

LICENSE OPERATION AND ADMINISTRATION

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ADMINISTERING THE LICENSE AGREEMENT

by

Homer O. Blair

Vice President, Patents and Licensing

Itek Corporation

Lexington, Massachusetts

Who is Responsible: Once the license has been executed, a number of steps must be taken and someone must be assigned this responsibility. If either the licensor or licensee, employs people dealing with the licensing activity, these employees should be responsible for administration of the license. Licensing operations might be located in any of several different parts of companies including the patent department, a new technology department, the research area or, if international activities are involved, the international organization.

If the company has no licensing activity as such but does have a patent department, this may be the place for the licensing administration activity--but only if specific administrative responsibilities are clearly identified. If the company is too small to support inside licensing or patent people but does use outside patent counsel, that counsel should assist in setting up and monitoring the

administration activity. All too often the executed license is left in a file with payments or receipts handled by accounting people who know nothing of the license, what it covers and, particularly after a few years of normal turnover, whether payments should be made.

A licensor frequently finds that he must remind licensees that royalties are due or point out to them what is covered by the license--not because they object to or deliberately omit payment, but because they do not have a license administration group and the people involved know nothing of how licenses should be administered.

Three policies used by Itek Corporation are included at the end of this chapter. Although they may be regarded as typical of corporate policies in this area, some aspects may not be suitable for the manner in which other companies operate.

Appendix A is an Itek Corporate Policy relating to the licensing or selling of Itek patents and technical know-how which points out, among other things, that the Director of Corporate Patents and Licensing is, responsible for the license administration.

Appendix B relates to handling license and royalty income and sets forth the responsibilities of the Corporate Patents and Licensing Department and certain accounting and auditing functions.

Appendix C relates to internal licensing between the different Itek divisions but the administration policies set forth

therein are similar to those where third parties are involved in a license agreement with Itek.

Actions After Execution of the License: As soon as the license has been executed, an abstract of the agreement should be prepared. This abstract should include pertinent information such as the type of license (exclusive, non-exclusive, etc.), the field covered, the royalties involved, if any, specific obligations of the party involved, and, in general, items of which the people receiving the abstract should be aware.

These abstracts should be distributed to appropriate corporate personnel including corporate accounting, division accounting if divisions are involved, management personnel who will have responsibilities in the area of the license, and others who have a "need to know". With the abstracts copies of the entire agreement are sent to certain selected people with the original going to the Corporate Secretary for retention in the corporate files and with copies of the entire agreement (indicating that it is the executed agreement and not one of the many drafts usually prepared during negotiations) being distributed, at least to corporate accounting and appropriate divisional accounting personnel.

You will note that Appendix C, page 5, sets forth the form for a quarterly royalty report which includes information on each license as well as dates by which some action must be

taken such as payment of royalties, receipt of royalties, etc. Information and dates for this quarterly royalty report should be prepared at the same time as the abstract. Also, the appropriate financial people should be notified as to which part of the company the royalty should be credited or debited as the case may be.

At Itek, royalties are credited to the part of the company from which the technology came. It is felt that this encourages divisions to license their technology, if appropriate, and encourages cooperation with the licensees in an effort to make the license successful.

Often a license agreement involves exchange of know-how or other information from one party to the other. It may include drawings and written technical information as well as the use of technical people of the other party for certain periods of time, etc. This information must be gathered and sent to the other party and arrangements must be made for whatever assistance is required. Responsibility for doing this must be clearly set forth.

All contact with the other party should be channeled through the licensing activity so that continued technical exchange may be maintained as called for by the agreement and that assistance of the liensor may be used as appropriate to encourage the licensee and to make the operation as successful as possible. It may be that often the licensing people will be

involved with establishing the initial contact with later contact being between the appropriate technical people themselves. However, the licensing people should be kept informed of the nature and extent of this contact and should make it their business to see that the agreements are being lived up to and everything reasonable is being done to ensure the success of the license.

If the license involves trademarks, the agreement must include provision for quality control of the product being licensed and a specific procedure must be set up to implement this quality control. Such control is necessary in the United States and a number of other countries in order to prevent loss of the trademark.

For example, Section 5 of the Lanham Act (15 U. S. C. 1055) points out that where a registered trademark is used legitimately by related companies this use shall inure to the benefit of the registrant and such use shall not affect the validity of the mark or its registration provided the mark is not used in a manner as to deceive the public.

Section 45 of the Lanham Act (15 U. S. C. 1127) defines related companies as any person who legitimately controls or is controlled by the registrant with respect to the nature or quality of the goods or services in connection with which the trademark is used. This definition clearly includes licensees.

Thus, if the nature and quality of the goods or services is not actually controlled, the use may affect the validity of the mark and in certain instances the mark can actually be lost.

Quality control must be maintained and products using the trademark must be inspected on a regular basis and must conform to certain quality specifications. This can be done by submission of samples of the licensee to the licensor for inspection, periodic visits including inspection, etc. Thus, procedures must be established to do this and records should be kept clearly indicating that inspections were made and that quality specifications were enforced.

Royalty Payments: All royalties should be paid or received through one conduit, preferably the license administration people. This is necessary to ensure that correct amounts are being paid or received. For each license a form of payment should be established so that accurate control may be maintained.

For example, in one of our agreements at Itek we pay certain royalties which are based on a percentage of sales but which are to be paid to a certain maximum total which is specified in the license agreement. A form has been designed to reflect this (Appendix D). The use of this form clearly establishes the royalty amounts and the period involved as well as the total royalty previously paid. Thus, we will be sure to know when the maximum has been reached and will not make unnecessary payments. Also, knowing the maximum called for by the license agreement, we can estimate the length of time during which royalties must be paid and can take this

into account for financial purposes. We use the comment section of this form to inform the licensor of activity, such as stepping up sales campaigns, new products introduced under the license, etc., which would be helpful to and of interest to the licensor.

Similar forms can be designed when an annual minimum royalty is involved, if the royalty involves different payments at different quantity levels in different fields, etc.

Often, particularly with small companies, a check arrives at the company not addressed to anyone in particular with no reference to the agreement, the amount of sales, royalties involved, etc. Therefore, we usually prepare a royalty transmittal form even when we are the licensor and often include it as an attachment to the agreement itself.

In determining the amounts that should be paid, the division people should be thoroughly familiar with what the license covers and on which sales royalties must be paid. Again, the use of a form, such as Appendix E, from the appropriate division to the licensing people is very useful. Often the controller of the division is the person responsible for keeping track of the sales involved and he must be educated in some detail as to what is included in the license. The way he determines the royalties must be checked regularly to ensure accurate compilation and allocation of royalties.

While it may sound obvious that the licensee's people should know what is covered by the license, there have been many occasions in which a licensee had paid substantial royalties which were not required by the license because of lack of knowledge of the people involved in making payments on an agreement which had been negotiated some years before. For example, a friend of mine took a new job at a company which had not previously had internal patent or licensing people, and after reviewing the company's license agreements, found that they had been paying many thousands of dollars under license agreements which did not require the payments of these amounts. In some instances royalties had been paid under patent applications which had been abandoned and thus had not matured into patents. Royalties had also been paid under a trademark license when the trademarks were not being used on the goods involved. Other items which must be checked include whether the patents involved cover the products which may have changed through the years, whether the patents have expired and neither party realizes it, or whether royalties are to be paid only for a certain period of time and whether this time has expired.

If the license agreement is properly administered, including regular review of the payment of royalties, unnecessary payments of the type mentioned above can be eliminated.

When payments are received by the licensor, they should be checked for the correct amounts (minimums, maximums, etc.) within the license agreement. The payments are then sent to the appropriate

accounting operation with copies to others, such as division controllers, who should be notified of receipt of the royalty.

It is often the case, particularly with small companies or individual inventors, that the parties involved with the license itself are not aware of what the license covers specifically because of a lapse of time, change of jobs, or the complexity of patents and licenses in general. To prevent this the attorney involved in drafting and negotiating the agreement should assist in setting up the administration of the license agreement.

Continuing Contacts with the Other Party: In a naked patent license under one specific patent in which the licensee needs no help or assistance from the licensor, it may be that no further contact except for royalty payments is necessary. However, it is usually desirable and often necessary to have periodic and regular communication with the other party. Often the licensee may have problems with the technology licensed and if the licensor is not readily available for help and assistance, even of the "brain picking" variety, the licensee may become discouraged and not be able to make full use of the technology. This, of course, is to the detriment of both the licensee and the licensor.

It is often useful to have technical people from the licensor visit the licensee on a regular basis to see whether they can be of any assistance. It is possible that the licensor's experience

might be useful in solving problems which have come up in the licensee's operation or the licensor's comments would be helpful if the licensee desires to design and improve models of the licensed product.

This continuing regular contact has proved to be very valuable on a number of occasions. For example, if a licensee has operated successfully under a license, he may be eager to accept another license from the licensor because he had had excellent experience with the first license.

Often the agreement calls for a continuing disclosure of technical information from the licensor to the licensee and it often includes a flow of information from the licensee to the licensor. Each party may receive rights under improvement inventions and it may be necessary for the licensor or licensee to file additional patent applications. Also, the licensee may have operating data which can be helpful in assisting the licensor to obtain a patent. Regular contact will uncover this information.

It is not unusual for licensors to have meetings or seminars involving their licensees to further disseminate technical information. For example, Bell Telephone Laboratories has technical seminars to which licensees are invited if the technology involved is related to their license. This is a means of information flow from Bell to their licensees and, of course, it encourages the licensees to continue the relationship with Bell or to take licenses in additional fields.

In another example Celanese Corporation has license agreements with a number of foreign companies on a certain product which includes provisions for the granting of non-exclusive licenses on improvements to Celanese and to the Celanese licensees who were willing to grant licenses to the first licensee on their improvement inventions. Celanese sponsors regular technical meetings at either Celanese facilities or at licensee facilities to assist in the flow of technical information.

Agreements such as those which Bell Labs has with a number of other companies include rights under all the Bell patents in certain fields. Thus, it is worthwhile for Bell licensees to review Bell publications such as the Bell System Technical Journal and the Bell Telephone Laboratories Record for available technical information as well as issued Bell patents in the fields of interest. The patents and technical information of interest can be made available to the appropriate people of the licensee.

It is not unusual in licenses with foreign licensees to include clauses whereby the licensee is forbidden to export products to certain countries which are on the U. S. Government list of proscribed nations under the Export Control Regulations. Because this list is modified periodically to reflect changes in international politics, the license agreement may very well call for the licensor to be responsible for notifying the licensee of changes in the list of countries. This must be done regularly so that the licensee is informed at an early date.

The necessity for notifying the licensee of these changes can be appreciated if one reviews the countries which may appear on the list of proscribed countries. For example, Southern Rhodesia is on the list and the general U. S. Government policy is to deny applications to export or re-export commodities or technical data to Southern Rhodesia unless the commodities or technical data are intended strictly for:

- (a) medical purposes;
- (b) use in schools and other educational institutions;
- (c) the essential needs of recognized charitable institutions; or
- (d) food stuffs required in special humanitarian circumstances.

It is also the general U. S. Government policy to deny applications to export or re-export commodities or technical data to the Republic of South Africa where there is a likelihood of military end-use. Countries like Czechoslovakia and Poland are treated in a different manner from Yugoslavia and Cuba is treated still differently.

License Revision: Each party to a license should regularly review the license agreement with respect to the actual operation of the license to see whether the agreement should be revised in a number of possible ways. Often it may be desirable to re-define the field of the license in order to broaden it to cover

new products, re-designs of old products, etc. Certainly, if one of the patents involved in the license is held invalid, the license needs to be re-examined.

It may be that a royalty change is called for. For example, if a patent does not issue on one or more patent applications which was the basis of the license agreement, the royalty should be changed. If a patent is held invalid or if certain claims were lost in an interference, the royalty rate should be adjusted.

Often a license agreement may include clauses relating to change in royalty rate if competition enters. For example, a clause that is used occasionally calls for a reduction in the royalty rate if certain specific competitors sell products in the licensed field in excess of a certain percent of the sales of the licensee in that field. If the license agreement does not include such a clause and there are competitive pressures, it may very well be reasonable to re-negotiate the royalty rate to take this into account and this should be kept in mind.

Changes in the law or in Government attitudes may warrant review of the license. For example, because of the recent *Lear v. Atkins* case (395 U. S. 653, 162 U. S. P. Q. 1) and because of the attitude of the Department of Justice, some companies have revised their license agreements by voluntarily deleting clauses in which the licensee was estopped to deny the validity of the patents licensed. Some licensors feel it

is better to eliminate such a clause rather than risk the possibility of the entire license agreement being challenged for that reason.

The attitude of the Department of Justice in the area of field-of-use licenses may, if the license has such a restriction included in it, be the basis for revision of the agreement in this respect. As license agreements may last for a number of years, actions which were perfectly proper in accordance with the law and Government attitudes at the time when the license is executed may become tainted at a later time and it may be desirable to revise the license to avoid such items.

Assignment: Of course, if one of the parties to the license is merged with a third party, the other party should be notified of this at the appropriate time and, depending on the terms of the agreement, other appropriate action may be taken.

Also, if one of the parties sells the business to which the license relates, the agreement may require certain actions which must be taken.

In general, there should be a continuing evaluation of the entire license situation. It must be determined whether products sold are within the license, whether minimum payments should still be paid to maintain exclusivity, or even whether the license is still necessary. If the license agreement calls for payments to be made to maintain the license and if the licensee

is no longer using the technology involved and does not have any plans to use the technology in the future, the license should be terminated.

Termination: In the continuing review of the license situation if it becomes desirable to terminate the license, often such termination can only take place if certain events happen or at certain times. For example, it is not uncommon to have a license agreement which may be terminated only during a 60-day period before the end of each license year. If this period passes without the party taking action, the license may be automatically continued for another year. It should be the duty of the license administration people to notify management at an appropriate date so that consideration may be given to the desirability of terminating the license in a timely fashion.

Some license agreements may call for a positive notification by the licensee in order to maintain the license in effect. If such notification is not made, the license automatically terminates. This situation must be properly controlled by the license administrators.

Some agreements provide for the return of certain data or equipment upon termination of the agreement and these acts will not occur unless the license administrator sees that they are to be done.

Expiration: Many license agreements call for the payment of royalties for a certain period, after which the license becomes royalty-free, but the license itself does not expire. The license administrators should make sure that royalties are not paid past the royalty expiration date. Also, if the agreement itself expires, it may be necessary to negotiate a new agreement if the licensor still has patent rights or know-how to which the licensee desires access.

For example, often with a Japanese licensee the Japanese Government requires a comparatively short time (such as five or ten years) to be the length of the license. If the licensor still has worthwhile patent protection after the expiration of the earlier agreement, an additional license can be negotiated with the terms, royalty rates, etc. being determined by the extent of the patents or know-how available.

Policing: In the above discussion of licensing administration, one of the objectives of the recommended good communication and information transfer is policing the license. Most license agreements have provisions for inspecting the books of the licensee but, unless there appears to be something out of line with the licensee's statements, this provision is rarely implemented. However, if it is decided to inspect the books of the licensee, the inspection is usually done by the licensor's financial

people or by an outside financial organization. These people should be thoroughly briefed on what the license covers, what to look for, what questions to ask, etc. Only after this has been done can the licensee's records be adequately reviewed.

The licensor should always be on the alert for statements by the licensee and others which may help him in determining the size of the market for the licensed product and the licensee's portion of that market. It is usually good practice to review the licensee's annual report, any prospectus issued by the licensee and other publications relating to the market involved. Often it may be useful for the licensor to alert his sales people and his commercial intelligence organization, if he has one, to be on the lookout for information about the licensee, the licensed product and the market involved.

Most licensees, particularly if they are publicly-owned corporations, make accurate royalty payments, as significant variations from the licensee's statements are bound to become known sooner or later.

Disputes Between the Parties: If one of the parties fails to live up to his obligations under the license, the license agreement usually contains provisions under which the agreement may be terminated. Many agreements provide for arbitration if there are disputes between the licensee and licensor. Some attorneys, However, prefer not to include arbitration clauses in their

license agreements because they feel that some parties will not make a real attempt to settle a matter but will routinely go to arbitration. If there is no arbitration clause, these attorneys feel the parties may be forced to work harder to settle their dispute rather than go to court which is a drastic step and may become very expensive.

However, if there has been good communications between the parties, the likelihood of disputes between them is markedly reduced.

Litigation Against Third Parties: Unless the license agreement specifically provides otherwise, the licensor is not required to proceed against third party infringers. However, a licensee under an exclusive license may be able to bring suit himself against the infringer, if an exclusive license is of the type that the court might regard, in effect, as an assignment.

Often, of course, the agreement provides for one or the other or both of the parties to bring action against third party infringers. The agreement may also provide for appropriate sharing of the costs and returns under the suit. In such a case the parties to the license may wish to have close contact and free flow of information between them so that a complete picture of the facts may be gathered. For example, if the license involves technology of the type which the licensor had not fully developed, the actual operating practice of the licensee

may be involved in the infringement action as well as the circumstances surrounding the act of invention by the licensor. If each party retains its own counsel, they must work closely together to present the best case possible under the circumstances.

It may also happen that a licensee is sued for infringement of the patent of a third party and this may require assistance from the licensor or in some cases the licensor may take over defense of the suit, although this latter situation is rare.

LICENSING OR SELLING ITEK PATENTS AND TECHNICAL KNOW-HOW

An important role in both division and corporate planning is the generation of profits and penetration of new markets through licensing or selling of Itek patents, technical know-how, trademarks, copyrights and similar proprietary assets.

It is Itek policy to consider licensing or selling patents or other proprietary assets if the asset is not in a business area which Itek intends to fully explore, or when Itek resources are not available to penetrate the market.


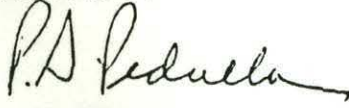
Itek Division Managers and the Director of Corporate Patents and Licensing are jointly responsible for the development of licensing opportunities. This responsibility will include a periodic review of the potential for licensing or selling Itek's proprietary assets and the definition of terms and conditions to be obtained from prospective licensees.

All agreements to license or sell Itek patents or other proprietary assets will be negotiated by the Director of Corporate Patents and Licensing and will be finally approved and executed for Itek in accordance with Corporate Policy Statement 14, Approvals.

Under this policy the Director of Corporate Patents and Licensing will also be responsible for:

- Maintaining Itek's official contact with licensees.
- Ensuring that license and royalty payments and supporting activity reports are remitted promptly to Itek and in accordance with the terms and conditions of the agreement.
- Providing abstracts of agreements to concerned individuals.
- Formulating the necessary procedures relative to license and royalty agreement activity.

The allocation of license and royalty income to operating divisions will be determined by the cognizant Corporate Vice President(s) and the Corporate Controller based on a division's contribution to the proprietary asset licensed.

 CORPORATE OFFICES POLICY AND PROCEDURE	SUPERSEDES Issue date 9/20/68	NUMBER 2-14 REVISION 1
	SUBJECT LICENSE AND ROYALTY INCOME	PREPARED BY Corporate Policies & Procedures APPROVED BY  P. S. Pedulla

A. Scope

All divisions.

B. Definition

License and Royalty Income includes all royalty payments from outside companies or individuals under agreements for use of Itek patents, trademarks, copyrights, technical know-how, and similar proprietary assets.

C. Objectives

To establish the procedures for the control and recording of license and royalty income and the responsibilities for administration of license and royalty agreements.

D. Policy and Procedure

1. Under the groundrules established for licensing contained in Corporate Policy Statement No. 21, the Division Manager and the Director of Corporate Patents and Licensing are jointly responsible for the development of licensing opportunities. This responsibility will include a periodic review of the potential for licensing the division's proprietary assets and the definition of terms and conditions to be obtained from prospective licensees.
2. All license and royalty agreements will be negotiated and administered by the Director of Corporate Patents and Licensing and finally approved and executed for Itek in accordance with Approvals Policy No. 1-14 contained in this manual. License Agreement Sign-off Checklist, Form ADM-264, will be used for obtaining appropriate division and corporate approvals. Abstracts of license agreements will be furnished by the Director to concerned corporate and division management.
3. The Director of Corporate Patents and Licensing will receive all remittances for royalties and technical services under license agreements directly from licensees. He will monitor and approve the remittances for reasonableness and conformity with terms of license agreements, and will follow up receipt of reports and remittances which become overdue.

4. Accounting Treatment

- a. All remittances from licensees with accompanying royalty reports will be forwarded by the Director of Corporate Patents and Licensing to Corporate Accounting-Operations with copies of invoices for technical services for which payment is included in the remittance amount.
- b. The Director of Corporate Patents and Licensing will advise the Manager, Corporate Accounting-Operations, on the division allocation of license or royalty income after prior review with the Corporate Controller and cognizant Corporate Vice President(s).
- c. License and royalty income will be credited to the appropriate operating divisions and reflected in their License and Royalty Income Account. For external financial presentation purposes, this account will be reclassified to Other Income and Expense.
- d. Divisional unbilled expense incurred in meeting Itek's obligations under an income bearing license agreement will be charged to the division's License and Royalty Income Account.
- e. Income received from technical service sold to licensees under a license agreement will be reflected as sales or revenues of the performing division. The cost of such services will be reflected as cost of sales of the performing division.

The Corporate Patents and Licensing Department shall be a party to all negotiations for technical services of this nature and invoices of the performing division will be forwarded to the licensee through the Director of Corporate Patents and Licensing.

NOTE: Sales or services not covered by a license agreement will be negotiated, billed and remittances handled directly between the performing division and the licensee

5. The Director of Corporate Patents and Licensing will furnish the following to Corporate Accounting-Operations and concerned Division Controller:
 - a. Copies of all license agreements when executed, including agreement abstracts where required.
 - b. Copies of quarterly schedules summarizing terms, conditions and due dates for payments from licensees.
6. Corporate Accounting-Operations will:
 - a. Reconcile remittance amounts and royalty reports with terms and conditions of license agreements, and with the performing division's invoice(s) if payment for technical services are included.

- b. Deposit remittances in the company General Fund account, credit the appropriate interdivisional account and forward the credit to the division for recording of royalty amounts in its License and Royalty Income Account, and technical service amounts in its Sales or Revenues Account.
 - c. Follow-up delinquent remittances through the Corporate Patents and Licensing Department.
7. The Corporate Internal Auditing Department will:
- a. Periodically audit in-house licensing activities to determine that appropriate remittances have been received and recorded on a timely basis.
 - b. Audit licensee's records when deemed necessary to validate the amount of remittances, conducting such audits in accordance with arrangements made by the Corporate Patents and Licensing Department.

Itek	INTERDIVISIONAL CORPORATE/DIVISION TRANSACTIONS MANUAL	SUPERSEDES	NUMBER 1-006
			REVISION
SUBJECT	INTERNAL LICENSING	PREPARED BY Corporate Policies & Procedures	EFFECTIVE 11/3/69
		APPROVED BY	PAGE 1 OF 5
		<i>Homer O. Blair</i> Homer O. Blair	DISTRIBUTION
			Manual Holders

Itek divisions transferring inventions and other developments for marketing exploitation by another division may do so under an internal licensing agreement. Objectives of such arrangements are to:

- Provide profit incentive to seek opportunities for exploitation of developments within Itek.
- Encourage sustained interest and cooperative assistance by the licensor division after transfer of the invention.
- Relieve demands on corporate funding by establishing a mechanism which identifies and encourages the use of Itek's existing technological resources to generate income.

Responsibility

Procedure

Licensor Division

1. With assistance from Corporate Patents and Licensing, present developments being considered for internal licensing to Division Managers having the potential to exploit the developments.
2. Negotiate internal licensing agreement with interested divisions with assistance and guidance on terms and conditions provided by Corporate Patents and Licensing.

Corporate Patents
and Licensing

3. Serve as the coordinating activity in the identification of candidate inventions for internal licensing and subsequent negotiation of licensing agreements.
4. Assist the Division in insuring that timely decisions will be made with respect to licensing any given item.

Responsibility

Corporate Patents
and Licensing
(Continued)

Licensee Division
Accounting

Procedure

5. Prepare and have internal licensing agreement signed by concerned divisions. Provide copies to Corporate Accounting-Operations Department and concerned Division Controllers.
6. Prepare and send abstracts of internal license agreement to:
 - a. Cognizant Division Managers
 - b. Cognizant Corporate Vice Presidents
 - c. Chief Financial Officer
 - d. Corporate Counsel
 - e. Treasurer
 - f. Corporate Controller
 - g. Manager, Corporate Accounting-Operations
 - h. Manager, Corporate Accounting-Consolidations
 - i. Concerned Division Controllers
 - j. Other concerned division and corporate management, as required.
7. Include terms, conditions and due dates for reporting royalties to the licensor division under internal license agreement on Quarterly License Report (Exhibit A), regularly distributed to corporate and division management in accordance with terms of internal license agreement.
8. Report sales and royalties based thereon to Corporate Patents and Licensing in accordance with terms of the internal licensing agreement on reporting dates agreed to with Corporate Patents and the Licensor division.

ResponsibilityProcedure

Corporate Patents
and Licensing

9. As required by internal licensing agreement, report sales and royalties to Corporate Accounting-Operations Department and licensor division Accounting.

Licensee Division
Accounting

10. Accrue royalty expense monthly or quarterly, depending on the significance of the amount involved.
11. Record royalty expense amounts as cost of sales on the Operating Results and Income Statements in the Monthly Financial Reports sent to Corporate Accounting-Consolidations Department.
12. Prepare and send credit billing to licensor division per reporting provision in the internal licensing agreement in accordance with 2-008, Interdivisional Billings, in this manual.
13. Report year to date internal royalty expense amount on the Intercompany Transactions form in the Monthly Financial Reports sent to Corporate Accounting-Consolidations Department.

Licensor Division
Accounting

14. Accrue royalty income monthly or quarterly, depending upon the significance of the amount involved.
15. Report royalty income on Royalty Income line on monthly Operating Results and Income Statements sent to Corporate Accounting-Consolidations.
16. Report year to date internal royalty income amounts on Intercompany Transactions form in the Monthly Financial Reports sent to Corporate Accounting-Consolidations.
17. Bill licensee division any revenue producing service performed under internal licensing agreement via interdivisional billing. Record as sales and cost of sales.

ResponsibilityProcedure

Corporate Patents
and Licensing

9. As required by internal licensing agreement, report sales and royalties to Corporate Accounting-Operations Department and licensor division Accounting.

Licensee Division
Accounting

10. Accrue royalty expense monthly or quarterly, depending on the significance of the amount involved.

11. Record royalty expense amounts as cost of sales on the Operating Results and Income Statements in the Monthly Financial Reports sent to Corporate Accounting-Consolidations Department.

12. Prepare and send credit billing to licensor division per reporting provision in the internal licensing agreement in accordance with 2-008, Interdivisional Billings, in this manual.

13. Report year to date internal royalty expense amount on the Intercompany Transactions form in the Monthly Financial Reports sent to Corporate Accounting-Consolidations Department.

Licensor Division
Accounting

14. Accrue royalty income monthly or quarterly, depending upon the significance of the amount involved.

15. Report royalty income on Royalty Income line on monthly Operating Results and Income Statements sent to Corporate Accounting-Consolidations.

16. Report year to date internal royalty income amounts on Intercompany Transactions form in the Monthly Financial Reports sent to Corporate Accounting-Consolidations.

17. Bill licensee division any revenue producing service performed under internal licensing agreement via interdivisional billing. Record as sales and cost of sales.

ResponsibilityProcedure

Licensor Division
(Continued)

18. Report year to date interdivision sales and cost of sales amounts per 17 on Intercompany Transactions form in Monthly Financial Reports sent to Corporate Accounting-Consolidations

Corporate Accounting-
Consolidations

19. Eliminate offsetting internal licensing costs and income in monthly consolidations.

Itek

INTERNAL LICENSING

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ROYALTY REPORT
September 25, 1969

A. ROYALTY EXPENSE

<u>Licensor Date</u>	<u>Concerned Division</u>	<u>Type</u>	<u>Rate</u>	<u>Royalty Period</u>	<u>Report Due Within</u>	<u>Payments</u>	<u>Remarks</u>
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B. ROYALTY INCOME

C. SCHEDULE OF ROYALTY REPORTS DUE

<u>Licensor/Licensee</u>	<u>Concerned Division</u>	<u>Report Period</u>	<u>Jan.</u>	<u>Feb.</u>	<u>Mar.</u>	<u>Apr.</u>	<u>May</u>	<u>June</u>	<u>July</u>	<u>Aug.</u>	<u>Sept.</u>	<u>Oct.</u>	<u>Nov.</u>	<u>Dec.</u>
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Reports Due to Licensors from Itek

Reports Due to Itek from Licensees

EXHIBIT A

-H-28-

ADM 1.8

ROYAL RUBBER COMPANY

Cambridge, Massachusetts 09999

Royalty Payments

28 April 1970

David J. Smith
 International Widget Company
 78 Davis Avenue
 New York, New York 01111

In accordance with the International Widget Company/Royal
 Rubber Company Agreement of 19 February 1958 relating to
 the widget field.

Period: Quarter First
 Year 1970
 Month January, February, March

	<u>United States</u>	<u>Canada (U.S. Dollars)</u>
Sales	\$278,503.67	\$1,050.67
Royalty Due @ 1%	<u>\$ 2,785.04</u>	<u>10.51</u>
Total Royalty Paid Herewith	<u>\$ 2,795.55</u>	
Previous Total Royalty	<u>\$ 10,777.77</u>	
Total Including this Payment	<u>\$ 13,573.32</u>	

COMMENT:

Very truly yours,

ROYAL RUBBER COMPANY

James W. Jones, Director
 Patents and Licensing

JWJ/xxx

ROYAL RUBBER COMPANY

Royalty Advice

Period: Month of _____ 19__

Payable to: International Widget Company

Payable on: Sales of widgets:

	<u>United States</u>	<u>Canada (Can \$)</u>
Supplies	\$ _____	\$ _____
Equipment	\$ _____	\$ _____
Total	\$ <u>_____</u>	\$ <u>_____</u>
Royalty Due @ 1%	\$ <u>_____</u>	\$ <u>_____</u>

To: James W. Jones