation to acknowledge, or not contest, validity is not enforceable in the United States.

[3]See Scherk v. Alberto-Culver Company, 94 S Ct 2449 (1974).

[4]§48. Also see The Bremen v. Zapata Off-Shore Co. 407 US 1 (1972).

FORM 58.01 PAYMENT IN U. S. DOLLARS

XYZ agrees to pay the royalties provided for herein to ABC, at ABC's office in Chicago, Illinois, U.S.A., or at such other place as ABC may specify from time to time, in United States Dollars and through a New York bank designated by ABC.

FORM 58.02 APPLICABLE EXCHANGE RATE

Each quarterly royalty payment shall be computed at the lawful exchange rate most favorable to ABC prevailing on the date such payment is due.

FORM 58.03 APPLICABLE EXCHANGE RATE

Royalties are to be paid in quarterly installments within thirty (30) days after the close of each quarter of the contract year. Each such payment shall be computed according to the average of the official exchange rates prevailing during the quarterly period for which the payment is due.

FORM 58.04 APPLICABLE EXCHANGE RATE

The United States currency amount of any sum payable hereunder shall be determined on the basis of the official rate of exchange applicable as of the day on which there shall occur the sale of any Licensed Device as a consequence of which such sum shall accrue.

FORM 58.05 EVIDENCE OF FINANCIAL RESPONSIBILITY

XYZ will furnish ABC with proof or adequate evidence that the five (5) annual installments provided for in the preceding paragraph will be paid. Such proof may be in the form an official letter from a bank agreed to by the parties, or in the form of open bank letters of credit to be established at a bank designated by ABC.

FORM 58.06 PAYMENT OF TAXES BY LICENSEE

All foreign taxes, assessments or other charges made in respect to this Agreement or to royalties payable hereunder shall be borne and paid by XYZ.

Foreign Government approve said payment and the other conditions of this Agreement. If XYZ has not arranged said approval and made said payment within three (3) months after the execution of this Agreement, ABC may at its option cancel this Agreement upon a written notice to that effect.

FORM 58.11 TERMS OF AGREEMENT SUBJECT TO GOVERNMENTAL REGULATIONS AND COURT DECREES

All terms and conditions of this Agreement, including all rights granted hereunder by ABC, shall be subject to all applicable existing and future laws and regulations of the United States government and all decrees or orders of any United States federal court.

FORM 58.12 DESIGNATION OF OTHER PAYMENT TERMS IN EVENT OF FOREIGN CURRENCY RESTRICTIONS

XYZ agrees that ABC may, in the event of foreign currency restriction, elect to receive payment in such form as may be permissible, and if payment in no form is permissible, elect to terminate this Agreement.

FORM 58.13 DEPOSIT OF ROYALTIES IN FOREIGN BANK IN EVENT OF FOREIGN CURRENCY RESTRICTIONS

In the event the Foreign Government at any time by decree, legislation or otherwise, restrains the export of funds for payment of royalty fees, all such fees as they become payable shall be deposited to the credit of ABC in a Foreign Bank or other depository designated by ABC until permission can be obtained for export thereof.

FORM 58.14 EXCLUDED TECHNICAL INFORMATION

ABC shall not be obligated to disclose any information which at the time it is so obligated or requested to disclose is properly the information of its Government or any agency thereof or is primarily designed for or used in connection with military, naval or other application relating to national defense or security.

applications for patent on said inprovements which it may file in Foreign Countries, in sufficient time under applicable laws to allow ABC at its option to file corresponding applications in the United States.

FORM 58.19 TERMINATION ON EXPROPRIATION

This Agreement may be terminated, at the option of ABC, in the event of exercise of authority by supervening powers, such as foreign governments or the like, which results in the expropriation or confiscation of XYZ's manufacturing plant.

FORM 58.20 TERMINATION ON GOVERNMENTAL INTERVENTION

This Agreement shall be terminated automatically in the event that the voting power of the present stockholders of XYZ becomes ineffective in the affairs thereof, either by reason of the nationalization of the industry of which it is a part, by reason of a decree or order of a competent court or by reason of the intervention of any governmental or military power in the affairs of XYZ, whether or not accompanied by war or civil strife.

FORM 58.21 ARBITRATION UNDER RULES OF INTERNATIONAL CHAMBER OF COMMERCE

All disputes arising in connection with the present Agreement shall be finally settled under the Rules of Concilation and Arbitration of the International Chamber of Commerce by arbitrators appointed in accordance with such rules.

FORM 58.22 ARBITRATION; ALL DISPUTES

Any disagreements arising under the provisions of this Agreement shall be decided by arbitration, each party to appoint an arbitrator, and the two arbitrators thus selected to designate a third. If either of the parties fails to appoint its arbitrator within sixty (60) days after receipt of notice of the appointment by the other of its arbitrator, or if the arbitrators selected by the parties

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fail to appoint a third, then the President of the International Chamber of Commerce shall have the power, on the request of either party, to make the appointments which have not been made as contemplated above. The arbitration shall be held as promptly as possible at such time and place as the arbitrators may determine. The decision of a majority of the arbitrators shall be final and binding upon the parties hereto, and the expense of the arbitration shall be paid as the arbitrators may determine.

FORM 58.23 GOVERNING LAW

This Agreement shall be construed under and governed by the laws of the Foreign Country. The English language version of this Agreement shall be deemed controlling.

FORM 58.24 GOVERNING LAW

This Agreement is to be construed and to take effect as an agreement made in the State of Illinois, United States of America, in accordance with the laws of that state, and the parties hereby submit to the jurisdiction of the courts of that state. XYZ further agrees that the Secretary of State of the State of Illinois shall be designated as its agent for the service of legal documents under this Agreement.

FORM 58.25 GOVERNING LAW

This Agreement has been made in Pittsburgh, Pennsylvania, and shall be governed by the law of the United States of America insofar as applicable and by the law of the Commonwealth of Pennsylvania in all other respects.

FORM 58.15 DISCLOSURE SUBJECT TO GOVERNMENTAL REGULATIONS

It is expressly understood and agreed that ABC's obligations to disclose information and to grant rights to XYZ pursuant to this Agreement are subject to any applicable laws and regulations of the United States government relating to the export of technical data.

FORM 58.16 MODIFICATION OF LICENSED SUBJECT MATTER TO MEET LOCAL STANDARDS

XYZ agrees to make at its own expense any modification of the Licensed Products, or any modification of the drawings and specifications therefor, which may be necessary to adapt them to the standards of the Foreign Country. Any and all such modifications shall be subject to the written approval of ABC.

FORM 58.17 ORIGIN AND LICENSE NOTICE

XYZ agrees to mark permanently and legibly all Licensed Devices manufactured or sold by it under this Agreement with the notation "made in [name of country] by XYZ Manufacturing Company under license from ABC Manufacturing Company."

FORM 58.18 IMPROVEMENTS BY LICENSEE; LICENSE OF FOREIGN RIGHTS; ASSIGNMENT OF U.S. RIGHTS

XYZ agrees that it will promptly notify ABC of any improvements relating to Licensed Products which it may develop; that it will grant ABC a royalty-free nonexclusive license in Foreign Countries under said improvements and under any patent applications or patents it may file and secure in Foreign Countries on said improvements, and that it will assign to ABC the United States rights to all said improvements, without charge to ABC. XYZ agrees to cooperate with ABC to secure the execution of all papers necessary to enable ABC to make application for and receive grant of United States Letters Patent on said improvements and to perfect ABC's title in and to the same. XYZ agrees to advise ABC of any

FORM 58.07 ROYALTIES TO BE PAID FREE OF TAXES

Royalties shall be paid to ABC free and clear of all foreign income taxes, including withholding and turnover taxes, except such taxes which XYZ may be required to withhold by a foreign country, provided, however, that ABC can receive full credit for the payment of such taxes with the Internal Revenue Service, United States Treasury Department.

FORM 58.08 ADJUSTMENT OF ROYALTIES TO COMPENSATE FOR CHANGE IN TAXES

If the taxes which may be levied on the royalties payable to ABC shall vary from 25%, the amounts payable hereunder shall be adjusted so that 75% of the amounts set out hereinabove shall be receivable by ABC.

FORM 58.09 GOVERNMENTAL APPROVAL OF AGREEMENT; OPINION OF VALIDITY

This Agreement shall not become effective until XYZ furnishes to ABC (1) written evidence that the Foreign Government approves this Agreement and the payment of royalties in United States funds as provided for herein, and (2) a written opinion satisfactory to ABC from an independent attorney and counsellor at law acceptable to ABC and licensed to practice in the Foreign Country to the effect that no provision of this Agreement contravenes any law of the Foreign Country. If such written evidence and written opinion are not furnished by XYZ to ABC within two (2) months of the date of this Agreement, ABC shall have the right at its option to cancel this Agreement.

FORM 58.10 PAYMENT IN U.S. DOLLARS; GOVERNMENTAL APPROVAL OF AGREEMENT; RIGHT OF LICENSOR TO CANCEL

XYZ agrees to pay ABC the sum of Fifty Thousand United States Dollars ($50,000.00) net, in New York in any depository ABC may designate, upon the execution of this Agreement, or within a reasonable time thereafter, provided the proper authorities of the

The foreign court may refuse to apply United States law; or the United States law may be wholly inapplicable-- for example, should the dispute concern the scope of a foreign patent--, may be difficult to prove, or may be less favorable to the licensor than the foreign law. For these reasons, it would seem preferable to designate the governing law to be that of the country where the principal activities of the licensee will take place, or where enforcement of the agreement is most likely to be sought. When United States law is to govern, one approach is to have the licensee expressly submit to the jurisdiction of a particular state and designate the Secretary of that state or a local firm of attorneys as its agent for the service of legal documents. In any event, when different languages are involved, it is customary to specify that the English language version of the agreement shall be controlling.

In addition to the foregoing considerations, applicable foreign law concerning the formalities of execution--such as notarization, legalization and authentication--should be observed. Also, the license agreement should be registered, recorded or filed when required by foreign law.

pay all such taxes and to remit royalties free and clear of taxes. On the other hand, if the foreign taxes do not exceed, and are directly deductible from, U.S. income taxes, the licensor may well agree to pay such taxes. In special cases, when the licensor is obligated to pay foreign taxes and desires to receive a particular net royalty, the contract royalty rate may be increased to cover foreign taxes, and the agreement may provide for adjustments of the royalty rate to compensate for any changes in the tax rate.

Primarily because of exchange control laws, governmental approval of license agreements is required in many foreign countries. Usually, the licensee is given the express duty to obtain governmental approval of the agreement and of the payment of royalties thereunder. In this connection, the license agreement should provide that it shall not become effective until the required governmental approval is obtained, or that the licensor may cancel the agreement if such approval is not obtained within a specified period of time. Also, the licensor should satisfy itself that the agreement is in compliance with United States and foreign antitrust laws and all other foreign laws.[1] In certain instances, it may be appropriate to require the licensee to submit an opinion of foreign counsel that no provisions of the agreement violate any laws of any foreign country in the licensed territory.

During the term of the license agreement, remittance of royalties to the United States may become impossible as a result of foreign currency restrictions. To cover this contingency, the agreement may provide, in such event, that the licensor has the right to designate other terms for the payment of royalties, that the royalties be deposited in a lo-

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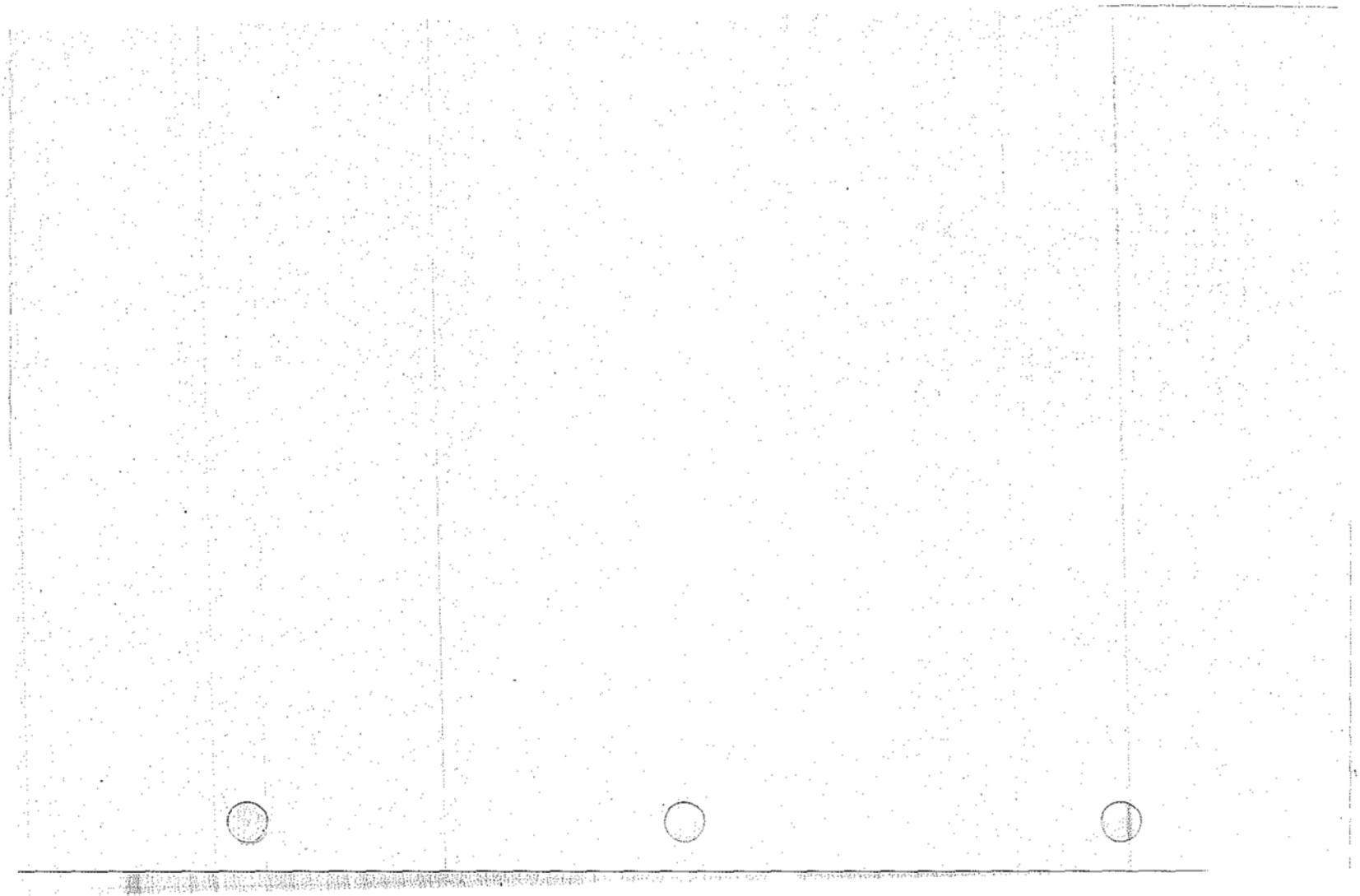
[1]See: Burns, Territorial Limitations in International Patent Licensing--A Rebuttal, 53 JPOS 743 (1971); Timberg, Foreign Licensing Programs: Their Planning and Formulation, 50 JPOS 554 (1968).

ever, this raises many uncertainties in the event litigation must be commenced in a foreign court. The foreign court may refuse to apply United States law; or the United States law may be wholly inapplicable-- for example, should the dispute concern the scope of a foreign patent--, may be difficult to prove, or may be less favorable to the licensor than the foreign law. For these reasons, it would seem preferable to designate the governing law to be that of the country where the principal activities of the licensee will take place, or where enforcement of the agreement is most likely to be sought. When United States law is to govern, one approach is to have the licensee expressly submit to the jurisdiction of a particular state and designate the Secretary of that state or a local firm of attorneys as its agent for the service of legal documents. In any event, when different languages are involved, it is customary to specify that the English language version of the agreement shall be controlling.

In addition to the foregoing considerations, applicable foreign law concerning the formalities of execution--such as notarization, legalization and authentication--should be observed. Also, the license agreement should be registered, recorded or filed when required by foreign law.



At least one court has held that an agreement to pay liquidated damages for past infringement is enforceable.[6]

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[6]Ransburg Electro-Coating Corp. v. Spiller & Spiller, Inc., 489 F 2d 974 (CA 7, 1973).

grant to XYZ royalty-free nonexclusive licenses of the scope hereinafter specified under each such count, including any counts that may be added to the interference. Any license granted or to be granted hereunder shall be to make, have made, use and sell apparatus embodying the licensed invention or inventions throughout the United States, its territories and possessions, to the full end of the term or terms of such Letters Patent as may issue from the Jones application, or any reissue or reissues or extension or extensions thereof.

In the event that said Paul Brown [applicant] shall be the prevailing party in the above-mentioned interference as to any count, XYZ [asignee of the Brown application] agrees to grant and does hereby grant to ABC royalty-free nonexclusive licenses of the scope hereinafter specified under each such count, including any counts that may be added to the interference. Any license granted or to be granted hereunder shall be to make, use and sell or to have made, used or sold by MNO Corporation of Toledo, Ohio apparatus embodying the licensed invention or inventions throughout the United States, its territories and possessions, to the full end of the term or terms of such Letters Patent as may issue from said Brown application or any reissue or reissues or extension or extensions thereof.

FORM 56.02 SETTLEMENT OF FUTURE INTERFERENCES

The parties hereto agree that in the event any interference is declared by the Patent Office between any of the above identified patent applications of the parties hereto and/or patent or patents that may be granted thereon, all available and necessary facts and proofs relating to conception and completion of the inventions pertaining to all subject matter common to such patent applications and/or patents shall be promptly submitted to and considered jointly by the attorneys for the parties who shall decide all questions of priority of invention of the interfering subject matter. If, after consideration of the

suppress evidence, such as fraud, which would tend to invalidate any of the applications or patents in interference. Otherwise, neither the settlement agreement nor any patent issued pursuant to the settlement will be enforceable.[2]

Furthermore, any agreement or understanding between the parties to an interference, including any collateral agreements referred to therein, made in connection with or in contemplation of the termination of the interference, must be in writing and a copy thereof filed in the PTO. [35 USC §135(c).] Even though a license agreement does not contain any specific provision for the termination of an interference, it may nevertheless constitute an "agreement" within the purview of §135(c).[3] An agreement, such as a cross license agreement, is within the purview of §135(c) if it has the effect of removing the adversary character of an interference proceeding; and it is immaterial whether the interference is terminated by a concession of priority or by a decision of the Board of Patent Interferences.[4] An "understanding" includes any meeting of the minds of whatever proportions; and an understanding is not exempted from the requirements of §135(c) merely because it is tentative or informal.[5]

The PTO is obligated to notify the parties to an interference of the indicated filing requirements, and a copy of the agreement or understanding normally must be filed before the termination of

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[2]Precision Instrument Mfg Co v. Automotive Maintenance Machinery Co, 324 US 806 (65 USPQ 133)(1945). Compare Campbell v. Mueller, 159 F 2d 803 (72 USPQ 295)(CA 6, 1947). Also see Walker Process Equipment Inc v. Food Machinery & Chemical Corp, 382 US 172 (147 USPQ 404)(1965).

[3]Old Dominion Box Co v. Continental Can Co, 273 F Supp 550 (155 USPQ 70)(SD NY, 1967), affirmed on other grounds, 393 F 2d 321 (157 USPQ 353)(CA 2, 1968).

[4]Forbro Design Corp v. Raytheon Co, 390 F Supp 794 (190 USPQ 70)(D MA, 1975), affirmed on other grounds, 532 F 2d 758 (190 USPQ 49)(CA 1, 1976).

[5]Moog Inc v. Pegasus Laboratories Inc, 376 F Supp 445 (183 USPQ 225)(ED MI, 1974), affirmed, 521 F 2d 501 (187 USPQ 279)(CA 6, 1975).

the courts.[2] However, most restricted interchanges of patent rights, particularly when competition is adversely affected, have been judicially condemned under Section 1, and sometimes also Section 2, of the Sherman Act. Thus, interchanges of patent rights have been held to be illegal when the number of participants to the interchange is restricted and the collective patent rights are unavailable to others, or when competition is otherwise excluded between one or more of the participants and others in the industry.[3] Also, interchanges of patent rights have been held to be illegal when competition among the participants to the interchange is restricted by reason of, for example, price fixing, division of fields of operation or division of territories.[4]

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[2]Standard Oil Co v. United States, 283 US 163 (9 USPQ 6)(1931); International Mfg Co v. Landon Inc, 336 F 2d 723 (142 USPQ 421)(CA 9, 1964); Baker-Cammack Hosiery Mills v. Davis Co, 181 F 2d 550 (85 USPQ 94)(CA 4, 1950); Sbicca-Del Mac v. Milius Shoe Co, 145 F 2d 389 (63 USPQ 249)(CA 8, 1944); Arthur J Schmitt Foundation v. Stockham Valves Inc, 292 F Supp 893 (151 USPQ 474)(ND AL, 1966), affirmed per curiam, 404 F 2d 13 (159 USPQ 705)(CA 5, 1968); King v. Anthony Pools Inc, 202 F Supp 426 (133 USPQ 300)(SD CA, 1962). Compare United States v. National Lead Co, 63 F Supp 513, 532 (66 USPQ 141, 158-9) (SD NY, 1945), affirmed, 332 US 319 (73 USPQ 498)(1947).

[3]United States v. Singer Mfg Co, 374 US 174 (137 USPQ 808)(1963); Clapper v. Original Tractor Cab Co, 165 F Supp 565 (116 USPQ 316) (SD IN, 1958), reversed in part and remanded on other grounds, 270 F 2d 616 (123 USPQ 111)(CA 7, 1959); Mason City Tent & Awning Co v. Clapper, 144 F Supp 754 (111 USPQ 330)(WD MO, 1956); United States v. Krasnov, 143 F Supp 184 (110 USPQ 411)(ED PA, 1956), affirmed per curiam, 355 US 5 (115 USPQ 70)(1957).

[4]Zenith Radio Corp v. Hazeltine Research Inc, 395 US 100 (161 USPQ 577)(1969); United States v. New Wrinkle, 342 US 371 (92 USPQ 158) (1952); United States v. Line Material Co, 333 US 287 (76 USPQ 399) (1948); United States v. National Lead Co, 332 US 319 (73 USPQ 498) (1947); Hartford-Empire Co v. United States, 323 US 386 (64 USPQ 18) (1945); Standard Sanitary Mfg Co v. United States, 226 US 20 (1912); Westinghouse Electric Corp v. Bulldog Electric Products Co, 179 F 2d 139 (84 USPQ 115)(CA 4, 1950); United States v. Associated Patents Inc, 134 F Supp 74 (106 USPQ 129)(ED MI, 1955), affirmed per curiam, 350 US 960 (108 USPQ 456)(1956); United States v. Holophane Co, 119 F Supp 114 (SD OH, 1954), affirmed per curiam, 352 US 903 (1956); United States v. Imperial Chemical Industries, 100 F Supp 504 (91 USPQ 78)(SD NY, 1951); United States v. Minnesota Mining & Mfg Co, 92 F Supp 947 (D MA, 1950); United States v. General Instrument Corp,

FORM 54.01 EXCLUSIVE SUBLICENSE; THREE PARTY AGREEMENT

Recitals

WHEREAS, MNO is the owner of United States Letters Patent No. 8,765,432, issued June 4, 1999, for Automatic Transmissions;

WHEREAS, ABC has heretofore entered into an agreement with MNO dated July 1, 1999 pursuant to which it has been granted an exclusive license by MNO to make, have made, use and sell throughout the United States, its territories and possessions, automatic transmissions embodying the inventions covered by said Letters Patent No. 8,765,432 and any reissue or reissues thereof; and

WHEREAS, XYZ is desirous of acquiring the exclusive right to make, have made, use and sell automatic transmissions embodying the inventions covered by said Letters Patent No. 8,765,432;

Operative Paragraph

ABC hereby grants unto XYZ the exclusive right to make, have made, use and sell throughout the United States, its territories and possessions, automatic transmissions embodying the inventions covered by said Letters Patent No. 8,765,432 and any reissue or reissues thereof. MNO hereby authorizes ABC to grant the aforesaid exclusive right to XYZ for the term specified hereinafter, and during said term agrees to maintain in full force and effect its agreement dated July 1, 1999 with ABC.

Option Contract or said License Agreement; agrees not to permit any transfer of its stock; and agrees not to take steps involving any merger or involving acquisition of any of its assets by another.

XYZ agrees to pay to ABC Five Thousand Dollars ($5,000.00) when this Option Contract has been signed by both parties. If the parties enter into said License Agreement attached hereto as Exhibit A, the Five Thousand Dollar ($5,000.00) payment shall be offset against royalties payable by XYZ under the terms of said License Agreement. If XYZ elects not to enter into said License Agreement, ABC may nevertheless retain the Five Thousand Dollars ($5,000.00), and ABC agrees not to assert any claim against XYZ growing out of their relationship except as may arise from valid claims of a patent owned by ABC.

ABC agrees to promptly furnish XYZ, upon execution of this Option Contract, complete copies of all blueprints and drawings which ABC may have concerning said inventions, and complete copies of said applications and said Letters Patent.

[Recital of execution]

§53. Option to Enter Into License Agreement

A prospective licensee may, before making a long-term license commitment, desire a preliminary period within which to investigate the operability of the licensed subject matter, the feasibility of manufacturing the same, the extent of the commercial market, and the scope and validity of the licensed patent rights. At the same time, the prospective licensee may not wish to leave the licensor free to enter into a license with another during the period that the foregoing matters are being considered.

These problems can be solved in one of two basic ways. The prospective licensee can enter into a definitive license agreement but reserve the right to cancel the agreement at any time within a prescribed trial period. [See Forms 40.11-40.12.] Alternatively, the prospective licensee can procure an option to enter into a pre-negotiated license agreement. An option agreement will prescribe the period within which the option may be exercised and the consideration therefor. In special circumstances, the option agreement may further include various warranties by the licensor which are to be effective during the option period, undertakings by the licensor to furnish drawings of the licensed subject matter and copies of the licensed patents and applications, and provision for offset of the option consideration against royalties that may become due under the license agreement in the event the option is exercised.

FORM 51.02 RECITAL OF EXECUTION; SIGNATURES; LICENSOR: TRUSTEE; LICENSEE: PARTNERSHIP

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be signed, sealed and delivered on the date first above written.

ABC BANK and TRUST COMPANY
As Trustee

By_____
President

XYZ MANUFACTURING COMPANY

By_____
Partner

By_____
Partner

FORM 51.03 RECITAL OF EXECUTION IN DUPLICATE

IN WITNESS WHEREOF, the parties have hereunto caused their names to be subscribed, and have executed this Agreement in duplicate, each copy of which shall for all purposes be deemed an original.

postage prepaid, in the United States registered or certified mail addressed to the parties at their respective addresses hereinabove set forth, or to such other address or addresses as either party may later specify by written notice to the other.

FORM 50.03 NOTICES AND REPORTS

All notices and reports required or permitted to be given by ABC to XYZ, or by XYZ to ABC, under the provisions of this License Agreement, shall be in writing signed by ABC or XYZ, as the case may be, and mailed by registered mail in the case of XYZ to its principal office at 100 Baker Street, Detroit, Michigan, and in the case of ABC to its principal office at 1000 East Adams Street, Chicago, Illinois, or at such other address, in either case, as may hereinafter be designated by either party hereto in written notice mailed by registered mail to the other party. The date of mailing shall be deemed to be the date on which such notice or report was given.

FORM 50.04 NOTICES, STATEMENTS AND PAYMENTS

All notices, statements and payments to be delivered to ABC under the terms of this Agreement shall be considered as so delivered when sent by registered mail, postage prepaid, and addressed to ABC Manufacturing Company, 1000 East Adams Street, Chicago, Illinois, or to such address in the United States as may be designated by ABC from time to time by ten (10) days' written notice thereof delivered to XYZ.

All notices, statements, and payments to be delivered to XYZ under the terms of this Agreement shall be considered as so delivered when sent by registered mail, postage prepaid, and addressed to XYZ Manufacturing Company, 100 Baker Street, Detroit, Michigan, or to such other address in the United States as may be designated by XYZ from time to time by ten (10) days' written notice thereof delivered to ABC.

signment shall be binding and valid until and unless the assignee shall have assumed in writing all of the duties and obligations of the assignor, and,provided, further, that the assignor shall remain liable and responsible to the non-assigning party hereto for the performance and observance of all such duties and obligations.

FORM 47.10 ASSIGNABILITY

Neither this Agreement nor any of the rights and powers created herein may be assigned, in whole of in part, by either party hereto without the written consent of the other party first obtained.

deliver to XYZ a copy of every such assignment, grant or license which is entered into by ABC with a third party or parties.

This Agreement shall not be assignable by XYZ except to the successor of substantially its entire business and assets or upon the written consent of ABC, and any such assignment shall require the delivery to ABC of the assignee's written agreement to accept such assignment and be bound thereby. Subject to the foregoing, this Agreement shall extend to and be binding upon the successors and permitted assigns of the parties hereto.

FORM 47.05 ASSIGNABILITY

The rights and privileges under license grants and covenants not to sue herein given by ABC to XYZ are personal, and shall not be transferred or assigned, except (a) if ABC shall give prior written consent to XYZ for the transfer or assignment of such rights and privileges, (b) if the entire ownership and business of XYZ is transferred by sale, merger, or consolidation, such rights and privileges of XYZ may be assigned to its successor, or (c) if the entire manufacturing know-how, assets and product line of XYZ relating to liquid scintillation spectrometers is sold, such rights and privileges of XYZ may be assigned to the purchaser.

FORM 47.06 ASSIGNABILITY

ABC may assign or otherwise transfer its rights and obligations to a third party, provided, however, that any such assignment or transfer shall not be effective as to XYZ until notice thereof to XYZ and full and complete assumption in writing by the assignee or transferee of all of ABC's obligations under this Agreement.

Neither this Agreement nor any interest herein is assignable by XYZ (whether by way of assignment, sublicense, operation of law or otherwise) unless the written consent of ABC is first obtained. Any attempted assignment or transfer by XYZ without

and the apparent intention of the parties.[5]

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[5]Rock-Ola Mfg. Corp. v. Filben Mfg. Co., 168 F 2d 919 (CA 8, 1948); Lock Joint Pipe Co. v. Melber, 234 F 319 (CA 3, 1916).

FORM 46.09 LIMITATION ON REPRESENTATION REGARDING INFRINGEMENT

ABC makes no representation that the manufacture, use or sale of Licensed Products will not infringe any patent granted to others, other than to state that it knows of no such patent which would be so infringed.

FORM 46.01 ENTIRE AGREEMENT

This Agreement embodies the entire understanding between the parties and there are no prior representations, warranties, or agreements between the parties relating hereto, and this Agreement is executed and delivered upon the basis of this understanding.

FORM 46.02 ENTIRE AGREEMENT

This Agreement sets forth the entire agreement and understanding of the parties relating to the subject matter contained herein and merges all prior discussions between them, and neither party shall be bound by any definition, condition, warranty, or representation other than as expressly stated in this Agreement or as subsequently set forth in a writing signed by the party to be bound thereby.

FORM 46.03 ENTIRE AGREEMENT; MODIFICATIONS TO BE IN WRITING

This contract includes all the agreements of the parties in respect to the subject matter hereof. No claimed oral agreement in respect hereto shall be considered as any part thereof. No waiver of or change in any of the terms hereof subsequent to the execution hereof claimed to have been made by any representative of either party shall have any force or effect unless in writing signed by duly authorized representatives of the parties.

FORM 46.04 ENTIRE AGREEMENT; MODIFICATIONS TO BE IN WRITING

This Agreement constitutes the entire agreement and understanding between the parties and supercedes all prior agreements and understandings with respect to Licensed Products whether written or oral. No modification or claimed waiver of any of the provisions hereof shall be valid unless in writing and signed by authorized representatives of the party against whom such modification or waiver is sought to be inforced.

FORM 45.01 NEGATION OF AGENCY AND SIMILAR RELATIONSHIPS

Nothing herein contained shall be deemed to create an agency, joint venture or partnership relation between the parties hereto.

FORM 45.02 NEGATION OF AGENCY

It is understood and agreed that XYZ is not, by this Agreement or anything herein contained, constituted or appointed the agent or representative of ABC for any purpose whatsoever, nor shall anything herein contained be deemed or construed as granting to XYZ any right or authority to assume or to create any obligation or responsibility, express or implied, for or in behalf of or in the name of ABC, or to bind ABC in any way or manner whatsoever.

FORM 45.03 LICENSEE AS INDEPENDENT CONTRACTOR

It is agreed that the relationship between the parties is such that XYZ in its performance of this Agreement is an independent contractor.

FORM 45.04 LICENSEE NOT TO ACT IN BEHALF OF LICENSOR

XYZ agrees (a) not to act for or represent ABC in any manner whatsoever; and (b) not to incur any obligations or make any payments or advances for or in behalf of ABC, it being distinctly understood that any such unauthorized obligations, payments and advances will be at the sole responsibility of XYZ.

FORM 45.05 LICENSEE NOT TO ACT IN NAME OF LICENSOR

XYZ agrees that it does not have the right to, and will not at any time hereafter, transact any business in the name of ABC or obligate ABC in any manner, character or description; and ABC shall not, under any circumstances, be liable for any agreement, contract, representation or warranty, which XYZ may hereafter enter into or make.

FORM 44.01 LIMITATION ON EFFECT OF WAIVER

A waiver of any breach of any provision of this Agreement shall not be construed as a continuing waiver of other breaches of the same or other provisions of this Agreement.

FORM 44.02 LIMITATION ON EFFECT OF WAIVER

The failure of either of the parties hereto to cancel and terminate this Agreement, by reason of the breach of any of the provisions hereof by the other party, shall not estop the party not in default from thereafter terminating the same by reason of any subsequent breach of any of the provisions hereof.

FORM 44.03 LIMITATION ON EFFECT OF WAIVER

It is understood and agreed that any delay, waiver or omission by ABC to exercise any right or power arising from any breach or default by XYZ in any of the terms, provisions or covenants of this Agreement shall not be construed to be a waiver by ABC of any subsequent breach or default of the same or other terms, provisions or covenants on the part of XYZ.

FORM 44.04 LIMITATION ON EFFECT OF WAIVER

No waiver by either party, whether express or implied, of any provisions of this Agreement or of any breach or default of either party, shall constitute a continuing waiver of such provision or of a waiver of any other provisions of this Agreement.

service as in the case of default with respect to quality of service and parts as hereinabove provided for.

count of the breach designated, in detail, in such notice; and the license term shall terminate upon the expiration of such period unless the breaching party shall have cured the breach designated in such notice within such period or shall have notified the complaining party, within such period, of its desire to submit the controversy to arbitration in which event the matter shall be submitted for determination to and by the American Arbitration Association in the City and State of New York, pursuant to the rules thereof then prevailing. No award of the arbitration which terminates the license granted to XYZ hereunder shall be effective in the event that XYZ shall either have cured such substantial breach as designated in the aforesaid notice or shall have complied with the award within sixty (60) days after rendering of said award.

FORM 43.04 ARBITRATION; OPTIONAL; SPECIFIC DISPUTE

If ABC shall be of the opinion that XYZ is not using its best efforts to promote and exploit Licensed Products as required in this Agreement, such question may, at the option of ABC, be submitted to three arbitrators in the City of Chicago, to be appointed in the following manner: ABC shall serve upon XYZ a notice in writing stating that it desires to submit to arbitration the question of XYZ's best efforts in promoting and exploiting Licensed Products and naming the arbitrator appointed to represent it; and XYZ shall, within ten days after the receipt of said notice, appoint an arbitrator to represent it, and shall serve on ABC a notice naming such arbitrator. The two arbitrators so appointed shall, within ten days after the appointment of the second arbitrator, appoint a third arbitrator to act with them, and the decision of any two of the three arbitrators shall be binding and conclusive upon the parties. In the event that XYZ shall fail to serve on ABC a notice naming the arbitrator appointed to represent XYZ as hereinabove provided, or in the event that the arbitrators appointed by ABC and XYZ shall fail to ap-

resolve many disputes involving patents.[7]

The scope of arbitration is primarily controlled by the agreement itself. The courts usually reserve the right to determine whether a particular dispute is under the contract and within the scope of the arbitration clause.[8] In addition, the scope of arbitration may be limited by public policy considerations. For example, some courts have held that issues of patent validity and infringement are inappropriate for determination in arbitration proceedings.[9] Also because of public policy considerations, some courts have held that antitrust issues cannot properly be submitted to arbitration.[10]

When drafting the arbitration clause, consideration should be given to: (1) what disputes are to be arbitrable--that is, all disputes arising under the agreement, or specific disputes only; (2) whether arbitration is to be an optional or exclusive remedy; (3) the number of arbitrators to be selected and the manner of their selection; (4) where the arbitration shall be held; and (5) whether a majority or unanimous award is desired when there is more than one arbitrator. In general, the arbitration proceeding can be simplified by placing it under the established rules of a designated tribunal such as an association, chamber of commerce or trade group.

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[7]Numerous examples are given in Arbitration Guide, note 2, supra, pp 231-3.

[8]Hanes Corp v. Millard, 531 F 2d 585 (189 USPQ 331)(CA DC, 1976); Necchi v. Necchi Sewing Machine Sales Corp, 348 F 2d 693 (CA 2, 1965); Wyatt Earp Enterprises Inc v. Sackman Inc, 157 F Supp 621 (116 USPQ 122)(SD NY, 1958).

[9]Beckman Instruments Inc v. Technical Developments Corp, 433 F 2d 55 (167 USPQ 10)(CA 7, 1970); Diematic Mfg Corp v. Packaging Industries Inc, 381 F Supp 1057 (184 USPQ 410)(SD NY, 1974), appeal dismissed, 516 F 2d 975 (186 USPQ 241)(CA 2, 1975); Homewood Industries Inc v. Caldwell, 360 F Supp 1201 (179 USPQ 701)(ND IL, 1973). Also see: Hanes Corp case, note 8, supra; N V Maatschappij Voor Industriele Waarden v. A O Smith Corp, 190 USPQ 385 (CA 2, 1976).

[10]A & E Plastik Pak Co v. Monsanto Co, 396 F 2d 710 (158 USPQ 375)(CA 9, 1968); American Safety Equipment Corp v. J P Macquire & Co, 391 F 2d 821 (CA 2, 1968); Key Pharmaceuticals Inc v. Lowey, 54 FRD 447 (SD NY, 1972); Shin Nippon Koki Co v. Irvin Industries Inc, 186 USPQ 296 (NY Sup Ct NY Cty, 1975).

FORM 42.01 SEVERABILITY

Should any part or provision of this Agreement be held unenforceable or in conflict with the law of any jurisdiction, the validity of the remaining parts or provisions shall not be affected by such holding.

FORM 42.02 INTENTION NOT TO VIOLATE LAW; SEVERABILITY

Both parties hereby expressly agree and contract that it is the intention of neither party to violate any public policy, statutory or common laws; that if any sentence, paragraph, clause or combination of the same is in violation of any state or federal law, such sentences, paragraphs, clauses, or combination of the same shall be inoperative and the remainder of this Agreement shall remain binding upon the parties hereto; and that in any event, the paragraphs herein concerning royalties shall be binding upon the parties, and XYZ shall not be relieved of the obligation to pay royalties as herein provided, it is the intention of both parties to make this Agreement binding only to the extent that it may be lawfully done under existing state and federal laws.

FORM 41.01 IMPOSSIBILITY OF PERFORMANCE; OBLIGATIONS SUSPENDED

In the event of acts of God or the public enemy, or strikes, fire, flood, or control exercised by the Government of the United States, or of any state thereof, which render performance under this Agreement impossible for XYZ, XYZ's failure on that account during such period shall be excused, and the minimum royalty called for in the preceding paragraph shall not be required during such period or periods of inability to perform.

FORM 41.02 IMPOSSIBILITY OF PERFORMANCE; OBLIGATIONS SUSPENDED

Neither of the parties hereto shall be liable in damages or have the right to cancel this Agreement for any delay or default in performing hereunder if such delay or default is caused by conditions beyond its control including, but not limited to acts of God, government restrictions, wars or insurrections, strikes, fires, floods, work stoppages, and/or lack of materials.

FORM 41.03 IMPOSSIBILITY OF PERFORMANCE; OBLIGATIONS SUSPENDED

If performance of this Agreement is hindered or prevented by act of God, action of the elements, fire, labor disturbances, failure or lack of transportation facilities, shortage of labor, material, or supplies, inability to obtain equipment or parts, breakdown of equipment, interruption of power or water, war, invasion, civil commotion, commandeer, enactment of legislation or issuance of governmental orders or regulations, or other casualty or cause, whether similar or dissimilar, beyond either party's control, performance by either party hereunder to the extent so hindered or prevented, shall be excused.

FORM 40.24 DISPOSITION OF LICENSED DEVICES ON HAND AT TERMINATION

Upon termination of this Agreement for any cause, nothing herein shall be construed to release either party of any obligation matured prior to the effective date of such termination, and XYZ may, after the effective date of such termination, sell all Licensed Devices and parts therefor that it may have on hand at the date of termination, provided it pays earned royalty thereon to ABC and renders to ABC statements thereon as provided for herein.

FORM 40.25 COMPLETION OF CONTRACTS AND DISPOSITION OF LICENSED DEVICES AFTER TERMINATION

In the event of termination of this Agreement, XYZ shall have the right to sell thereafter (1) completed Licensed Devices then on hand, (2) Licensed Devices then in the process of manufacture, and (3) Licensed Devices with respect to which manufacture has been firmly committed at the time of termination by reason of either (a) any contract for the purchase of materials to be used in the manufacture of Licensed Devices or (b) any contract for the sale of Licensed Devices. All such sales shall be subject to reporting and royalty payments exactly as though termination had not occurred.

FORM 40.26 COMPLETION OF CONTRACTS AND DISPOSITION OF LICENSED DEVICES ON HAND AT CANCELLATION

In the event of cancellation of this Agreement, XYZ shall have the right to complete any and all contracts for the sale of Licensed Devices that it may then have upon its books or that it has become obligated for, and may fabricate and sell such uncompleted parts of such devices as it may have on hand at such expiration of this Agreement, paying the same royalty as herein provided for, and provided such contracts and such sales shall be completed within six (6) months after such cancellation.

and shall not prejudice any cause of action or claim of ABC accrued or to accrue on account of any breach or default by XYZ.

FORM 40.19 RIGHT OF LICENSOR TO TERMINATE ON BREACH BY LICENSEE

It is mutually understood and agreed between the parties hereto that the failure of XYZ to make and render any statement or to make any payment as in this Agreement specified at the time hereinbefore stipulated shall give ABC the right to cancel this Agreement by giving XYZ thirty (30) days' notice in writing of its election so to do, it being understood, however, that if within thirty (30) days after delivery of any such notice XYZ shall have rectified its default, then this license shall remain in force the same as if no breach or default had occurred on the part of XYZ; otherwise, the same shall stand cancelled and rescinded, but such rescission shall not impair or prejudice any right or remedy which ABC may have against XYZ at law or in equity by reason of such breach by XYZ, nor shall such recision in any way relieve XYZ of its obligation to pay monies then due ABC as herein provided.

FORM 40.20 RIGHT OF LICENSOR TO TERMINATE ON BREACH BY LICENSEE

In the event of the failure of XYZ to comply with any of the terms of this Agreement, then ABC shall have the right to give notice in writing to XYZ that this Agreement is hereby and forthwith terminated and cancelled; provided that, during the thirty days' period after date of such notice, XYZ shall have the privilege of reinstating this Agreement by making good within said thirty days, the breach on account of which the Agreement was terminated.

Times of payment and strictness of performance are of the essence of this Agreement throughout. All such strictness as to time of payment and right of cancellation, it is mutually agreed, is necessitated by the fact that such business is, itself, under pat-

event XYZ has not notified ABC within ninety (90) days from the execution of this Agreement of its desire to cancel this Agreement, XYZ shall be deemed to be satisfied that the inventions and processes will accomplish the results desired and shall be thereafter bound by all the terms of this Agreement.

FORM 40.13 RIGHT OF LICENSEE TO CANCEL AFTER STATED PERIOD

XYZ shall have the right to terminate this Agreement after it has been in effect two years upon giving to ABC notice in writing by registered mail at least ninety (90) days prior to the date of termination, but it is understood that in such event XYZ shall be liable for any royalties which may accrue up to the date of termination.

FORM 40.14 RIGHT OF LICENSEE TO CANCEL AFTER STATED PERIOD

XYZ may at any time subsequent to three years from the date hereof, provided that XYZ shall not be in default thereunder, terminate this Agreement by written notice of termination delivered to ABC, such termination to be effective on the date of receipt of said notice by ABC, and XYZ shall, upon such delivery of notice of termination to ABC, cease to manufacture said Licensed Devices.

FORM 40.15 RIGHT OF LICENSEE TO CANCEL AFTER STATED PERIOD

The term of this Agreement shall extend to the end of the life of the last to expire Letters Patent which are the subject matter of this Agreement, provided, however, that XYZ shall have the right after one (1) year from the date of this Agreement, to cancel this Agreement on sixty (60) days' written notice to ABC. Such notice of termination shall not relieve XYZ of any royalties due and unpaid to ABC, and the requirement for minimum production or payment of royalties in lieu thereof shall be pro-rated in the year in which such termination occurs up to the date of such termination.

or any additions thereto as covered in Exhibit A hereof, it being understood that Exhibit A shall be considered as amended from time to time by the addition thereto of any further applications or divisions of applications, reissues, or extensions thereof, covering improvements developed by ABC as to subject matter contained in the patents and applications now listed, and ABC hereby agrees that such new application, divisions, reissues or extensions thereof shall automatically be included in the present Agreement.

FORM 40.06 RIGHT OF EITHER PARTY TO CANCEL AT ANY TIME ON NOTICE

This Agreement may be cancelled by either party at any time upon not less than thirty (30) days written notice to the other party.

FORM 40.07 RIGHT OF EITHER PARTY TO CANCEL AT ANY TIME ON NOTICE

This Agreement may be cancelled by either party on sixty (60) days' written notice to the other party, without indenmity for cancellation.

FORM 40.08 RIGHT OF EITHER PARTY TO CANCEL AT ANY TIME ON NOTICE

Either party may at any time hereafter cancel and terminate this Agreement upon forwarding to the other party, by registered mail, a written notice of its election to so cancel and terminate, and upon the expiration of a period of sixty (60) days after the mailing of said notice, this Agreement shall cease and terminate, except that this Agreement shall thereafter continue in force for the purpose only of adjusting the rights of the parties hereto, which may have accrued prior to the termination hereof.

FORM 40.09 RIGHT OF LICENSOR TO CANCEL AT ANY TIME ON NOTICE

This License shall extend for one year from the date hereof, and shall be automatically renewed for

honest dispute as to the coverage of the patent or the construction of the license agreement.[15] Further, relief against a contractually authorized forfeiture may be obtained in a court of equity.[16] Ordinarily, in the absence of express words compelling automatic cancellation, breaches are not self-operative as forfeitures,[17] and a clause authorizing termination for breach confers a right only upon the non-defaulting party.[18] Finally, one of two licensors cannot terminate the license agreement without the joinder or consent of its co-licensor.[19]

A licensor has the right to select a licensee of its own choice. To protect the licensor's freedom of choice of a licensee and to prevent the substitution of an undesirable licensee for the one initially selected, a license agreement will not uncommonly include a provision specifying that the agreement may be terminated at the option of the licensor, or shall terminate automatically, in the event of bankruptcy, insolvency or dissolution of the licensee.[20] In this connection, it has been held that reorganization under the Bankruptcy Act does not come within the operation of a termination clause referring only generally to "bankruptcy, insolvency or dissolution."[21]

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[15]Crane Co. v. Aeroquip Corp., 183 USPQ 577, 581 (CA 7, 1974); Richards v. Liquid Controls, 186 USPQ 144, 153 (IL App Ct, 1975).

[16]Standard Stoker Co. v. Brewster, 277 F 783 (CA 7, 1921); Foster Hose Supporter Co. v. Taylor, 184 F 71 (CA 2, 1911).

[17]Chadeloid Chemical Co. v. Johnson, 203 F 993 (CA 7, 1913).

[18]Kant-Skore Piston Company v. Sinclair Manufacturing Corporation, 32 F 882 (CA 6, 1929); Ohio Citizens Trust Co. v. Air-Way Electric Appliance Corporation, 56 F Supp 1010 (ND Ohio, 1944); Murray v. Edes Mfg. Co., 50 USPQ 395 (Mass Sup Ct, 1941); Miller v. O. B. McClintock Co., 49 USPQ 458 (Minn Sup Ct, 1941).

[19]Royal Industries v. St. Regis Paper Co., 420 F 2d 449 (CA 9, 1969).

[20]See: In re Diana Shoe Corporation, 80 F 2d 827 (CA 2, 1936); Tigrett Industries, Inc. v. Standard Industries, Inc., 162 USPQ 32, 35 (WD Tenn, 1967), affirmed per curiam, 411 F 2d 1218 (CA 6, 1969); In re Dr. Voorhees Awning Hood Co., 187 F 611 (MD Pa, 1911), reversed on other grounds, 188 F 425 (CA 3, 1911); New York Phonograph Co. v. Edison, 136 F 600 (SDNY, 1905), affirmed per curiam, 144 F 404 (CA 2, 1906).

[21]Simmons v. National Tool Co., 110 F 2d 850 (CA 6, 1940).

royalties need be paid. [See §29.] Moreover, express provision may be made for cancellation or surrender of the license by one or either party, without cause, (a) at any time on notice, (b) within an initial trial period, or (c) after the agreement has been in effect for a stated period of time. An option to cancel is a valid provision, and a license agreement embodying such option may be specifically enforceable in equity.[5]

While every breach of a contractual obligation confers a right of action upon the injured party, every breach does not give to the injured party the right to rescind or terminate the contract. In the absence of a forfeiture clause, the breach of a covenant, which is merely subordinate and incidental to the main purpose of the contract, does not authorize termination by the injured party.[6] Thus, the breach of a covenant to pay royalties at the time stipulated is not ground for cancellation of a patent license.[7] But when the breach of a covenant goes to the whole consideration of the license agreement --such as when the licensee ceases entirely to manufacture under the license--the agreement

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Hachmeister Lind Co., 27 USPQ 389 (Pa Sup Ct, 1935); Dall Motor Parts Co. v. Packard Motor Car Co., 12 USPQ 185 (Ohio Sup Ct, 1931). Also see American Type Founders v. Lanston Monotype Machine Co., 137 F 2d 728 (CA 3, 1943).

[5]Daniels v. Brown Shoe Company, 77 F 2d 899 (CA 1, 1935); Meurer Steel Barrel Co. v. Martin, 1 F 2d 687 (CA 3, 1924); Brawley v. Crosby Research Foundation, Inc. 68 USPQ 406 (Cal App Ct, 1946). Also see: Kraus v. General Motors Corporation, 120 F 2d 109 (CA 2, 1941); Stimson Computing Scale Co. v. W. F. Stimpson Co., 104 F 893 (CA 6, 1900).

[6]Cold Metal Process Company v. United Engineering & Foundry Company, 107 F 2d 27, 32 (CA 3, 1939); Howe v. Howe & Owen Ball Bearing Co., 154 F 820, 826 (CA 8, 1907); Neenan v. Otis Elevator Co., 180 F 997, 1000 (SDNY, 1910).

[7]Rowland v. Biesecker, 185 F 515 (CA 2, 1911); Hazeltine Research Corporation v. Freed-Eisemann Radio Corporation, 3 F 2d 172(EDNY, 1924). Also see: Wagner Typewriter Co. v. Watkins, 84 F 57 (SDNY, 1897); Consolidated Middlings Purifier Co. v. Wolf, 28 F 814 (ED Pa, 1886).

agreement in any one of the countries aforesaid, then ABC shall share to the extent of one-half of the proceeds received by XYZ therefor. In the event this Agreement is terminated, XYZ agrees to assign and transfer its interest in and to any sublicenses in any of the foreign countries above specified to ABC to become ABC's exclusive property.

FORM 37.05 EXPORT RIGHT OF DOMESTIC LICENSEE; IMPORT RIGHT OF FOREIGN LICENSEES

It is agreed that XYZ shall have the right to export into all foreign countries from the United States Licensed Devices and parts thereof for use in motor vehicles, and that any foreign licensee of ABC shall have a corresponding right to import into the United States.

FORM 37.06 EXPORTS BY LICENSEE PROHIBITED; IMPORTS BY OTHERS PROHIBITED

It is understood and agreed that XYZ will not sell or export Licensed Devices to any foreign country, and ABC will not import or permit the importation of Licensed Devices into the United States, its territories and possessions.

FORM 36.01 PATENT APPLICATION; LICENSOR'S RESPONSIBILITIES

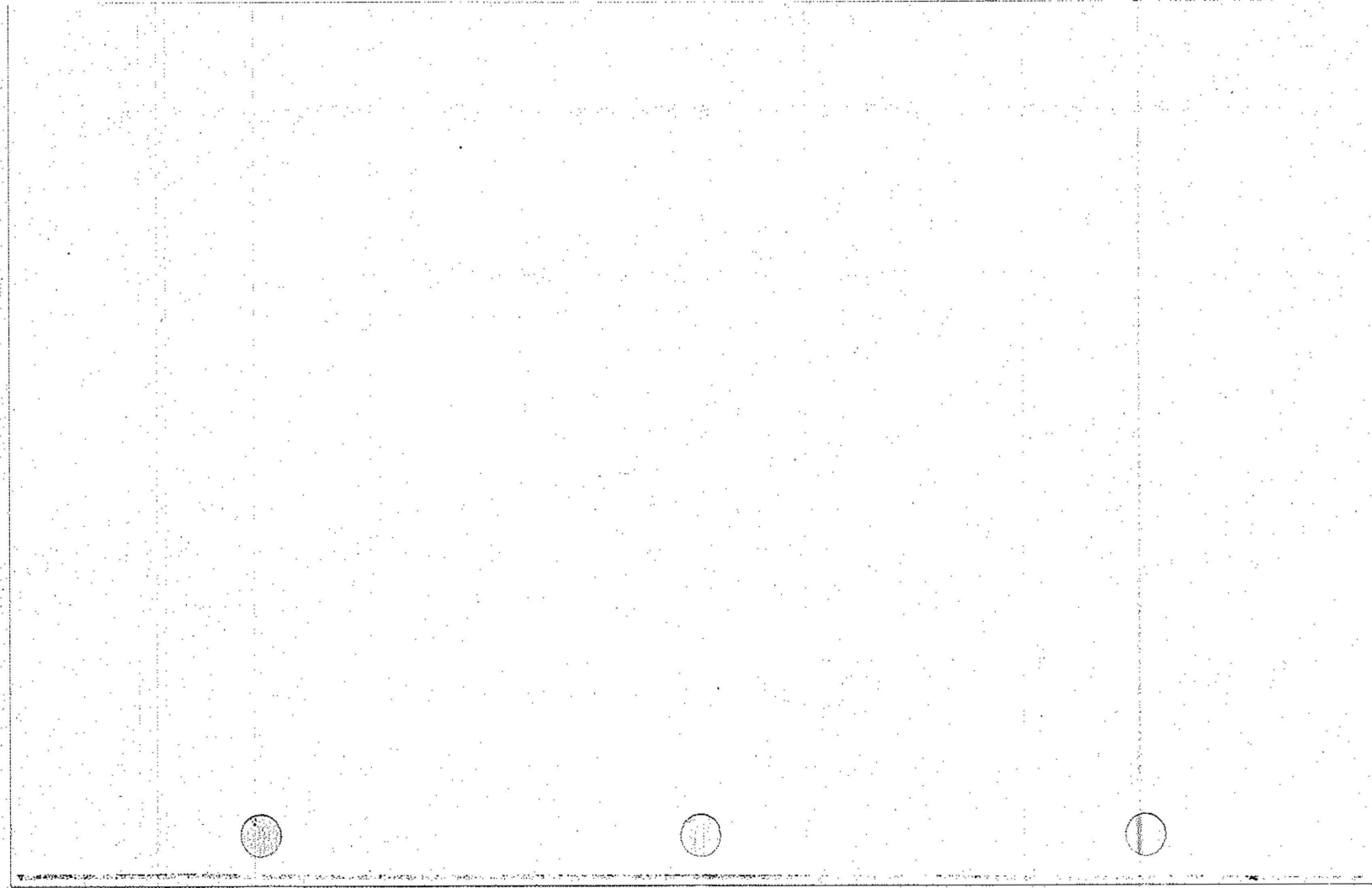
ABC agrees to pay all the costs and expenses of prosecuting any application which is the subject of this Agreement, and agrees to promptly inform XYZ of all communications to and from the Patent Office involving such applications.

FORM 36.02 PROSECUTION AND MAINTENANCE OF APPLICATIONS AND PATENTS

ABC agrees to promptly supply XYZ with a complete copy of each application for Letters Patent filed by it and coming within the scope of this Agreement, and agrees that XYZ may have access to any such application in the United States Patent Office or any other patent office for inspection and copying.

ABC agrees diligently to prosecute Licensed Applications at its own expense, to transmit promptly to XYZ all official communications as soon as received from any patent office, to submit to XYZ for consideration and advice all responses to such communications before filing them, and to give due consideration to the advice of XYZ in this connection.

If, at any time during the life of this Agreement, ABC intends to allow any Licensed Patent or Application to lapse or to become abandoned or forfeited without having first filed a substitute, ABC shall: (1) notify XYZ in writing of its intention at least sixty (60) days before the date on which the patent or application is due to lapse or to become abandoned or forfeited, and (2) within thirty (30) days of its giving written notice, if requested by XYZ and at the expense of XYZ, assign the entire right, title and interest, legal and equitable, in and to that patent or application to XYZ. XYZ shall be under no obligation to prosecute or maintain in force any application assigned to it under the provisions of this paragraph.



FORM 35.14 JOINT IMPROVEMENTS; JOINT OWNERSHIP MAINTAINED; SUBJECT TO ROYALTY PROVISIONS

It is mutually understood and agreed that any inventions or improvements developed by XYZ and ABC jointly shall be assigned to XYZ and ABC as joint owners. As long as this Agreement remains in force, such jointly owned inventions shall be treated for royalty purposes as included in Exhibit A.

FORM 35.15 JOINT IMPROVEMENTS

It is mutually understood and agreed that ABC and XYZ shall jointly file and prosecute applications for patents for any improvements developed by ABC and XYZ jointly, and that any patents granted thereon shall be the joint property of the parties. The expenses of filing and prosecuting each such application shall be shared equally by the parties, unless one party advises the other party in writing that it has no further interest in the application, whereupon the party discontinuing its contribution shall cease to have any rights thereafter in, to or under said application for patent or any patent granted thereon and shall promptly assign to the other party its right in, to and under said application for patent and any patent granted thereon.

FORM 35.16 JOINT IMPROVEMENTS

It is mutually understood and agreed that any improvements developed by ABC and XYZ jointly, and any patents granted thereon, shall be the joint property of ABC and XYZ, except as otherwise hereinafter provided. The parties hereto agree to file and prosecute jointly applications for patents for any such improvement. The expenses of filing and prosecuting each such application before the principal examiner to a condition of allowance and issuance of a patent, or to a condition of final rejection, shall be shared equally by the parties. Prosecution beyond such conditions of issuance or final rejection shall thereafter be subject to further timely discussion, and neither

as a part of ABC's Patent Rights hereunder. Upon termination of this Agreement for any cause, ABC shall thereupon have and receive from XYZ a nonexclusive, assignable license under any and all said improvements which may have been patented, and such license shall be subject to a royalty at a rate to be determined by negotiation, but not in excess of ten percent (10%) of the manufacturer's cost of the device made under said improvement patents.

FORM 35.10 IMPROVEMENTS BY LICENSEE; ASSIGNMENT TO LICENSOR; ROYALTY-FREE RIGHT TO USE RETAINED

It is agreed that any improvement made by XYZ relating to the Licensed Subject Matter during the term of this agreement shall become the property of ABC, and XYZ agrees to cooperate with ABC in the obtaining of letters patent for any such improvement which in the opinion of ABC shall be patentable. XYZ shall have the right to use such improvements without additional royalty during the term of this Agreement. XYZ shall have a nonassignable right to continue using the subject matter of any patentable invention made by XYZ during the term of this Agreement relating to the Licensed Subject Matter and assigned to ABC pursuant to this paragraph without payment of royalty in the event of termination of this Agreement.

FORM 35.11 IMPROVEMENTS BY LICENSEE; ASSIGNMENT TO LICENSOR; LIMITED LICENSE RETAINED; LICENSEE OBLIGATED TO PAY ROYALTIES

XYZ hereby agrees to disclose promptly to ABC any improvements wholly owned, wholly acquired or wholly controlled by XYZ. XYZ further agrees that any such improvement shall be the property of, and properly assigned to, ABC, who may make, or have made for it, use, and sell, including the right to sublicense, such improvement without restriction, and XYZ shall be obligated to pay royalties on the use of such improvements, except that XYZ shall retain a perpetual nonexclusive royalty-free right to

XYZ and XYZ shall have the right to use such improvements, provided that in the event ABC should secure the grant of Letters Patent on any such improvements it will notify XYZ, who shall have the right at its option to include the same within the terms of the present Agreement. "Improvements" shall mean machines which come within the scope of (i.e.,infringe) one or more claims of the Licensed Patents. Only one royalty per machine shall be due, regardless of the number of patents involved in a licensed machine.

FORM 35.05 IMPROVEMENTS BY LICENSOR INCLUDABLE IN LICENSE ON PAYMENT BY LICENSEE OF PATENT COSTS

ABC agrees that in the event it applies for and obtains any Letters Patent on improvements relating to Licensed Devices it will grant, and does hereby grant, unto XYZ the exclusive right to make, use and sell any and all of such improvements under any Letters Patents that are or may be obtained therefor, under the terms heretofore set forth; providing,however, that XYZ, upon the indication of its desire to obtain such license under any one or more of said improvements, shall pay all expenses to be incurred or theretofore incurred by ABC, in connection with the applications for and securing Letters Patent covering such of said improvements that XYZ desires to have included in the license.

FORM 35.06 IMPROVEMENTS BY LICENSEE; OWNERSHIP RETAINED BY LICENSEE

It is mutually understood and agreed that any inventions or improvements developed solely by XYZ engineers during the course of this Agreement shall belong to and be assigned to XYZ and XYZ shall have exclusive right, title and interest thereto.

FORM 35.07 IMPROVEMENTS BY LICENSEE; LICENSE TO LICENSOR

In the event XYZ obtains a patent or patents for an invention or inventions pertaining to the subject

When the parties contemplate joint development work, the license agreement should further specify who is to own improvements made jointly by the parties, whether such improvements are to be included in the primary license for royalty purposes, and how the parties are to share the responsibility for and expenses of filing and prosecuting patent applications on the improvements. In special situations, the parties may also find it desirable to provide that each shall obtain assignment-of-invention agreements from its key employees.

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255 (D Minn, 1966); Well Surveys, Incorporated v. McCullough Tool Company, 199 F Supp 374, 395 (ND Okla, 1961), affirmed and remanded, 343 F 2d 381 (CA 10, 1965); H-P-M Development Corporation v. Watson-Stillman Co., 71 F Supp 906 (DNJ, 1947).

in controversy.[4]

The following phrases have been given a broader construction than those noted above and have not been restricted to improvements that infringe the original patent:

(1) improvements *on* or *upon* the licensed invention;[5]

(2) *variations* of the licensed invention;[6]

(3) *new designs* of the licensed invention;[7]

(4) improvements of any of the *features* covered by the licensed patent application;[8]

(5) improvements in a *class of products* generally;[9]

(6) inventions relating to the *field* of the licensed patents.[10]

A grant-back clause referring to "improvements relating to the licensed subject matter" has been held to cover an improvement to an improvement.[11]

On the subject of grant backs, the courts at the present time have refused to declare either assign-

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[4]Chicago Pneumatic Tool Co. v. Ziegler, 151 F 2d 784 (CA 3, 1945); Frick Co. v. Geisler Mfg. Co., 100 F 94 (CA 3, 1900); Stebbins Hydraulic Elevator Manufacturing Co. v. Stebbins, 4 F 445 (SDNY, 1880). Also see American Cone & Wafer Co. v. Consolidated Wafer Co., 247 F 335 (CA 2, 1917).

[5]Universal Sales Corp, Ltd. v. California Press Mfg. Co., 55 USPQ 107 (Cal Sup Ct, 1942). Also See: West Disinfecting Co. v. United States Paper Mills, Inc., 44 F 2d 803 (CA 3, 1930); American Cone & Wafer Co. v. Consolidated Wafer Co., 247 F 335 (CA 2, 1917); Patent Developers v. Gear Grinding Mach. Co., 17 F Supp 734 (ED Mich, 1936); Jenkins Petroleum Process Co. v. Sinclair Refining Co., 32 F 2d 247 (D Me, 1928), modified and affirmed, 32 F 2d 252 (CA 1, 1929).

[6]West Disinfecting Co. v. United States Paper Mills, Inc., 44 F 2d 803 (CA 3, 1930).

[7]Frick Co. v. Geiser Mfg. Co., 100 F 94 (CA 3, 1900).

[8]Barlow v. United States, 28 USPQ 499 (Ct Cl, 1936).

[9]U.S. Industries, Inc. v. Camco, Inc., 277 F 2d 292 (CA 5, 1960); Kool Vent Metal Awning Co. of America v. Bottom 95 F Supp 798 (ED Mo, 1951).

[10]Flakice Corp. v. Short, 115 F 2d 567 (CA 2, 1940). Compare Ogden v. General Printing Ink Corp., 37 F Supp 572 (D Md, 1941).

[11]R. B. Jenkins & Co. v. Southern Suction and Equipment Co., 298 F Supp 1368 (WDNC, 1969).

FORM 34.05 DEFENSE OF INFRINGEMENT SUIT; INDEMNIFICATION; FOREIGN PATENTS EXCEPTED

ABC hereby agrees that it will at all times during the life of this Agreement at the expense of ABC defend all actions, litigation or claims against XYZ, its customers, distributors, agents and dealers brought for the infringement of any United States Letters Patent because of the exercise by XYZ of the rights herein granted under any United States patent or patents now existing or any United States patent or patents which may be granted upon pending applications, and ABC agrees to indemnify and hold harmless XYZ, its customers, distributors, agents and dealers against all cost and damages adjudged against them or any of them in any such action, litigation or claim aforesaid, provided, however, that XYZ shall have notified ABC in writing of such actions, litigations and claims against it, its customers, distributors, agents and dealers brought for the infringement of any United States Letters Patent,and further provided that the apparatus claimed to be an infringement has been submitted to ABC and has received the written approval of ABC, and ABC agrees that if ABC fails to defend any such action, litigation or claim against XYZ after such notice in writing, XYZ may defend such action, litigation or claim and ABC agrees to compensate XYZ for any resulting expense and damages.

FORM 34.06 CLAIM OF INFRINGEMENT; ASSISTANCE BY LICENSOR

XYZ agrees to report to ABC, promptly and in reasonable written detail, each claim of patent infringement based on XYZ's manufacture, use or sale of Licensed Products.

In the event of litigation against XYZ on account of any claim of infringement arising out of the manufacture, use or sale of Licensed Products, ABC agrees that it will furnish to XYZ, upon the request and at the expense of XYZ, all evidence and information in its possession relating to the defense of such litigation.

sums paid by the licensee voluntarily, and without consulting the licensor, to settle an infringement suit.[4] Correspondingly, when the licensor retains competent counsel, in accordance with the license agreement, to defend the licensee in an infringement action, the licensor is not liable for the fees and expenses of additional counsel retained by the licensee.[5]

In many cases, the obligation to defend infringement suits is retained by the licensee. Here, the agreement may provide that funds expended by the licensee in such actions shall be offset against royalties otherwise payable to the licensor.[6] As a further alternative, the parties may agree to share the costs and expenses of defending infringement actions.[7] In connection with the latter agreement, it is advisable to establish which party has the primary authority and responsibility for the conduct of the defense.

FORM 34.01 DEFENSE OF INFRINGEMENT SUIT

In the event that XYZ is sued for infringement of any United States Letters Patent, by reason of its making and selling the Licensed Inventions, ABC will, at the request of XYZ, and if immediately notified by XYZ of the filing of any such suit undertake, at its own expense, the defense of any such suit, but this liability of ABC to undertake such defense is to be assumed only when ABC is notified of the filing of the suit within ten (10) days after service thereof upon XYZ and ABC's liability is restricted to the defense of the suit.

FORM 34.02 DEFENSE OF INFRINGEMENT SUIT

XYZ agrees to promptly notify ABC, in writing, of any claim by another that the manufacture, use or

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[4]Simplex Phonograph Corporation v. Rudolph Wurlitzer Company, 47 USPQ 161 (ND Ill, 1940).
[5]Slazak v. Andrews, 21 F Supp 688 (D Del, 1937).
[6]Caddo Rock Drill Bit Co. v. Reed, 4 F 2d 136 (SD Tex, 1925), affirmed, 12 F 2d 207 (CA 5, 1926).
[7]Leicester & Continental Mills Co. v. Macon Knitting Co., 116 F 196 (CA 3, 1902).

FORM 33.01 PATENT MARKING

XYZ agrees to mark permanently and legibly all Licensed Devices manufactured or sold by it under this Agreement with the notation "Licensed under Patent No. 8,765,432."

FORM 33.02 PATENT MARKING

XYZ agrees to mark every device manufactured or sold by it under this Agreement in accordance with the statutes of the United States relating to the marking of patented articles.

FORM 33.03 PATENT MARKING

XYZ agrees to attach to some part of each and every Licensed Device manufactured by it hereunder a permanent label or plate having printed thereon the word "patented" and the number of the patent as furnished from time to time by ABC.

FORM 33.04 PATENT MARKING

XYZ agrees to place in a conspicuous location on each Licensed Device sold by it, a patent notice, as required by the applicable statutes relating to the marking of patented articles, provided ABC advises XYZ of the patent number or numbers and the applicable statutory notices to be applied.

FORM 33.05 PATENT MARKING

XYZ agrees that it will stamp the Patent Numbers on the sock lining or heel pad, on the inside of the shoe where it will be visible to the purchaser of the shoes, on all shoes utilizing vamps, quarters or parts thereof manufactured in accordance with this Agreement, in the following form:

Licensed Under
2--H. Daniels
U.S. Letters Patent
No.1,828,320, October 20, 1931

with a figure "2" on the second line to identify XYZ.

have the right to inspect the manufacture by XYZ of all Licensed Devices, at any and all stages of manufacture or assembly, and to terminate this Agreement if such construction does not conform to the requirements of this paragraph.

FORM 32.19 PRODUCT STANDARDS; CORRECTIVE ACTION SPECIFIED

In the event Licensed Devices sold by XYZ under this Agreement are found to have defects or deficiencies causing such Licensed Devices to perform unsatisfactorily in any respect, as compared to Licensed Devices sold by ABC under the Licensed Patent, XYZ agrees to take all reasonable action to correct such defects or deficiencies of which notice has been given to XYZ by ABC, such action including,but not limited to, making requested changes in the materials or fabrication of the components used in XYZ's Licensed Devices or in the assembly of such components.

FORM 32.20 ESTABLISHMENT OF SERVICE FACILITIES; SUPPLYING REPLACEMENT PARTS

XYZ hereby agrees to establish in its present branches or service stations within the United States, an organization for the purpose of rendering service to the owners of and dealers in motor vehicles equipped with Licensed Devices; to provide such branches or service stations with an adequate supply of repair or replacement parts; to place in the field a sufficient number of trained mechanics familiar with the mechanical details of said Licensed Devices; and to thoroughly train the mechanical divisions of the said branches or service stations that they may in turn give similar instructions to the sub-service stations or stations operated through the said branch or service station. XYZ agrees to provide such branches or service stations or sub-service stations with suitable advertising signs indicating such establishments to be an official service station of Licensed Devices. It

of its intention so to do and/or may grant additional licenses to others in the field.

FORM 32.11 DUTY TO EXPLOIT; LICENSEE'S OBLIGATIONS; REMEDY FOR BREACH

In the event of any of the following, ABC may, at its option, terminate this Agreement:

(a) XYZ elects not to exploit the license granted hereunder,and shall have so notified ABC.

(b) XYZ has failed to produce a working prototype of the Licensed Product within six (6) months of the date of this Agreement.

(c) XYZ has failed to market the Licensed Product within eighteen (18) months of the date of this Agreement.

(d) XYZ does not pay to ABC a minimum royalty of fifty thousand dollars ($50,000) for each year after 1974 and during the life of this Agreement.

FORM 32.12 MINIMUM GROSS SALES; REMEDIES FOR FAILURE TO MEET

IF, within four (4) years after the date of this Agreement, the gross sales of any individual Licensed Product shall not equal fifty thousand dollars ($50,000) during the preceding twelve (12) months, ABC may, at its option, manufacture or license others to manufacture such products.

FORM 32.13 MINIMUM SALES; RIGHT TO TERMINATE

In the event that sales by XYZ of Licensed Products shall be less than ten thousand dollars ($10,000) in any six-month period, ABC shall have the right to terminate this Agreement, at any time within the three months succeeding such six-month period, upon notice of not less than thirty (30) days by ABC to XYZ.

FORM 32.14 INABILITY TO FILL ORDERS; REMEDY

Upon the receipt by XYZ of bona fide orders which are acceptable by XYZ, XYZ will undertake to manufacture and deliver Licensed Machines as ordered

required by purchasers, but shall not incur any pecuniary liability to ABC for breach of this undertaking. It is agreed that if XYZ declines to accept orders from any purchasers or fails to supply the requirements of any purchaser for Licensed Equipment provided for in orders accepted by XYZ, ABC may license other supplemental parts manufacturers to supply Licensed Equipment to such purchasers. Said licenses to said other supplemental parts manufacturers shall be confined to supplying Licensed Equipment to only such purchasers from whom XYZ may have refused to accept orders or whom XYZ has failed to supply, and said license shall not be limited as to time. ABC agrees that no license will be granted to any supplemental parts manufacturer upon terms more favorable to the supplemental parts manufacturer than the terms then in force between ABC and XYZ.

FORM 32.05 DUTY TO EXPLOIT; COOPERATION WITH RETAILERS; REMEDY FOR BREACH

It is mutually agreed by and between the parties to this Agreement that XYZ shall, during the life of this Agreement, exercise its best efforts to supply the public demand for Licensed Products, and shall also use its best efforts to create and promote such a demand. To this end XYZ agrees to cooperate with retailers in promoting window displays, and other advertising features, and in other ways and manners to exploit and develop Licensed Products and the sales thereof. If at any time XYZ ceases to use its best efforts to supply the public demand for Licensed Products, or discontinues its efforts to create such a demand, then upon written notice ABC may at its option terminate this Agreement.

FORM 32.06 ADVERTISING COMMITMENT

XYZ agrees to subscribe and contribute in cash to the appropriation for advertising for the year 2000, and annually thereafter an amount equal to ten percent (10%) of the total cost of advertising by ABC, this participation not to exceed ten thou-

demand, creating a demand and/or maintaining minimum production.[17] Also, it is advisable to specify what remedies-- for example, the right to cancel the agreement and/or grant other licenses--are to be available to the licensor for breach of such duty by the licensee. Moreover, if the agreement incorporates a minimum royalty provision, the parties should make known whether this provision is a full substitute for the licensee's duty to exploit. In practice, a general statement of the licensee's duty to exploit is frequently accompanied by one or more of the following additional express agreements: that the licensee will complete required manufacturing facilities, and/or enter into commercial production, within a specified period of time; that the licensee will advertise and otherwise promote the licensed products; that the parties will exchange information concerning commercial contacts and prospects in the licensed field; that the licensee will (in appropriate circumstances) establish service facilities and supply the trade with repair and replacement parts; and that the licensee will maintain specified quality standards in the manufacture and/or servicing of licensed products and parts thereof.

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[17]See Western Geophysical Co. of America v. Bolt Associates, Inc., 285 F Supp 815 (D Conn, 1968).

sor may terminate the agreement in accordance with a general clause authorizing termination in the event of a breach or default by either party.[5] Moreover, for breach by a licensee or assignee of an implied or express duty to exploit, a number of courts have approved recission by the licensor or assignor of the agreement outside its express terms.[6]

Also, for breach of an express duty to exploit, a licensor has been awarded damages computed by reference to previous profits of the licensee,[7] an assignor has been awarded damages for sales that could have been made by the assignee but were not,[8] and another assignor has been awarded recovery on a quantum meruit based upon the estimated value to the assignee of possession of the patents during the period of non-exploitation.[9] In addition, although a licensor cannot enforce an express or implied covenant by a licensee not to make, use or sell any products competitive to the licensed products [see §15], a licensor under an agreement imposing an express duty to exploit has been held by at least one court to be entitled to recover royalties from the licensee on alternative devices that are not both better than and substantially different from the licensed device.[10]

Generally, obligations to exploit are strictly construed. For example, mere ownership and use of a

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[5]Willis Bros., Inc. v. Ocean Scallops, Inc., 176 USPQ 53 (EDNC, 1972).

[6]Oscal Barnett Foundry Co. v. Crowe 219 F. 450 (CA 3, 1915); Neenan v. Otis Elevator Co., 194 F 414 (CA 2, 1912); International Aluminum Window Corp. v. Ferri, 101 USPQ 131 (Fla Sup Ct, 1954); Guardino Tank Processing Corp. v. Olsson, 81 USPQ 318 (NY Sup Ct, 1949); Eno Systems, Inc. v. Eno, 53 USPQ 393 (Mass Sup Ct, 1942). Also see Driver-Harris Co. v. Industrial Furnace Corporation, 12 F Supp, 918 (WDNY, 1935).

[7]Stentor Electric Mfg.Co. v. Klaxon Co., 115 F 2d 268 (CA 3, 1940).

[8]General Finance Corp. v. Dillon, 172 F 2d 924 (CA 10, 1949).

[9] Neenan v. Otis Elevator Co., 194 F 414 (CA 2, 1912).

[10]Carbo-Frost, Inc. v. Pure Carbonic, Inc., 103 F 2d 210 (CA 8, 1939). Also See: Eclipse Bicycle Company v. Farrow, 199 US 581 (1905); Mechanical Ice Tray Corp. v. General Motors Corp., 144 F 2d 720 (CA 2, 1944); Barber Asphalt Paving Co. v. Headley Good Roads Co., 283 F 236 (D Del, 1922).

Agreement, and as to any particular piece of information, shall continue until such information becomes public knowledge through no fault of XYZ.

FORM 31.07 FURNISHING OF ADVISORY SERVICES

It is mutually understood and agreed that from and after the date of execution of this Agreement XYZ shall have the right to the personal advisory services of John Doe of ABC for a period of not less than one (1) week per month for two (2) years at the XYZ plant at Detroit, Michigan, and XYZ agrees to pay to ABC only the reasonable and necessary living expenses of John Doe in or near Detroit, Michigan when incurred in connection with said work, and John Doe's reasonable and necessary traveling expenses to and from Chicago, Illinois. In the event of the incapacity or demise of John Doe, it is understood that ABC will furnish another of its engineers for the purpose of rendering such services.

FORM 31.08 FURNISHING OF ENGINEERING ASSISTANCE

Upon request of XYZ, ABC agrees to render engineering assistance to XYZ in connection with Licensed Products by furnishing the services of one of its engineers, who is skilled in the construction and operation of Licensed Products, at XYZ 's premises or at the premises of a customer of XYZ. For this service XYZ agrees to pay to ABC (a) the engineer's reasonable and necessary travel expenses from and to ABC's place of business, (b) the engineer's reasonable and necessary living expenses away from ABC's place of business, and (c) a consulting fee for the time devoted by the engineer in rendering service to XYZ and the time necessarily spent in travel from and to ABC's place of business. The consulting fee shall be computed at the rate of two hundred dollars ($200.00) per day.

FORM 31.04 MAINTENANCE OF INFORMATION CONFIDENTIAL; RETURN OF TANGIBLE MATERIAL

XYZ agrees to treat as confidential matter all inventions, drawings, specifications, engineering data, processes and other information or materials furnished by ABC to XYZ pursuant to this Agreement, except such matter as may be first made public by ABC or made public by others independent of derivation from ABC. XYZ agrees to use such confidential matter solely and exclusively in the manufacture, use and sale of Licensed Products pursuant to this Agreement. ABC shall have the right to terminate this Agreement if XYZ makes any unauthorized use of any confidential matter furnished by ABC to XYZ. Upon termination of this Agreement for any reason whatsoever, XYZ agrees that it will make no further use of such confidential matter and that it will keep such matter secret, and XYZ further agrees that it will immediately deliver to ABC all such confidential matter as shall in written or other tangible form (including all copies thereof), together with all other tangible property which ABC shall theretofore have loaned to XYZ to assist XYZ in the manufacture or sale of Licensed Products.

FORM 31.05 MAINTENANCE OF INFORMATION CONFIDENTIAL; RESTRICTIONS ON SUBCONTRACTED WORK; INDEMNIFICATION FOR BREACH

XYZ agrees that the know-how obtained by it from ABC pursuant to this Agreement shall be held by it in strict confidence for its exclusive use and benefit in the Licensed Territory and shall not be imparted to others, that it will undertake to enforce this provision with respect to its officers and employees by separate agreements (to be approved by ABC) with all key officers and employees, and that it will provide ABC with copies of such agreements executed by officers and employees of XYZ who may be designated by XYZ to have access to ABC's know-how. With respect to the construction of apparatus for the production of Licensed Products, XYZ agrees

License agreement.[4] Occasionally, the parties will provide that the licensee shall indemnify the licensor for any breach of confidence, that the obligation of secrecy shall survive termination of the license, and that all information in tangible form relating to the licensed invention shall be turned over by the licensee to the licensor upon termination of the license.[5] The licensor can gain additional protection by requiring the licensee to cause all of its key employees to agree in writing to be bound individually by the restrictions concerning confidential information imposed on the licensee.[6]

The license agreement may further provide that the licensee shall be afforded the right to visit the licensor's facilities and to have its personnel receive training, and/or that the licensor shall furnish the licensee with advisory services and supervision at the licensee's facilities. Reasonable time limitations may be placed on visits, training and advisory services. Also the licensee may be obligated to compensate the licensor for all expenses and/or salaries of the licensor and its personnel incurred in rendering training and advisory services, and to assume all responsibility for damage or injury to its property or employees arising out of acts of the licensor pursuant to the license agreement. In special circumstances, the licensor may be employed, or retained as a consultant, by the licensee, for a specified number of years.

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[4]See Painton & Co. v. Bourns, Inc., 442 F 2d 216 (CA 2, 1971).
[5]Sims v. Western Steel Co., 189 USPQ 443 (D UT, 1975). Also see Painton & Co. v. Bourns, Inc., 442 F 2d 216 (CA 2, 1971).
[6]See Carter-Wallace, Inc. v. United States, 171 USPQ 359, 369-370 (Ct Cl, 1971).

costs and awarded damages or settlements, insofar as they relate to the infringement of any Licensed Patents or to infringement of patents of others by the manufacture, use or sale by XYZ of Licensed Products. At the termination of this Agreement, the fund shall be liquidated by distributing it to ABC; but in the event that at the time of termination there is an infringement suit pending, or an infringement suit threatened and imminent, which suit except for termination, wo-ld be prosecuted or defended by money from this fund, then the liquidation of the fund shall be withheld until such conditions no longer exit.

FORM 30.15 ENFORCEMENT OF LICENSED PATENT; JOINT PARTICIPATION

Upon discovery of any infringement of said Letters Patent, and if the parties shall agree to do so, appropriate legal action in connection therewith shall be undertaken by the parties jointly. In the event that such action is taken, each party shall contribute equally to the expenses of any such action, except that ABC's contribution shall be limited to one-half of the royalties payable to ABC by XYZ during the pendency of any such action. If any damages for infringement are awarded by a final decree or judgment to ABC and XYZ, then after deducting all expenses arising from the litigation and reimbursing each contributing party for its contributions, the remainder shall be divided equally among the contributing parties. If one party shall not wish to join or continue in any such action, but the other party shall wish to institute or continue such action, said one party shall render all reasonable assistance to said other party in connection therewith at said other party's expense and said other party shall be entitled to retain all recoveries obtained with respect to such action.

such litigation, including attorney's fees, but in such event any sums recovered in any suit or in settlement thereof shall belong to ABC. However, any such sums received by ABC, after deduction of the costs and expenses of litigation, including attorney's fees paid, shall be considered as royalty payments for the sole purpose of determining the minimum annual royalty provided in Paragraph 5 above. Each party shall always have the right to be represented by counsel of its own selection and at its own expense in any suit instituted by the other for infringement, under the terms hereof.

FORM 30.12 ENFORCEMENT OF LICENSED PATENTS; LICENSEE HAS FIRST RIGHT; OPTION BY LICENSOR TO CANCEL EXCLUSIVENESS

XYZ is hereby given the exclusive right during the time that this agreement is in effect to sue infringers of any patent included in or resulting from any application included in ABC's Patent Rights, and ABC agrees in such cases to permit the use of its name in all such litigation suits, to sign all necessary papers, to take all rightful oaths, and to do whatever else may be necessary to assist XYZ in such suits, but at the expense of XYZ. Any recoveries from such litigation shall go to XYZ with the provision that should the recoveries exceed the outlays for such litigation, then XYZ will pay to ABC ten percent (10%) of such excess. XYZ will during the time that this Agreement is in effect diligently and promptly take those steps which are calculated to be in the best interest of the monopoly secured by ABC's Patent Rights, and will in the event of litigation stand all the charges, costs, and expenses of such litigation. XYZ will keep ABC fully and promptly informed of such steps and of the progress of such litigation. ABC may at its own expense employ counsel to act in an advisory capacity. Should XYZ fail to take the necessary steps as hereinbefore outlined, then ABC may conduct in its own name and at its own expense such litigation as it may deem necessary in the interests of said rights. In the

will, at its own expense, take such proceedings in law and in equity as may be necessary and proper to prevent and enjoin such infringement, and to save XYZ harmless from the results of such acts; and, in case of the failure of ABC to fulfill any of the obligations contained in this paragraph, XYZ shall have the right and privilege of prosecuting and defending any such proceeding at its own expense, and to charge the same against ABC and collect from it, provided, however, that XYZ shall first give to ABC 30 days' notice in writing demanding compliance with the terms of the agreement on its part before proceeding to exercise the rights hereby conferred on XYZ.

FORM 30.08 ENFORCEMENT OF LICENSED PATENTS; LICENSEE'S RIGHTS

XYZ shall have the right to sue any infringer of said patents on the process in its field at its own expense, in the name of ABC, if necessary, and ABC agrees to execute any necessary papers for such suit.

FORM 30.09 ENFORCEMENT OF LICENSED PATENT; LICENSEE'S RIGHTS

XYZ will use its best endeavors to detect every suspected infringement of said Letters Patent, and on discovery of any suspected infringement, XYZ, at its own cost, may take all necessary proceedings for effectually protecting and defending said Letters Patent. In such event, ABC agrees to render to the licensee every assistance in his power, except financial assistance, in helping the licensee to protect and defend the same.

FORM 30.10 ENFORCEMENT OF LICENSED PATENTS; LICENSEE HAS FIRST RIGHT

XYZ is hereby given the first right during the term of this Agreement to sue infringers of the said Letters Patent which are the subject matter of this Agreement, and ABC will permit the use of its name in all such suits and sign all necessary papers. The

FORM 30.04 ENFORCEMENT OF LICENSED PATENT; OBLIGATION OF LICENSOR; CESSATION OF ROYALTIES

In the event any unlicensed person infringes said Licensed Patent on a commercial scale, XYZ may make written demand upon ABC to abate such infringement stating in the demand the name of the infringer and the place and circumstances of the infringement. If within six (6) months after receipt of such demand the infringement set forth shall not have ceased, then XYZ shall be relieved of all obligations to pay royalties hereunder until such infringement shall cease, unless a civil action for infringement of said patent shall be pending and is being diligently prosecuted; which civil action need not be against the infringer referred to in XYZ's demand, there being no obligation to prosecute more than one suit at a time.

FORM 30.05 ENFORCEMENT OF LICENSED PATENT; OBLIGATION OF LICENSOR; CESSATION OF ROYALTIES

In the event that unlicensed sales of Licensed Inserts in substantial quantities (which, for the purpose hereof, shall be deemed to be sales from any source at the rate of 400,000 Licensed Inserts over a period of any calendar year) shall occur during the continuance of this Agreement and ABC fails to abate such unlicensed sales, bring suit for infringement of Licensed Patent by reason of such sales, or otherwise give satisfaction to XYZ, within six (6) months following written notice thereof by XYZ, to ABC, given not earlier than six (6) months after the final execution of this License Agreement, XYZ may withhold from payment royalties obligated to be paid under Paragraph 3.01 and 4.01 of this License, and further, if ABC fails to abate such unlicensed sales, bring suit for infringement of Licensed Patent by reason of such sales, or otherwise give satisfaction to XYZ within twelve (12) months following said written notice thereof by XYZ to ABC, XYZ will be relieved of the obligation to pay any and all royalties that

to cease paying royalties[16] and/or the right to terminate the agreement when the licensor is in default. Correspondingly, the licensor might be given the express right to cancel the exclusive features of an exclusive license and/or the right to terminate the agreement when the licensee is in default.

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[16] Searle Analytic Inc. v. Ohio-Nuclear Inc., 187 USPQ 360 (ND IL, 1975).

protect the licensed patent may relieve the licensee of its obligation to pay royalties.[6] In this respect, the institution of four suits, and the issuance of a number of infringement notices, within a two-year period satisfies a licensor's contractual obligation to use due diligence in prosecuting infringers.[7] A clause concerning enforcement of a patent may properly include a requirement that the licensee report infringements to the licensor.[8] When there is a condition that the licensor be "notified" of alleged infringements, actual and adequate notification by the licensee is required to render the clause operative.[9] Although the successful prosectuion of infringement suits is not an implied condition precedent to the obligation to pay royalties, an unsuccessful suit may effect termination of the agreement and hence the obligation to pay royalties thereafter.[10] An agreement by a patent licensor that if it loses a pending suit against an alleged infringer it will repay to its licensees part of the royalties collected from them does not constitute patent misuse.[11]

Another approach is to give the licensee first

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430 F 2d 1008 (CA 7, 1970); United States v. L. D. Caulk Company, 126 F Supp 693 (D Del, 1954). Also see: Hazeltine Research v. Avco Manufacturing Corp., 227 F 2d 137, 148 (CA 7, 1955); United States Consolidated Seeded Raisin Co. v. Griffin & Skelley Co., 126 F 364 (CA 9, 1903).

[6]Wilfley v. New Standard Concentrator Co., 164 F 421 (CA 9, 1908). Contra: Specialties Development Corp. v. C-O-Two Fire Equipment Co., 207 F 2d 753 (CA 3, 1953). Compare: Newport News Shipbuilding & Dry Dock Co. v. Isherwood, 5 F 2d 924 (Ca 4, 1925); Critcher v. Linker, 169 F 653 (WD Wis, 1909). Also see Western Battery & Supply Co. v. Hazelett Storage Battery Co, 61 F2d 220 (CA 8, 1932).

[7]Straight Side Basket Corporation v. Webster Basket Company, 10 F Supp 171 (WDNY, 1935), affirmed, 82 F 2d 245 (CA 2, 1936).

[8]Illinois Tool Works Inc. v. Solo Cup Co., 179 USPQ 322, 373 (ND Ill, 1973).

[9]Kraly v. National Distillers & Chemical Corp., 183 USPQ 79, 84 (CA 7, 1974); General Motors Corporation v. Swan Carburetor Co., 88 F 2d 876 (CA 6, 1937).

[10]Frost Ry. Supply Co. v. T. H. Symington & Son, 24 F Supp 20(D Md, 1938).

[11]General Tire & Rubber Co. v. Firestone Tire Co., 174 USPQ 427, 437 (ND Ohio, 1972).

FORM 29.04 CLAIMS INVALIDATED OR CONSTRUED; EFFECT ON ROYALTY PAYMENTS

If in any suit for infringement of the United States Letters Patent which are the subject of this Agreement, any of the claims of said Letters Patent shall be held to be invalid or not infringed by a court of last resort, or by a lower court of competent jurisdiction from whose decree no appeal is taken or certiorari granted within the period allowed therefor, the construction placed upon the patent by the courts shall be followed from and after the date of entry of the decree of such court, and royalties shall thereafter be payable by XYZ only in accordance with such construction until the same shall be modified or reversed by a subsequent court decree, and with respect to claims which are by any such decree held to be invalid, XYZ shall be relieved of its obligation to make reports and to pay royalties on devices sold under and covered only by said claims, until the decision with respect to such claims shall be modified or reversed by a subsequent court decree.

stitute misuse.[17]

Commonly, parties provide that if any claims of the licensed patent are held invalid by a court of last resort, or by any other court of competent jurisdiction from whose judgment or decree no appeal is taken, the licensee is thereafter freed from the payment of royalties with respect to the claims held invalid. This type of provision has application to instances of constructive eviction, but does not affect the licensee's right to avoid paying royalties during the period it is contesting patent validity.[18] Furthermore, a provision requiring the licensee to continue royalty payments for at least six months after the patent is finally declared invalid is unenforceable.[19] One court has held that a declaration of invalidity of some, but not all, claims covering the licensee's devices does not entitle the licensee to a proportionate reduction of the agreed royalties.[20] Another court has held that if the licensee is expressly relieved of paying royalties in the event the patent is held invalid, and certain claims are held invalid and not disclaimed, the licensor can recover no royalties under the agreement.[21] The parties may also provide that if any claims of the licensed patent are construed by a court such claims shall thereafter be interpreted for purposes of royalties in conformity with the court's decision as to scope.[22]

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[17]General Tire & Rubber Co v. Firestone Tire Co, 349 F Supp 333, 344-5 (174 USPQ 427, 437)(ND OH, 1972).

[18]Lear Inc v. Adkins, 395 US 653, 673-4 (162 USPQ 1, 9)(1969).

[19]St Regis Paper Co v. Royal Industries, 186 USPQ 83 (CD CA, 1974), affirmed, 552 F 2d 309 (194 USPQ 52)(CA 9, 1977).

[20]Magnus Harmonica Corp v. Harmonic Reed Corp, 106 USPQ 266 (ED PA, 1955).

[21]Rosenthal v. E I duPont, 145 F 2d 571 (63 USPQ 214)(CA 2, 1944).

[22]Mechanical Ice Tray Corp v. General Motors Corp, 144 F 2d 720 (62 USPQ 397)(CA 2, 1944); Galion Iron Works & Mfg Co v. J D Adams Mfg Co, 105 F 2d 943 (42 USPQ 244)(CA 7, 1939).

need not first withhold royalty payments or repudiate the license agreement; he is not precluded from contesting validity merely because the license agreement was part of a settlement of earlier litigation; and he is not barred from litigating validity during a nontermination period of the agreement.[7] If the patent is subsequently held invalid, and if the licensee had not prior to filing its suit ceased paying royalties on the ground of patent invalidity, the licensee's liability for royalties is terminated as of the date that it filed the declaratory judgment action.[8] One court has held that the licensee can preclude the licensor from terminating the license for non-payment of royalties by paying royalties into escrow during the pendency of the declaratory judgment action.[9] However, most courts have refused to authorize payment of royalties into escrow, holding that in order to maintain the protection and benefit of the license the licensee must continue to pay royalties to the licensor.[10] If royalties are paid into escrow or to the licensor and the patent is held invalid, the licensee is entitled to a refund of royalties paid after the date that it filed the declaratory judgment action.[11]

Moraine Products, 509 F 2d 1 (184 USPQ 281)(CA 6, 1974); Medtronic Inc v. American Optical Corp, 327 F Supp 1327 (170 USPQ 252)(D MN, 1971).

[7]Warner-Jenkinson Co v. Allied Chemical Corp, 193 USPQ 753 (CA 2, 1977); St Regis Paper Co v. Royal Industries, 552 F 2d 309 (194 USPQ 52)(CA 9, 1977)(When patent rights and know-how are intimately intertwined unpaid royalties under the agreement are uncollectible for know-how as well as for patent rights if the patent is invalid.)

[8]PPG Industries Inc v. Westwood Chemical Inc, 530 F 2d 700 (189 USPQ 399)(CA 6, 1976); American Sterilizer Co v. Sybron Corp, 526 F 2d 542 (188 USPQ 97)(CA 3, 1975); Atlas Chemical Industries Inc v. Moraine Products, 509 F 2d 1 (184 USPQ 281)(CA 6, 1974).

[9]Atlas Chemical Industries Inc v. Moraine Products, 509 F 2d 1 (184 USPQ 281)(CA 6, 1974).

[10]Nebraska Engineering Corp v. Shivvers, 195 USPQ 227 (CA 8, 1977); Warner-Jenkinson Co v. Allied Chemical Corp, 193 USPQ 753 (CA 2, 1977); Milton Roy Co v. Bausch & Lomb Inc, 418 F Supp 975 (191 USPQ 433)(D DE, 1976); National Patent Development Corp v. Bausch & Lomb Inc, 191 USPQ 629 (NY Sup Ct NY Cty, 1976).

[11]Atlas Chemical Industries Inc v. Moraine Products, 509 F 2d 1

from showing the state of the prior art to narrow the claims.[6] A provision specifying that the licensee may dispute infringement after termination of a license agreement has been held not to constitute an implied limitation on the right of the licensee to contest infringement during the term of the agreement.[7]

A licensee may be estopped to deny infringement as to a particular device when the license agreement was entered into for the purpose of licensing that device, when the license agreement specifically designates such device as being included in the license, when the licensee has worked closely with the licensor in developing such device and in obtaining patent protection thereon, or when the licensee represents to the public that it is operating under the licensed patent.[8] But such implied estoppel or estoppel by conduct ceases upon termination or expiration of the license.[9]

When a licensee expressly admits for the purpose of a license agreement that certain devices are covered by the patents therein licensed, it is estopped from repudiating this admission.[10] The legal effect of an express general admission of infringement in a license agreement appears to be unsettled. One court

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[6]United Lens Corporation v. Doray Lamp Co., 93 F 2d 969 (CA 7, 1937).

[7]Galion Iron Works & Mfg. Co. v. J. D. Adams Mfg. Co., 105 F 2d 943 (CA 7, 1939).

[8]Eureka Company v. Bailey Company 78 US 488 (1870); Kraly v. National Distillers & Chemical Corp., 183 USPQ 79, 83-84 (CA 7, 1974); Cold Metal Process Co. v. McLouth Steel Corp., 170 F 2d 369 (CA 6, 1948); Baker Oil Tools v. Burch, 71 F 2d 31 (CA 10, 1934); Kant-Shore Piston Co. v. Sinclair Mfg. Corp., 32 F 2d 882 (CA 6, 1929); Miami Cycle & Mfg. Co. v. Robinson, 245 F 556 (CA 6, 1917); Muth v. J. W. Speaker Corporation, 151 F Supp 188 (ED Wis, 1957), affirmed, 262 F 2d 797 (CA 7, 1959); Cluett, Peabody & Co., Inc. v. Sayles Finishing Plants, Inc., 52 F Supp. 214 (NDNY, 1943); Dwight & Lloyd Sintering Co. v. American Ore Reclamation Co., 44 F Supp 401(SDNY,1941); Sproul v. Pratt & Whitney Co., 97 F 807 (SDNY, 1899); Andrews v. Landers, 72 F 666 (D Conn, 1896).

[9]Bucky v. Sebo, 208 F 2d 304 (CA 2, 1953); Cushman Paper-Box Mach. Co. v. Goddard, 95 F 664 (CA 1, 1899).

[10]Universal Rim Co. v. Scott, 21 F 2d 346 (ND Ohio, 1922).

FORM 27.05 SUBLICENSING PERMITTED

XYZ may grant written sublicenses within the United States under ABC's Patent Rights upon such terms as XYZ may arrange, provided that: (a) XYZ shall include all sales of Licensed Devices by all sublicensees in XYZ's statements to ABC, as provided in paragraph X hereof, and pay royalties thereon to ABC as though all of such sales by sublicensees were in fact made by XYZ hereunder; and (b) Licensed Devices shall be considered as sold by such sublicensees when they are billed out, or if not billed out, when they have been delivered, shipped or mailed.

XYZ agrees to deliver to ABC a true and correct copy of each and every sublicense entered into by XYZ within thirty (30) days after execution thereof and shall promptly advise ABC in writing of any modification or termination of each sublicense.

Upon the termination of this Agreement for any cause, any and all existing sublicenses hereunder shall thereupon automatically terminate. This shall be made a condition of any such sublicense that may be granted by XYZ.

FORM 27.06 SUBLICENSING PERMITTED IN FOREIGN COUNTRIES

Under all foreign patents and applications for foreign patents as herein contemplated, XYZ shall have the right to grant sublicenses for the manufacture, use and/or sale only in the country or countries respectively in which ABC has secured patents or filed applications for patents as provided for elsewhere herein. As to any sublicense granted in accordance herewith the cash payments and royalty payments received therefrom shall be divided one-half to ABC and one-half to XYZ, and ABC shall be entitled to no other compensation thereon. On any foreign sublicense executed by XYZ a royalty of not less than six percent (6%) on net selling price shall be provided, unless otherwise agreed to in writing by ABC.

with copies of sublicenses; and (e) the rights and obligations of the licensor and licensee with respect to royalties paid or due under the sublicense.[5]

As an alternative to allowing sublicensing, the licensor might agree to grant further licenses to responsible persons of the licensee's selection.[6]

FORM 27.01 SUBLICENSING PROHIBITED

XYZ agrees and undertakes that it will not sublicense the rights herein granted and that it will not authorize any other person, firm or corporation to use the inventions herein licensed.

FORM 27.02 SUBLICENSING PROHIBITED WITH EXCEPTIONS

XYZ agrees that it will not grant sublicenses with respect to the patents for which licenses are herein granted, or any improvements or developments with regard thereto; unless it shall first receive

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[5]As to item (e), see Simmen Automatic Railway Signal Company v. General Railway Signal Company, 72 F 2d 232 (CA 2, 1934).

[6]Illinois Tool Works Inc. v. Solo Cup Co., 179 USPQ 322 (ND Ill, 1973).

grant by ABC of a more favorable license to third parties during the life of this Agreement than is hereby granted to XYZ. ABC agrees, however, that in the granting of any further license to MNO, the provisions of this paragraph shall be operative, and that it will not enlarge the scope of said license dated January 1, 2000. ABC shall promptly disclose to XYZ the fact of the granting of any license in the United States during the life of this Agreement at a more favorable rate than the rate herein required.

FORM 26.12 MOST FAVORED LICENSEE; ROYALTY RATES AND OTHER TERMS; SETTLEMENT FOR PAST INFRINGEMENT EXCEPTED

ABC agrees that in the event it should hereafter grant a license to another person, firm or corporation under any patent licensed hereunder upon terms and conditions more favorable that those herein accorded, except for the manner of settlement for past infringement, ABC shall promptly offer XYZ the benefit of such more favorable terms and conditions, which upon acceptance shall be retroactive to the date that such more favorable terms and conditions were accepted by said person, firm or corporation.

FORM 26.05 MOST FAVORED LICENSEE; ROYALTY RATES AND OTHER TERMS

ABC agrees that if any license heretofore or hereafter granted by it under any one or more claims of the licensed patents contains any more favorable terms or rates of royalty than granted to XYZ hereunder, then XYZ shall thereupon have the benefit of such more favorable terms or rates for the same claim or claims, but under no other claims of any of the licensed patents. ABC shall promptly notify XYZ of each license granted by it to others that includes any patent or patent claim licensed under this agreement and shall, upon request, make available to counsel for XYZ a complete copy of such agreement for inspection.

FORM 26.06 MOST FAVORED LICENSEE; ROYALTY RATES AND OTHER TERMS

ABC agrees that in the event ABC shall have entered into or shall hereafter enter into any license agreement, or shall have modified or shall modify any existing license agreement covering similar operations in the United States, providing for a lower or more advantageous royalty rate or for any other terms or conditions more favorable to the licensee than herein set forth, then and thereafter, XYZ shall have the benefit of such lower or more favorable royalty rate, terms or conditions.

FORM 26.07 MOST FAVORED LICENSEE; ROYALTY TERMS ONLY

In the event that ABC grants a license with more favorable royalty terms, then within thirty (30) days of the execution of such license, a copy shall be delivered to XYZ and XYZ shall then have thirty (30) days in which to determine whether it desires to adopt such royalty terms.

FORM 26.08 MOST FAVORED LICENSEE; ROYALTY RATE ONLY

ABC agrees that in the event that ABC shall enter into any license agreement, or shall modify any existing license agreement, covering operations in the

quired to give the original licensee any reduction in rate under its agreement.[15]

Finally, when the licensor is obligated by the original license agreement to give notice to the licensee of another license, failure to give such notice is a breach of contract. In these circumstances, the licensor may be precluded from recovering royalties accruing during the period of the breach, while the licensee may be entitled to a refund for any excess royalties paid.[16]

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[15]Dwight & Lloyd Sintering Co. v. American Ore Reclamation Co., 44 F Supp 391 (SDNY, 1937).Also see Raytheon Manufacturing Company v. Radio Corporation of America, 21 USPQ 253 (Mass Sup Ct, 1934).

[16]Prestole Corp. v. Tinnerman Products, Inc., 271 F 2d 146 (CA 6, 1959); St. Joseph Iron Works v. Farmers Manufacturing Co., 106 F 2d 294 (CA 4, 1939). Also see Shatterproof Glass Corp. v. Libbey-Owens-Ford Co., 179 USPQ 3 (CA 6, 1973).

period of infringement.[5] However, when the licensor grants a royalty-free implied license, which is operative prospectively, to another, the obligation of the original licensee to pay royalties ceases.[6] A most favored licensee clause which specifically excepts settlements for past infringement will be enforced in accordance with its terms.[7]

A most favored licensee clause may specifically provide for retroactive application. For example, a licensee may be accorded the benefit of any more favorable terms in not only future licenses but also previously-issued licenses.[8] And, an agreement by a patent licensor that if it settles a suit with an alleged infringer its licensees will be given the benefit of any terms in the settlement agreement more favorable than those originally accorded the licensees does not constitute misuse.[9]

In the event the original licensee has an option of either retaining the original license or surrendering such license for a new and different license corresponding to one granted to another, the licensee cannot demand the benefit of the more favorable terms of the new license and at the same time refuse to accept those which are more onerous.[10] Correspondingly,

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[5]Searle Analytic Inc. v. Ohio-Nuclear Inc., 187 USPQ 360 (ND IL, 1975); Plastic Contact Lens Co. v. Young Contact Lens Inc., 175 USPQ 573 fn. 2 (D Mass, 1972); Core Laboratories, Inc. v. Hayward-Wolff Research Corp., 115 USPQ 422 (Del Sup Ct, 1957); Universal Oil Products Co. v. Vickers Petroleum Co., 49 USPQ 333 (Del Sup Ct, 1941); Raytheon Mfg. Co. v. Radio Corp. of America, 21 USPQ 253 (Mass Sup Ct, 1934). Compare Shatterproof Glass Corp. v. Libbey-Owens-Ford Co., 179 USPQ 3 (CA 6, 1973). Also see Lathrop v. Rice & Adams Corporation, 17 F Supp 622 (WDNY, 1936).

[6]St. Joseph Iron Works v. Farmers Manufacturing Co., 106 F 2d 294 (CA 4, 1939).

[7]Plastic Contact Lens Co. v. Frontier of Northeast,441 F 2d 67 (CA 2, 1971); Plastic Contact Lens Co. v. Guaranteed Lens, Inc., 283 F Supp 850 (SDNY, 1968).

[8]Shatterproof Glas Corp. v. Libbey-Owens-Ford Co., 179 USPQ 3 (CA 6, 1973).

[9]General Tire & Rubber Co. v. Firestone Tire Co., 174 USPQ 427, 437 (ND Ohio, 1972).

[10]Foster v. Goldschmidt, 21 F 70 (SDNY, 1884). Also see Raytheon Manufacturing Company v. Radio Corporation of America, 21 USPQ 253 (Mass Sup Ct, 1934).

set forth in the license agreement. Similarly, if a separate clause negates implied warranties [see §46], all warranties ordinarily implied in law that are to be undertaken by the licensor should be expressly recited. Express warranties are enforced in accordance with their terms.[7]

FORM 25.01 WARRANTY OF OWNERSHIP AND RIGHT TO LICENSE

ABC represents and warrants that it is the owner of the entire right, title and interest in and to said Letters Patent, and that it has the sole right to grant for the United States, its territories and possessions, licenses under said Letters Patent, reissues and extensions, of the scope herein granted.

FORM 25.02 WARRANTY OF RIGHT TO ENTER INTO AGREEMENT

ABC represents and warrants that it has the right to enter into this Agreement, and that there are no outstanding assignments, grants, licenses, encumbrances, obligations or agreements, either written oral or implied, inconsistent with this Agreement.

FORM 25.03 WARRANTY OF COMMERCIAL UTILITY

ABC hereby represents and warrants that Licensed Devices made in accordance with said Letters Patent have commercial utility.

FORM 25.04 WARRANTY OF VALIDITY

ABC hereby represents and warrants that said Letters Patent is genuine and valid.

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[7]Gray Engine Starter Co. v. Gray & Davis, Inc. 224 F 723 (D Mass, 1914); Hazeltine Research, Inc. v. DeWald Radio Mfg. Corp., 79 USPQ 446 (NY Sup Ct, 1948).

FORM 24.02 RELEASE FOR PAST INFRINGEMENT CONDITIONED ON CONTINUANCE OF AGREEMENT

ABC hereby releases XYZ and its customers from any and all claims for infringement of the Licensed Patent arising prior to the effective date of this Agreement, such release being conditioned upon the continuance of this Agreement for a period of three (3) years without any breach or default thereof by XYZ.

FORM 24.03 LUMP SUM PAYMENT FOR PAST INFRINGEMENT

In full settlement of all claims of ABC for past infringement, XYZ agrees to pay to ABC within ten days of the execution of this Agreement a lump sum payment calculated at $250 per quarter for the period since the issuance of the Licensed Patent that XYZ has sold devices embodying the inventions of said patent.

FORM 24.04 RELEASE FOR PAST INFRINGEMENT CONDITIONED ON PAYMENT OF PRESCRIBED SUM

XYZ hereby agrees to pay to ABC as a non-refundable advance payment against royalties the sum of $10,000 in the following installments: $2,500 upon the execution of this Agreement, and $2,500 on each of the three succeeding anniversary dates thereof. ABC hereby releases XYZ and its customers from any and all liability resulting from the manufacture, use or sale of automatic transmissions infringing the Licensed Patent prior to the execution of this Agreement, such release being conditioned upon full payment of said $10,000.

FORM 24.05 GENERAL RELEASE WITH EXCEPTIONS

ABC hereby accepts the sum of $10,000 in full payment of any and all claims against XYZ of whatsoever nature, arising prior to the effective date of this Agreement; except that under this Agreement ABC does not relinquish any claim for past infringement of the Licensed Patent, for apparatus manufactured or sold by XYZ for or to the United States government or agencies thereof.

