The object of this book is to assist the legal profession in the planning, preparation and examination of patent license agreements.

The text incorporates a discussion of applicable principles of contract law and antitrust law. This discussion is supplemented by a collection of representative contract forms. The composite presentation is intended to aid the practitioner by identifying all major negotiable subjects, by outlining the legal status of principal contract provisions, and by providing illustrative contract phraseology to minimize the time required to reduce an agreement to writing.

In the following presentation, the first five chapters are concerned with provisions that frequently appear in conventional patent license agreements, while Chapter 6 is directed to various agreements and provisions of a special nature.
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CASE INDEX

TOPICAL INDEX
INTRODUCTION

§1. Prefatory: To provide a background for a discussion of patent license agreements, the present chapter outlines briefly general patent, license, misuse and antitrust considerations. This background material is followed by a patent license checklist and a discussion of preliminary formal license provisions.

Although outside the scope of this book, the tax aspects of licensing should also be considered by the contracting parties. [See: Patent, Trademark & Copyright Tax Guide, The Patent Law Association of Chicago, 1965; Gitlin and Woodward, Tax Aspects of Patents, Copyrights & Trademarks, Practising Law Institute, 1960, and current supplement.]

§2. General Patent Considerations: Two basic topics deserve initial attention: (1) the classes of inventions that are patentable, and (2) the patentee’s right in his invention.

There are three statutory classes of patentable inventions or discoveries; and utility, plant and design patents are granted on such inventions. More specifically, a utility patent may be obtained on any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof [35 U.S.C., Sec. 101 (1952)]; a plant patent on any distinct and new variety of plant, other than a tuberpropagated plant, which has been asexually reproduced [35 U.S.C., Sec. 161 (1952)]; and a design patent on any new, original, and ornamental design for an article of manufacture [35 U.S.C., Sec. 171 (1952)].

The patentee’s right in his invention has two primary components: a common law right and a statutory or patent right.

An inventor, independently of patent law, has a common law right to make, use and sell his invention. This
common law right is neither absolute nor exclusive. It is not absolute because it cannot be exercised if the invention comes within the scope of an unexpired patent. It is not exclusive because anyone who independently conceives the same invention cannot be restrained from practicing it by the first inventor. The common law right of an inventor serves only to protect him against those who obtain the invention from him improperly, for example, by breach of confidence.

To supplement this common law right an inventor may avail himself of the patent laws. Under the patent laws, an inventor or patentee obtains the right to exclude others from making, using or selling his invention or discovery within the United States, its territories and possessions. [35 U.S.C., Sec. 154 (1952).] The period during which the patent right of exclusion may be exercised depends upon the type of patent involved. A utility or plant patent has a term of seventeen years from the date of grant of the patent, while a design patent has a life of three and one-half, seven or fourteen years, at the option of the applicant.

When granting a license or an assignment, the patentee releases to the extent agreed upon, not only his patent right of exclusion, but also his corresponding common law right. For convenience, and consistent with popular usage, the term "right to make, use and sell", unless otherwise qualified, will be used herein to designate both the patent right and the common law right.

§3. General License Considerations: The subjects covered in this section include how a patent license may be granted, when it may be granted, and who may grant it.

Although statutory patent rights may be involved, a patent license agreement itself does not have any statutory basis. Licenses are a creature of the common law and are governed by general principles of contract law. [L. L. Brown Paper Co. v. Hydroiloid Incorporated, 32 F. Supp. 857, 868 (S.D. N.Y., 1939), on appeal, 118 F. 2nd 674]
(C.A. 2, 1941); Farmland Irrigation Co., Inc. v. Dopplmaier, 113 USPQ 88, 93 (Cal. Sup. Ct., 1957).] Accordingly, informal letters may constitute in legal effect a license agreement. [De Forest Radio Telephone Company v. United States, 273 U.S. 236, 241 (1927); Reynolds Metal Co. v. Skinner, 166 F. 2d 66 (C.A. 6, 1948).] And, that a more formal contract is contemplated will not deprive an informal letter agreement of its legal efficacy. [Frost Railway Supply Company v. T. H. Symington & Son, Inc., 24 F. Supp. 20 (D. Md., 1938).] Moreover, a license need not be in written form, but may be entirely oral. [St. Louis Street F. M. Co. v. Sanitary Street F. M. Co., 178 F. 923, 926 (C.A. 8, 1910).] However, an oral agreement that is not to be performed within one year may be unenforceable or void if found to be within the Statute of Frauds in force in most states. [Shick Service v. Jones, 173 F. 2d 969, 977 (C.A. 9, 1949); Matthews v. Continental Roll and Steel Foundry Co., 121 F. 2d 594 (C.A. 3, 1941); Duggan v. Mills Novelty Co., 53 USPQ 123, 125 (W.D. Pa., 1942); International Patents Development Co. v. Penick & Ford, Ltd., Inc., 15 F. Supp. 1038 (D. Del., 1936), affirmed per curiam, 94 F. 2d 1018 (C.A. 3, 1939).] Finally, although Patent Office Rule 331 authorizes the recording of licenses under specified conditions, licenses are not recorded as a general rule because recording, at least with respect to agreements that are not in legal effect assignments, does not afford constructive notice of the agreement. [Talbot v. Quaker State Oil Refining Company, 28 F. Supp. 544 (W.D. Pa., 1938), affirmed, 104 F. 2d 967 (C.A. 3, 1939).] For a discussion of the distinction between a license and an assignment, see Waterman v. Mackenzie, 138 U.S. 252 (1890).

It is self evident that a patent license may be granted under an issued patent. Also, an applicant for a patent may properly assign or license his rights in the invention described in the patent application, prior to the application maturing into a patent. The validity of such agree-
tract, combination or conspiracy, in restraint of interstate or foreign trade or commerce to be illegal. [15 U.S.C., Sec. 1.] Section 2 specifies that every person who shall monopolize, or attempt to monopolize, or conspire to monopolize any part of interstate or foreign trade or commerce shall be deemed guilty of a misdemeanor. [15 U.S.C., Sec. 2.] Section 3 of the Clayton Act makes it unlawful to sell or lease commodities, whether patented or unpatented, on condition that the purchaser or lessee will not deal with the products of the seller’s competitors, where the effect of such condition may be to substantially lessen competition or tend to create a monopoly. [15 U.S.C., Sec. 14.] Finally, Section 7 provides that no corporation shall acquire the stock or assets of another corporation, where the effect of such acquisition may be to substantially lessen competition or tend to create a monopoly. [15 U.S.C., Sec. 18.] The words “acquire” and “assets” are “generic, imprecise terms encompassing a broad spectrum of transactions whereby the acquiring person may accomplish the acquisition by means of purchase, assignment, lease, license, or otherwise.” [United States v. Columbia Pictures, 189 F. Supp. 153, 181-3 (S.D.N.Y., 1960).]

Relevant decisional law concerning the application of the patent misuse doctrine and the antitrust laws to patent license agreements will be noted throughout this book in the discussion of specific types of agreements and contract provisions thereof.

In connection with the foregoing, one important point must be continually borne in mind: a particular license restriction is seldom considered in isolation by the judiciary, but usually is viewed against the background of the motivation of the patent owner in issuing the license embodying the restriction. The purpose for which a patent license is issued, and the intent of the parties entering into a patent license agreement, are very important factors in the determination of whether a license restriction is valid. In general, unless a restriction in a patent license is
imposed for the sole purpose of securing to the patent owner the legitimate benefits of the patent laws, difficulty will be experienced in defending the restriction. For example, if a restriction benefits the licensee only, or is demanded by the latter, the validity of the restriction cannot be premised upon the patent laws, because the restriction is not related to a patent owned by the party imposing, or benefiting from, the restriction. As another example, even though a restriction might ordinarily be within the scope of the patent laws, when the restrictive license agreement is entered into for an unlawful purpose, the legality of the agreement usually will not successfully withstand attack under the antitrust laws. An unlawful purpose is evidenced if the license agreement is found to be part of a general plan to restrain or monopolize trade or if, in any other respects, the purpose of the agreement is to evade the prohibitions of the antitrust laws. In sum, although a particular restriction in a patent license agreement may be valid under ordinary circumstances, such restriction will not necessarily be held valid under all circumstances. The specific setting in which it arises must always be considered.

§§. Patent License Checklist: A systematic use of the following checklist during negotiations and preparation of a patent license agreement will reduce the possibility of important negotiable matters being overlooked.

I. Preliminary Formal Provisions
   A. Heading (Sec. 7)
      1. Parties
         a. Identification
         b. Capacity or corporate authority
      2. Effective date of agreement
      3. Place where agreement made
   B. Recitals (Sec. 8)
      1. Licensed subject matter
         a. Patents and applications
b. Know-how
2. General rights licensed (See II)
3. Warranties (See IV-B)
4. Definition of terms
5. Background of agreement
   a. Prior relationship between parties
   b. Prior agreements
      (1) Cancelled
      (2) Suspended
      (3) Incorporated by reference
      (4) Dominating present agreement

II. Grant of Patent Rights
A. Package licensing problems (Sec. 10)
B. Exclusive (or nonexclusive) (Sec. 11)
   1. Subject to rights of licensor
   2. Subject to prior or future licenses
C. General limitations (Sec. 12)
   1. Make, use, sell or lease
   2. Have made
   3. Less than all claims
   4. Sale of components
D. Territorial limitations (Sec. 13)
   1. Geographical
   2. Plant location
E. Quantity limitations (Sec. 14)
   1. Minimum
   2. Maximum
      a. Fixed number
      b. Percent of industry sales
      c. Percent of licensor’s sales
F. Field-of-use limitations (Sec. 15)
   1. Style or size of product
   2. Sale solely in specified combination
   3. Sale for limited uses
   4. Sale limited to prescribed customers
   5. Sale for use in limited areas
6. Sale through specified trade channels
G. Price limitations (Sec. 16)
H. Tying arrangements (Sec. 17)

III. Monetary Consideration
A. General problems (Sec. 18)
   1. Unreasonable payments
   2. Discriminatory payments
   3. Post-expiration payments
B. Fixed consideration (Sec. 19)
   1. Lump sum
   2. Fixed sum payable in installments
   3. Fixed periodic payments
   4. Interest on overdue payments
   5. Acceleration on default
C. Variable consideration (Sec. 20)
   1. Rate
      a. Direct proportion
      b. Descending
      c. Ascending
      d. Differential
      e. Temporarily low
   2. Base
      a. Number of units
         (1) Manufactured, sold or processed
         (2) All units or patented only
         (3) Definition of “sold”
         (4) One payment per unit
      b. Supplies or raw materials used
         (1) Volume basis
         (2) Cost basis
      c. Use compensation received by licensee
      d. Net sales of licensee
         (1) All articles or patented only
         (2) Definition of “sold”
         (3) Definition of “net sales”
         (4) Effect of credit losses
5. Sales to affiliates
e. Profits of licensee

3. Related matters
   a. Allowance for royalties payable to others
   b. Exemption on sales to other licensees
   c. Interest on overdue payments
   d. Effect of termination on obligation to pay accrued royalties

4. Minimum payments (Sec. 21)
   a. Supplementary initial payment
      (1) Independent of future royalties
      (2) Credited against future royalties
   b. Minimum royalties
      (1) Payment mandatory
          (a) In advance of each royalty period
          (b) At end of each royalty period
      (2) Payment optional
          (a) To retain exclusiveness
          (b) To maintain license
      (3) In satisfaction of duty to exploit
      (4) Carry over of payments from one period to another

5. Maximum payments (Sec. 21)
   a. In each year
   b. In total

6. Accounting matters (Sec. 22)
   a. Time and content of royalty reports
   b. Time of royalty payments
   c. Maintenance of records
   d. Examination of records
      (1) Licensor or independent accountant
      (2) Time limitation
      (3) Information confidential
      (4) After termination

IV. Other Principal Rights and Obligations
   A. Release for past infringement (Sec. 24)
1. Licensee; licensee’s customers
2. Absolute or conditioned
   a. On continuance of agreement
   b. On payment of prescribed sum
3. Specific or general release

B. Warranties by licensor (Sec. 25)
1. Ownership of Licensed Patent
2. Right to license
3. Commercial utility
4. Validity of patent
5. Non-infringement of other patents

C. Most favored licensee (Sec. 26)
1. Scope of clause
   a. All terms generally
   b. Royalty terms only
2. Application of more favorable terms
   a. Automatically
   b. At licensee’s option
3. Original licensee entitled to
   a. Notification of later license
   b. Copy of later license

D. Sublicensing (Sec. 27)
1. Prohibited
2. Permitted
   a. Terms and duration
   b. Copies to licensor
   c. Rights and liabilities regarding royalties

E. Acknowledgment of validity (Sec. 28)
1. Scope of clause
   a. All operations generally
   b. Only operations within license
2. Duration
   a. Term of license
   b. Term of patents
3. Agreement not to assist others in contesting validity

F. Admission of infringement (Sec. 28)
1. Scope of clause
   a. General admission
   b. Specific to identified devices

2. Agreement not to contest scope of claims

G. Enforcement of licensed patent (Sec. 29)
   1. Right or obligation of
      a. Licensor
      b. Licensee
      c. Parties jointly
   2. Allocation of expenses and recoveries
   3. Inaction or default by one party
      a. Enforcement by other party
      b. Termination of agreement by other party
      c. Cancellation of exclusiveness by licensor
      d. Cessation of royalty payments by licensee

H. Invalidity of licensed patent (Sec. 30)
   1. Claims invalidated
      a. Right to terminate agreement
      b. Effect on royalty payments
   2. Claims construed: effect on royalty payments

I. Know-how and technical assistance (Sec. 31)
   1. Furnishing of information
      a. Present; future
      b. Written material only
      c. Only information licensor has right to divulge
      d. Maintenance of secrecy
         (1) Restrictions on use
         (2) Agreements with employees
         (3) Indemnification for breach
      e. Termination of license
         (1) Return of tangible material
         (2) Continuance of secrecy
   2. Visitation rights of licensee and training of licensee's personnel
      a. Time limitations
      b. Expenses of training
3. Furnishing advisory services
   a. Time limitations
   b. Compensation for licensor
4. Responsibility for damages and injuries by acts of licensor
5. Employment of licensor or retention as consultant

J. Exploitation of licensed invention (Sec. 32)
1. Duty to exploit
   a. Fill demand only
   b. Create demand also
   c. Payment of minimum royalty as satisfaction of duty
2. Specific obligations
   a. Production facilities
      (1) Time of completion
      (2) Capacity
   b. Production and sales
      (1) Time of commencement
      (2) Product standards
      (3) Minimum units
   c. Advertising
      (1) Approval by licensor
      (2) Minimum budget
   d. Servicing
      (1) Facilities
      (2) Repair parts
3. Remedy for default
   a. Cancellation of exclusiveness
   b. Termination of agreement
4. Exchange of commercial information

K. Patent marking (Sec. 33)
1. Form of notice
   a. As specified by statute
   b. As specified in agreement
   c. As specified by licensor during term of agreement
2. Position of notice on products

L. Defense of infringement suits (Sec. 34)
   1. By licensor
      a. Defend only; indemnify also
      b. Licensee; licensee's customers
      c. Liability dependent on
         (1) Prompt notification
         (2) Cooperation
      d. Liability limited to
         (1) Arbitrary amount
         (2) Compensation received from licensee
   2. By licensee
      a. Expenses offset against royalties payable licensor
      b. Liability of licensor limited to cooperation
   3. By parties jointly
      a. Allocation of expenses
      b. Responsibility for conduct of defense

M. Improvements (Sec. 35)
   1. By licensor; inclusion in license
      a. Automatically
      b. At option of licensee
   2. By licensee
      a. Inclusion in primary license for royalty purposes
      b. License to licensor
      c. Assignment to licensor
   3. By parties jointly
      a. Joint ownership maintained
      b. Allocation of patent prosecution expenses
      c. Inclusion in primary license for royalty purposes
   4. Related matters
      a. Definition of "improvement"
      b. Invention agreements with key employees

N. Prosecution of licensed application (Sec. 36)
   1. Responsibility for prosecution
a. Direction of prosecution
b. Expenses of prosecution

2. Effect of non-allowance of claims on royalty payments

O. Foreign exploitation by licensee (Sec. 37)
1. License under foreign patents
   a. Responsibility for patent costs
   b. Sublicensing rights
2. Authority to export
3. Prohibition of exports

P. Option to purchase patent (Sec. 38)
1. Outright option
2. First right to purchase

V. Duration, Termination and Subsidiary Formal Provisions

A. Duration (Sec. 40)
1. Effective date
2. Term
   a. Life of patent
   b. Specified period
   c. Initial period subject to renewal
3. Option to cancel
   a. At any time on notice
   b. Within an initial period
   c. After a stated period

B. Termination for cause (Sec. 40)
1. By licensor
   a. Any default of licensee
   b. Bankruptcy etc. of licensee
   c. Nonpayment of royalties
   d. Nonpayment of minimum royalties
   e. Failure to render royalty and production re-
      reports
   f. Failure to enforce patent
   g. Failure to exploit
2. By licensee
a. Any default of licensor
b. Failure to enforce patent
c. Claims held invalid

3. Manner of effecting
a. Notice of default
b. Period to remedy
c. Notice of termination

4. Preservation of other rights and remedies at law and in equity

C. Post-termination (Sec. 40)
1. Right of licensee
   a. Sale of products on hand
   b. Limitation in time or units
2. Obligations of licensee
   a. Payment of accrued royalties
   b. Payment of royalties on authorized post-termination sales
   c. Return of know-how in tangible form
   d. Continued maintenance of know-how secret
3. Rights of licensor
   a. Purchase of licensee’s products on hand
   b. Examination of licensee’s books and records

D. Impossibility of performance (Sec. 41)
1. Obligations suspended
2. Right to terminate after prescribed period

E. Severability of provisions (Sec. 42)

F. Arbitration (Sec. 43)
1. Arbitrable disputes
   a. All disputes
   b. Specific disputes only
2. Optional or exclusive remedy
3. Arbitrators
   a. Number
   b. Manner of selection
4. Place of hearing
5. Majority or unanimous award
6. Governing rules
G. Limitation on effect of waiver (Sec. 44)

H. Agency and similar relationships (Sec. 45)
   1. Negation of such relationships
   2. Statement that licensee is independent contractor
   3. Agreement by licensee not to act for licensor

I. Entire agreement and modifications (Sec. 46)
   1. Merger of prior discussions
   2. Negation of implied warranties
   3. Written modifications only

J. Assignment (Sec. 47)
   1. Authorized
      a. One or both parties
      b. Limitations
      c. Release of assignor from liability
      d. Assumption of obligations by assignee
   2. Prohibited

K. Governing law (Sec. 48)

L. General assurances (Sec. 49)

M. Notices (Sec. 50)
   1. Written
   2. Manner of Service
   3. When effective

N. Execution of agreement (Sec. 51)
   1. Recital of execution
   2. Date of execution
   3. Signatures of parties
   4. Notarization

VI. Special Agreements and Provisions

A. Option to enter into license agreement (Sec. 53)
   1. Term of option
   2. Consideration
   3. Warranties by licensor
   4. Obligations of licensor
      a. Furnish drawings
      b. Provide copies of patents and applications
5. Offset of option consideration against future royalties

B. Sublicense (Sec. 54)
   1. Authorization of sublicense in primary license
   2. Term
      a. Dependent on continuance of primary license
      b. Independent
   3. Primary licensor as party to sublicense

C. Cross license (Sec. 55)
   1. Reciprocal licenses terminable independently
   2. Risk of restrictions

D. Settlement of interference (Sec. 56)
   1. Disposition of pending or prospective interference without right of appeal
      a. By attorneys for parties
      b. By arbitration
      c. By Patent Office
   2. Filing of settlement agreement in Patent Office

E. Settlement of infringement disputes and litigation (Sec. 57)
   1. License agreement
   2. Agreement to cease infringement
      a. Acknowledgment of validity
      b. Right to dispose of stock on hand
      c. Damages for past infringement
   3. Dismissal of pending suit

F. Foreign licensee (Sec. 58)
   1. Definition of licensed subject matter
      a. Exclusion of information prohibited by government
      b. Modifications by licensee to meet local standards
   2. Monetary consideration
      a. Payment in U. S. dollars
         (1) Exchange rate
         (2) Alternative payment terms
b. Payment of taxes
c. Evidence of licensee's financial responsibility

3. Terms of agreement subject to
   a. Approval of foreign government
   b. U. S. laws and court decrees
   c. Opinion of validity by counsel

4. Foreign patent costs
   a. Filing
   b. Prosecution
   c. Maintenance

5. Improvements by licensee
   a. License of foreign rights
   b. Assignment of U. S. rights

6. Agreement by licensee not to participate in opposition, revocation or compulsory licensing proceedings

7. Marking of origin and license

8. Termination
   a. Governmental interference
   b. Change in voting power of existing stockholders

9. Governing factors
   a. Law of place of principal activities
   b. English version of agreement

10. Foreign formalities of execution and registration


§7.—Heading: The first paragraph of a license agreement normally sets forth the fact that an agreement has been made and identifies the parties to the agreement. Generally, the parties are designated in the heading by their legal names followed by a notation to the effect that they will be identified in subsequent paragraphs of the
agreement by specified shorter terms or symbols—for example, by their initials, or by abbreviated forms of their full names, or by the terms "Licensor" and "Licensee", or rarely by the terms "Party of the First Part" and "Party of the Second Part". Although not a direct part of the written agreement, one party should always satisfy itself that the other party has the legal capacity or authority to enter into the agreement.

If the effective date of the agreement is not set forth in a subsequent clause, the effective date (or the date upon which the parties sign the agreement, when the date of the signature is to be the effective date) may be specified in the heading. Also, the place where the agreement has been made may be designated in the heading.

Form No. 7.01

Licensor: Individual; Licensee: Corporation

This Agreement is made and entered into by and between ALERT B. CONCEIVER, residing at 1000 East Adams Street, Chicago, Illinois (hereinafter referred to as "ABC"), and XYZ MANUFACTURING COMPANY, a Delaware corporation, with an office at 100 Baker Street, Detroit, Michigan (hereinafter referred to as "XYZ").

WITNESSETH:

Form No. 7.02

Licensor: Trustee; Licensee: Partnership
Specification of Date of Execution
Designation of Place Where Made

This Agreement, made and entered into at Chicago, Illinois, on this 1st day of July, 1999, by and between ABC BANK and TRUST COMPANY, at 1000 East Adams Street, Chicago,
Illinois, as Trustee under a trust agreement, dated June 30, 1999, executed by John Wilson (hereinafter referred to as "ABC"), and XYZ MANUFACTURING COMPANY, a partnership composed of John Brown and John Smith, and having its principal place of business at 100 Baker Street, Detroit, Michigan (hereinafter referred to as "XYZ");

WITNESSETH:

Form No. 7.03

Licensor and Licensee: Corporations
Specification of Effective Date
For Use Without Recitals

Effective as of July 1, 1999, ABC MANUFACTURING COMPANY, a corporation organized and existing under the laws of the State of Delaware and having its principal place of business at 1000 East Adams Street, Chicago, Illinois (hereinafter referred to as "ABC"), and XYZ MANUFACTURING COMPANY, a corporation organized and existing under the laws of the State of Delaware and having its principal place of business at 100 Baker Street, Detroit, Michigan (hereinafter referred to as "XYZ"), agree as follows:

§8.—Recitals: The heading of a license agreement is usually followed by recitals that describe the subject matter of the license. Licensed patent rights may be expressed in general terms of the licensor's patents (not enumerated) covering or relating to designated equipment, processes or fields of activity. [Cooke, Defined Field License, 39 J.P.O.S. 635 (1957); Binks Mfg. Co. v. Ransburg Electro-Coating Corp., 281 F. 2d 252 (C.A. 7, 1960).] Or, licensed patent rights may be recited in specific terms of identified patents or patent applications. A patent may be identified by patent number and date of grant, while a patent application may be identified by serial number and filing
date. Either a patent or an application may be further identified by the title of the invention and the name of the inventor. When numerous patents or patent applications are involved, they may be listed in an attached schedule that is incorporated by reference in the preamble. A patent application in process but not yet filed may be identified by the title of the invention and the docket number of the licensor's attorney.

The general rights being licensed, not uncommonly, are also specified in the recitals. Whether the license is exclusive or nonexclusive, the territorial extent of the license, and the class of devices being licensed are matters frequently mentioned. The nature and designation of the licensed rights will be discussed in detail in connection with the "granting" clause. [Chapter 2.] When the recitals are ambiguous and the operative part of the agreement is free from doubt, the operative part will prevail. [Growell v. Gould, 96 F. 2d 569 (C.A.D.C., 1938).] Nevertheless, care should be exercised that the recitals are not in conflict with the granting or other clauses.

The recitals may further include: a definition of shorthand terms such as "Licensed Patent Rights", "Licensed Devices" and "Licensed Territory" used throughout the agreement; a specification of warranties by the licensor of ownership of the licensed subject matter and of the right to grant licenses and releases for past infringement [see Secs. 24-25]; a description of any prior relevant business or research relationship between the parties; an identification of a prior agreement between the parties when the prior agreement is being cancelled or superseded by the current agreement, when it is being suspended during the life of the current agreement, or when it is to be incorporated in the current agreement; a statement to the effect that the current agreement is subject to another agreement between the licensor and a third party if such is the case; or a reference to know-how when the transfer of such is comprehended by the license. [See Sec. 31.]
Form No. 8.01

Exclusive License of Patent
Warranties by Licensor

WHEREAS, ABC represents and warrants that it is the owner of the entire right, title and interest in and to United States Letters Patent No. 8,765,432, granted June 4, 1999, for Automatic Transmissions, together with any reissues or extensions thereof;

WHEREAS, ABC represents and warrants that it has the sole right to grant for the United States, its territories and possessions, licenses under said Letters Patent No. 8,765,432, reissues and extensions, of the scope hereinafter granted;

WHEREAS, XYZ is desirous of acquiring the exclusive right and license in the United States, its territories and possessions, to make, have made, use and sell Automatic Transmissions embodying the inventions covered by said Letters Patent No. 8,765,432; and

WHEREAS, ABC is willing to grant such a license upon the terms hereinafter set forth;

NOW, THEREFORE, in consideration of the foregoing, and of the mutual covenants, terms and conditions hereinafter expressed, the parties hereto agree as follows:

Form No. 8.02

Nonexclusive License of Patent
Warranties by Licensor

WHEREAS, ABC represents and warrants that it is the owner of all right, title and interest in and to United States Letters Patent No. 8,765,432, granted June 4, 1999, for Automatic Transmissions;

WHEREAS, ABC represents and warrants that it has the right to grant nonexclusive licenses and releases for past infringement under said patent; and

WHEREAS, XYZ is desirous of obtaining a nonexclusive li-
license and a release for past infringement under said patent;
NOW, THEREFORE, in consideration of the premises and
the mutual covenants of this Agreement, the parties hereto
have agreed as follows:

Form No. 8.03

Exclusive License; Patent Application

WHEREAS, ABC has heretofore made a certain invention
in Automatic Transmissions for which he has made application
for Letters Patent of the United States under Serial No. 999,999,
filed June 4, 1998, and of which invention and application
and all rights in and thereto he represents that he is the sole
owner;
WHEREAS, XYZ is desirous of acquiring exclusive rights
in and to the said invention throughout the United States and
foreign countries; and
WHEREAS, ABC is willing to grant said rights upon the
terms and conditions hereinafter recited;
NOW, THEREFORE, in consideration of the premises and
the mutual covenants of this Agreement, the parties hereto
have agreed as follows:

Form No. 8.04

Nonexclusive License
Patents and Patent Applications
Definition of Terms

WHEREAS, ABC is the owner, by assignment, of the en-
tire right, title and interest in and to the United States Letters
Patents and applications for United States Letters Patents identi-
fied in Schedule A and hereinafter referred to as “ABC’s
Patent Rights”;
WHEREAS, XYZ is desirous of acquiring a nonexclusive
license under ABC’s Patent Rights throughout the United States,
its territories and possessions (hereinafter referred to as the “Licensed Territory”), to make, have made, use and sell automatic transmissions and parts thereof covered by ABC’s Patent Rights (hereinafter referred to as “Licensed Devices”); and

WHEREAS, ABC is willing to grant such a license upon the terms hereinafter set forth;

NOW, THEREFORE, for and in consideration of the sum of five dollars ($5.00) by each to the other this day paid, receipt of which is hereby acknowledged, and in further consideration of the mutual covenants and agreements hereinafter contained, the parties hereto mutually covenant and agree as follows:

Form No. 8.05

Partial Recitals
Definition of “Licensed Patents”

“Licensed Patents” shall mean all patents and patent applications owned or controlled by ABC and relating to automatic transmissions, and shall include patents and patent applications of third parties to the extent to which ABC has the right to grant licenses without payment to such third parties.

Form No. 8.06

Partial Recitals
Application in Process

WHEREAS, ABC is the owner of the entire right, title and interest in and to a certain invention relating to automatic transmissions upon which he is about to file an application for United States Letters Patent under the title of “Automatic Transmission” through the office of [name and address of patent attorney] under the attorney’s Docket No. 10,000.
Form No. 8.07

Partial Recitals
Prior Agreement Suspended

WHEREAS, under the date of June 1, 1999 the parties hereto did enter into a certain agreement relating to the manufacture, use and sale by XYZ of Automatic Transmissions;
WHEREAS, it is the desire of the parties hereto that such agreement shall be set aside during the life of the present Agreement;

Operative Paragraph to Accompany Foregoing Recitals

The parties hereto agree that the operation of the former agreement between them, dated June 1, 1999, shall be suspended, and that said agreement shall be without force and effect during the life of this present Agreement, but that upon the termination of this Agreement, the operation of said agreement of June 1, 1999 shall again automatically come into effect, unless the termination of the present Agreement is for a default on the part of XYZ which would have entitled ABC to terminate said agreement of June 1, 1999.

Form No. 8.08

Partial Recitals
Prior Agreement Cancelled

WHEREAS, the parties have heretofore entered an agreement, dated July 1, 1999, in which ABC granted XYZ a non-exclusive license under United States Letters Patent No. 8,765,432 issued June 4, 1999, for Automatic Transmissions, a copy of which license agreement is attached hereto and marked Exhibit A;
WHEREAS it is the desire of the parties to cancel said agreement of July 1, 1999, and enter into the present Agreement;
Operative Paragraph to Accompany Foregoing Recitals

The parties hereto mutually agree that said agreement of July 1, 1999 shall be and is hereby cancelled.

Form No. 8.09

Exclusive License Subject to Outstanding License Patents and Patent Applications

Warranties by Licensor

WHEREAS, ABC warrants that it is the sole owner, free from any outstanding license agreements except as otherwise indicated hereinafter, of certain inventions and improvements relating to automatic transmissions disclosed in Letters Patent of the United States and in applications for Letters Patent which are identified in the attached schedule marked Exhibit A and which are hereinafter referred to as "ABC's Patent Rights";

WHEREAS, ABC has heretofore, under date of June 1, 1999, granted a nonexclusive license to MNO Manufacturing Company, to make, have made for it, use, sell, and to sublicense others to make, use and sell, automatic transmissions and parts therefor embodying the inventions disclosed in ABC's Patent Rights, a copy of which license agreement is attached hereto and marked Exhibit B;

WHEREAS, XYZ desires to obtain an exclusive license under ABC's Patent Rights for the manufacture of automatic transmissions, subject only to said outstanding agreement set forth in Exhibit B; and

WHEREAS, ABC is willing to grant such a license upon the terms hereinafter set forth;

NOW, THEREFORE, for and in consideration of the sum of Five Dollars ($5.00) each to the other in hand paid, the receipt of which is hereby acknowledged, and for other good and valuable considerations, the parties hereto mutually covenant and agree as follows:
Form No. 8.10
Partial Recitals
Know-How

WHEREAS, ABC has or controls certain confidential information and trade secrets, including engineering and technical data, manufacturing data, designs, skills, methods, procedures, facilities, information and know-how in the manufacture, sale, distribution and use of Automatic Transmissions;

WHEREAS, XYZ desires to obtain and to continue to obtain during the life of this Agreement said confidential information and trade secrets, and ABC is willing to convey to XYZ said confidential information and trade secrets, all upon and subject to the terms and conditions herein set forth;
CHAPTER 2

GRANT OF PATENT RIGHTS

§9. Prefatory: Discussed in the present chapter are package licensing, exclusive and nonexclusive licenses, and various types of license limitations and restrictions directly affecting the primary grant of rights.

In general, the scope of the principal patent rights being licensed is defined in a main granting clause. This clause usually follows the preliminary formal license provisions and commences the operative part of the agreement. From the standpoint of contract interpretation, the granting clause will prevail over other clauses of the license agreement. [Storm v. United States, 243 F. 2d 708 (C.A. 5, 1957).]


However, compulsory or mandatory package licensing—as arises when a licensee is required to accept a license under unwanted patents in order to obtain a license under desired patents—has been held to be improper.
One court has established an exception to this rule when the mandatory package licensing involves blocking or interlocking patents. [International Manufacturing Co. v. Landon, Inc., 336 F. 2d 723 (C.A. 9, 1964).]

Also, courts have disapproved offers of licenses having the effect of economically coercing the licensee to accept a license under all patents of a package. Such coercion has been found when the royalty rate is the same regardless of the number of patents licensed, or when the royalty rate for less than all patents of a group, although lower than the royalty rate for all patents, is not proportionately lower in relation to the quality of the patents. [American Securit Co. v. Shatterproof Glass Corp., 154 F. Supp. 890 (D. Del., 1957), further proceedings, 166 F. Supp. 813 (D. Del., 1958), affirmed, 268 F. 2d 769 (C.A. 3, 1959); Hazeltine Research, Inc. v. Zenith Radio Corp., 239 F. Supp. 51 (N.D. Ill., 1965). Also see Technograph Printed Circuits, Ltd. v. Bendix Aviation Corp., 218 F. Supp. 1, 49 (D. Md., 1963), affirmed, 327 F. 2d 497 (C.A. 4, 1964).]

A package license wherein the same royalty rate is maintained throughout the term of the license agreement raises one additional problem. Several courts have concluded that such a license which extends to the expiration of the last to expire of the licensed patents, or which has no expiration date, constitutes patent misuse for it requires

The foregoing cases clearly indicate that the licensing of a group of patents must be approached with extreme caution. With the possible exception of blocking patents, a licensee must be allowed to obtain a license solely under those patents of the group that it may desire. To avoid a charge of economic coercion when offering a license under less than the entire group of patents, the establishment of a sliding scale of royalties, bearing a realistic relationship to the number and importance of the patents involved, should be considered. To avoid a charge of illegal extension of expired patents under a package license, consideration should be given to either providing for termination of the license at the expiration of the licensed patent first to expire or establishing decreasing royalty rates applicable as the licensed patents successively expire.

§11. Exclusive and Nonexclusive Licenses: Exclusive licenses are specifically authorized by the patent laws. "Applications for patent, patents, or any interest therein, shall be assignable in law by an instrument in writing.
The applicant, patentee, or his assigns or legal representatives may in like manner grant and convey an exclusive right under his application for patent, or patent, to the whole or any specified part of the United States.” [35 U.S.C., Sec. 261 (1952).] In accordance with the spirit of the patent laws, judicial opinion is uniform that the grant of an exclusive license, standing alone, does not come within the prohibitions of the antitrust laws. [Bement v. National Harrow Co., 186 U.S. 70 (1902); Brownell v. Ketcham Wire & Mfg. Co., 211 F. 2d 121 (C.A. 9, 1954); Flexwood Co. v. Faussner & Co., 145 F. 2d 528 (C.A. 7, 1944); Becton, Dickinson & Co. v. Eisel & Co., 86 F. 2d 267 (C.A. 6, 1936); United States v. E. I. du Pont de Nemours & Co., 118 F. Supp. 41 (D. Del., 1953), affirmed on other grounds, 351 U.S. 377 (1956); United States v. Parker-Rust-Proof Co., 61 F. Supp. 805 (E.D. Mich., 1945).] It has also been held that one joint owner of a patent may properly grant an exclusive license to its co-owner. [Rail Trailer Co. v. ACF Industries, Inc., 149 USPQ 86 (C.A. 7, 1966).]

In the absence of express provisions to the contrary, the grant of an exclusive license impliedly precludes the licensor and its successors from competing with the licensee in respect to the licensed invention. [Cutter Laboratories, Inc. v. Lyophile-Cryochem Corp., 179 F. 2d 80 (C.A. 9, 1949); Brush Electric Co. v. California Electric Light Co., 52 F. 945 (C.A. 9, 1892); Benger Labs., Ltd. v. R. K. Laros Co., 209 F. Supp. 639, 648 (E.D. Pa., 1962), affirmed per curiam, 317 F. 2d 455 (C.A. 3, 1963); New York Phonograph Co. v. Edison, 136 F. 600 (S.D.N.Y., 1905), affirmed per curiam, 144 F. 404 (C.A. 2, 1906); New England Phonograph Co. v. Edison, 110 F. 26 (D.N.J., 1901); Pratt and Whitney Co., Inc. v. United States, 153 F. Supp. 409 (Ct.Cls., 1957).] Consistent with this implied condition, a licensor may expressly agree not to promote or use the licensed invention in violation of the right granted the licensee. [Brownell v. Ketcham Wire & Mfg.
Co., 211 F. 2d 121 (C.A. 9, 1954).] But a covenant by a licensor not to compete with the licensee in the promotion of products or processes which are outside the scope of the licensed invention improperly extends the patent monopoly and renders the licensed patent unenforceable under the misuse doctrine. [McCullough v. Kammerer Corporation, 166 F. 2d 759 (C.A. 9, 1948); Touchett v. E Z Paintr Corporation, 150 F. Supp. 384 (E.D. Wis., 1957).]


An exclusive licensee need not be the sole party authorized to practice the licensed invention. An exclusive license may be granted subject to the right of use of the
licensed invention by the licensor, subject to a prior nonexclusive license, or subject to a future nonexclusive license. [Ackerman v. Hook, 183 F. 2d 11 (C.A. 3, 1950); Mechanical Ice Tray Corp. v. General Motors Corp., 144 F. 2d 720 (C.A. 2, 1944); Paul E. Hawkinson Co. v. Carnell, 112 F. 2d 396, 398 (C.A. 3, 1940); Sta-Fresh Products, Inc. v. Avozet Inc., 46 F. Supp. 447 (E.D. Pa., 1942), affirmed per curiam, 134 F. 2d 334 (C.A. 3, 1943); Guardino Tank Processing Corp. v. Olsson, 81 USPQ 318 (N.Y. Sup. Ct., 1949).]

A nonexclusive license has attributes quite distinct from an exclusive license. In the absence of express provisions to the contrary, a nonexclusive licensor may practice the invention himself and may properly authorize others to practice the invention. A nonexclusive license does not have any statutory basis and constitutes merely a waiver of infringement suit or covenant not to sue under the licensed patent. "[T]he license transfers only the invention and does not affect the monopoly otherwise than by estopping the licensor from exercising his prohibitory powers in derogation of the privileges conferred by him upon the licensee." [L. L. Brown Paper Co. v. Hydroiloid, Inc., 32 F. Supp. 857, 868 (S.D.N.Y., 1939), affirmed, 118 F. 2d 674 (C.A. 2, 1941).] "In its simplest form, a license means only leave to do a thing which the licensor would otherwise have a right to prevent. Such a license grants to the licensee merely a privilege that protects him from a claim of infringement by the owner of the patent monopoly." [Western Electric Co. v. Pacent Reproducer Corporation, 42 F. 2d 116, 118 (C.A. 2, 1930).]

Form No. 11.01

Nonexclusive License Under Patent

ABC hereby grants unto XYZ the nonexclusive right and license 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 8,765,432 and any reissues or extensions thereof.

Form No. 11.02

Exclusive License Under Patent Application

ABC hereby grants unto XYZ the exclusive right throughout the United States, its territories and possessions, to make, use and vend all forms of automatic transmissions covered by the aforesaid application for Letters Patent, or any division or continuation thereof, or substitute therefor, and the Letters Patent that may be issued thereupon, for the full term of said Letters Patent or any reissues or extensions thereof.

Form No. 11.03

Exclusive License Under Patent Application

ABC hereby grants to XYZ an exclusive license to manufacture, use and sell automatic transmissions constructed in accordance with said pending application and the Letters Patent which may be issued thereon, for the time during which said application is pending and the full term for which said Letters Patent may be granted, upon the terms and conditions hereinafter more specifically set forth.

Form No. 11.04

Exclusive License Subject to Retained Right by Licensor

ABC hereby grants unto XYZ an exclusive right and license to practice and use the method and apparatus covered by said Letters Patent subject to the retained right of ABC to practice and use said method and apparatus in its plant at 1000 East Adams Street, Chicago, Illinois.
Form No. 11.05

Exclusive License
Subject to Outstanding License

ABC hereby grants to XYZ an exclusive license, subject only to the existing license to MNO Manufacturing Company set forth in Exhibit B, to make, have made for it, use and sell throughout the United States and its territories, automatic transmissions embodying the inventions covered by ABC's Patent Rights identified in Exhibit A.

Termination of Outstanding License

In the event ABC shall terminate the outstanding agreement with MNO Manufacturing Company, it shall first grant to XYZ an opportunity to obtain a license in the fields covered by said outstanding agreement on terms which shall be mutually satisfactory to the parties. In the event XYZ does not wish to take advantage of the opportunity, ABC shall have the right to grant substitute licenses to other parties in the same fields as the outstanding license, subject only to the condition that the terms and obligations in such substitute licenses shall be no more favorable than those hereby granted to XYZ.

Form No. 11.06

Exclusive License Subject to
Prior Options and Licenses

ABC hereby grants to XYZ an exclusive license (subject to the provisions of the next paragraph) to make, use and sell Licensed Devices throughout the Licensed Territory.

This License Agreement is subject to all the terms and conditions of any options and license agreements heretofore executed by ABC and which may be now outstanding, and which, in any way impair or affect the license herein granted. ABC shall, at the time of execution of this Agreement, deliver to XYZ certified copies of all such options and agreements; and
Grant of Patent Rights

ABC covenants that the copies of options and agreements so delivered shall be all of such options and agreements outstanding at the time of execution of this Agreement which in any way impair or affect the license herein granted.

Form No. 11.07

Exclusive License
Subject to Future Licenses

ABC hereby grants unto XYZ a license under the Letters Patent aforesaid and under such patents as may be granted upon and from said applications for United States Letters Patent or any renewals or reissues thereof, and under any other United States patents or foreign patents now or hereafter owned or controlled by ABC covering or relating to automatic transmissions (hereinafter referred to as ABC's Patent Rights), to manufacture, use and sell automatic transmissions covered by ABC's Patent Rights for the entire life of this Agreement; and ABC agrees that it will not during the term of this Agreement itself manufacture, or have manufactured for it, use or sell automatic transmissions covered by ABC's Patent Rights, or grant any license or licenses to any other person, firm or corporation, except as provided for in the next paragraph, to manufacture, use or sell automatic transmissions covered by ABC's Patent Rights.

ABC reserves the right to license MNO Manufacturing Company to make for itself, or to have made by any of its branches or subsidiaries, for use only upon motor vehicles made by itself or by any of its branches or subsidiaries, automatic transmissions covered by ABC's Patent Rights, and ABC further reserves unto itself the right to grant licenses to manufacture, use and sell automatic transmissions covered by ABC's Patent Rights in any or all foreign countries, provided that no such license shall be so made as to exclude the rights of XYZ hereunder or any American manufacturers procuring automatic transmissions from XYZ to sell any American made motor
vehicles equipped with said automatic transmissions in said foreign country.

§12. General Limitations: Aside from a process patent that relates solely to use, the patent right [see Sec. 2] is concerned with the manufacture, use and sale of the patented device or product. And, this patent right is divisible. "The right to manufacture, the right to sell, and the right to use are each substantive rights, and may be granted or conferred separately by the patentee." [Adams v. Burke, 84 U.S. 453, 456 (1873).] Accordingly, a patent owner may authorize another to make and use patented articles, but withhold his right to sell them. If the licensee does sell them, he infringes the right of the patentee. [United States v. General Electric Company, 272 U.S. 476, 490 (1926).] Similarly, a patent owner may authorize another to make and lease patented devices, but withhold his right to sell them. [Kirby v. United States, 297 F. 2d 466 (C.A. 5, 1961).] Likewise, if a party has made patented devices without authority, or has purchased the devices from one not having authority to sell them, the patent owner may properly give that party a limited license to use and/or sell such devices. In the absence of such a license, the patent owner not only may recover damages from the manufacturer for making and selling infringing devices, but also may obtain an injunction against the purchaser prohibiting future use of the infringing devices. [Birdsell v. Shaliol, 112 U.S. 485 (1884).]

(S.D.N.Y., 1915), reversed on other grounds and re­
manded, 246 U.S. 46 (1918).] However, this implied right
may be nullified by express language to the contrary. In
this connection, it has been held that under an “indivisible”
license the licensee is without authority to contract with
another to manufacture licensed devices for it. [Rock-Ola
Mfg. Corp. v. Filben Mfg. Co., 168 F.2d 919 (C.A. 8,
1948).] Similarly, it has been held that a license granting
the right to manufacture and sell “the apparatus of the li-
censee’s manufacture” does not authorize the licensee to
have the apparatus manufactured for it by others but re-
quires manufacture to be in the licensee’s own plant and
by its own employees. [Westinghouse Electric Co. v.
Tri-City Radio Electric Supply Co., 23 F. 2d 628, 631
(C.A. 8, 1927); Radio-Craft Co. v. Westinghouse Electric
& Mfg. Co., 7 F. 2d 432, 434 (C.A. 3, 1925). Contra:
Westinghouse Electric & Mfg. Co. v. Cutting & Washin-
gton Radio Corporation, 294 F. 671 (C.A. 2, 1923). Also
see Reynolds Spring Company v. L. A. Young Industries,
Inc., 101 F. 2d 257 (C.A. 6, 1939).]

A license may also be granted under less than all of
the claims of a patent. Such occasion might arise when a
patent contains one set of claims directed to a process and
another set directed to apparatus, and the licensee is to
acquire rights under either one set of claims or the other,
but not both. “Each claim is, in effect, a separate and
distinct patent; and the right to use one patent does not
carry with it the right to use the others without a further
license.” [United Nickel Co. v. California Electrical Works,
25 F. 475, 479 (D. Cal., 1885).] As a matter of construc-
tion, a license “to manufacture and sell and to use in ac-
cordance with any system claim” certain valves covered
by article claims is not limited to the system claims but
extends to the article claims as well. [U.S. Industries, Inc.

A related subject that requires attention is the right
to make and sell components of licensed devices. When
an agreement speaks in terms of complete licensed devices only, at least one court has held that the licensee does not have the right to sell components to other manufacturers. [Eureka Co. v. Henney Motor Co., 91 F. 2d 708 (C.A. 3, 1937).] Also, another court has held that it is not patent misuse to restrict a licensee’s sales of components, especially adapted for fabrication into patented devices, to other licensees. [White v. Tak-Trak, Inc., 140 USPQ 156, 165 (S.D. Cal., 1963).]

Form No. 12.01

Nonexclusive License
Make and Use Only

ABC hereby grants unto XYZ the nonexclusive right and license to make and use, but not sell, throughout the United States, its territories and possessions, automatic transmissions embodying the inventions covered by said Letters Patent 8,765,432 and any reissue or extension thereof.

Form No. 12.02

Nonexclusive License
Make, Use and Sell Limitations

ABC hereby grants to XYZ a nonexclusive license under said Letters Patent with the privilege to manufacture and use said products in XYZ’s factory in Detroit, Michigan.

XYZ covenants and agrees not to manufacture for sale, sell nor offer for sale in anywise any of said products during the continuance of this Agreement, except in a local retail way from XZY’s factory in Detroit, Michigan.

Form No. 12.03

Exclusive License
Make and Lease Only

ABC hereby grants to XYZ the sole and exclusive right and license to manufacture, lease and let Licensed Products
throughout the United States, its territories and possessions, subject to the terms and conditions hereinafter set forth.

XYZ shall under no conditions sell any Licensed Products which it shall manufacture under the terms hereof but such Licensed Products shall be leased or rented by it on a per month basis to its customers.

**Form No. 12.04**

**Nonexclusive License**

**Manufacture Limited to Licensee**

ABC hereby grants to XYZ a nonexclusive license to manufacture itself, and not to have manufactured for it by any one else, and to use and sell throughout the United States, devices embodying the inventions claimed in said Letters Patents.

**Form No. 12.05**

**Exclusive License**

**Less Than All Claims**

ABC hereby grants to XYZ the exclusive right and license to make, have made, use and sell throughout the United States, its territories and possessions, automatic transmissions embodying the inventions covered by claims 1-5 inclusive (and no other claims) of said Letters Patent 8,765,432.

**Form No. 12.06**

**Nonexclusive License**

**Complete Units Only**

ABC hereby grants to XYZ the nonexclusive right and license to make, use and sell throughout the United States, its territories and possessions, automatic transmissions embodying the inventions claimed in said Letters Patent.
It is understood and agreed by the parties hereto that
the license herein granted does not authorize XYZ to sell
parts of said automatic transmissions to other manufacturers
separate and apart from complete automatic transmissions.

Form No. 12.07

Nonexclusive License
Complete Units Only

ABC hereby grants to XYZ a nonexclusive license to make,
use and sell throughout the United States spectacles embody­
ing the inventions covered by said Letters Patent, subject to
the terms and conditions hereinafter set forth.

The Rimmed Type Of Spectacle Unit shall include a front
having two end pieces and also a pair of temples. The fronts
and temples may be either assembled or unassembled as long
as the component parts of each complete unit are delivered in
one shipment. Fronts suitable for use in making complete units
embodying the same patented inventions are not to be sold
separately without temples. The Rimless Type of Spectacle
Unit shall include a pair of end pieces and a pair of temples.
The component parts of each unit shall be delivered in one
shipment. Temples only for rimmed or rimless units may be
sold as such for replacement parts.

Form No. 12.08

Restriction on Sale of Components

XYZ agrees that it will not sell blank extrusions to any
firm or person of such shapes and sections as may be stamped
or processed into Licensed Devices except to those persons or
firms as are licensed to produce Licensed Devices under said
patent.

§13. Territorial Limitations: In the absence of a
cContract provision or conduct to the contrary, a license un-
nder a specified United States patent is implicitly coextensive in territory with the patent, and does not extend beyond the territorial limits of the United States. [Cold Metal Process Company v. United Engineering & Foundry Company, 235 F. 2d 224, 229 (C.A. 3, 1956); Cold Metal Process Company v. United Engineering & Foundry Company, 107 F. 2d 27, 31 (C.A. 3, 1939).] However, a license granted primarily in terms of subject matter—for example, a license to manufacture products in a specified field under patents that are not specifically identified—may constitute a worldwide license in the absence of any designation to the contrary. [American Cyanamid Co. v. Ellis-Foster Co., 190 F. Supp. 277 (D.N.J., 1960), affirmed, 298 F. 2d 244 (C.A. 3, 1962).] To remove all doubt concerning the territorial extent of a license, the licensed territory should be expressly set forth in the written agreement.

A license to make, use and sell a patented product, or use a patented process, may properly be granted either in the entire territory in which patents are owned by the licensor, or in some subdivision thereof. The Patent Code specifically provides that a party may “convey an exclusive right under his application for patent, or patent, to the whole or any specified part of the United States.” [35 U.S.C., Sec. 261 (1952).] And, a number of courts have, expressly or impliedly, approved the transfer of patent rights that have been limited territorially, for example:


A licensee’s permitted territorial activities are circumscribed, first, by the express terms of the granting clause. As one example, a license to “manufacture, use, and sell to others for use throughout the United States” patented apparatus does not authorize the licensee to sell such apparatus in foreign countries for use there. [Elliott Co. v. Lagonda Mfg. Co., 205 F. 152 (W.D. Pa., 1913), affirmed, 214 F. 578 (C.A. 3, 1914).] As another example, a license to practice a patented invention at the licensee’s “own establishment” authorizes the licensee to use the invention himself solely at his own establishment, and does not authorize the licensee to use it in conjunction with others or at an establishment occupied by himself and others. [Rubber Company v. Goodyear, 76 U.S. 788, 799 (1869).] The licensee’s activities may be further circumscribed by an express negative convenant. Several courts have indicated approval of a covenant on the part of the licensee that it will not export patented articles to, or sell patented articles in, unlicensed territories. [Brownell v. Ketcham Wire & Mfg. Co., 211 F. 2d 121, 129 (C.A. 9, 1954); American Optical Co. v. New Jersey Optical Co., 58 F. Supp. 601 (D. Mass., 1944). Also see: Melard Mfg. Corp. v. Chase Brass & Copper Co., Inc., 1959 Trade Cases Par. 69,595 (N.D. Ill., 1959); United States v. L. D. Caulk Company, 126 F. Supp. 693 (D. Del., 1954); Osmose Wood Pre-
serving Co. of Canada v. Osmose Wood Preserving Co. of America, 74 F. Supp. 435 (W.D.N.Y., 1947).] Also, a license to manufacture patented products at a specified factory may properly be accompanied by an express covenant that the licensee will not manufacture the patented products at any other place. [Cassidy v. Evan L. Reed Mfg. Co., 293 F. 797 (E.D. Ill., 1923).]

Form No. 13.01

Exclusive License
Territorial Limitation

ABC hereby grants to XYZ the exclusive right, license and privilege to manufacture, or cause to be manufactured, solely in the State of Michigan, automatic transmissions embodying the inventions covered by said Letters Patent 8,765,432 and any reissue or extension thereof.

XYZ agrees not to sell, or offer for sale, any such automatic transmissions outside of the State of Michigan.

Form No. 13.02

Exclusive License
Territorial Limitation

ABC hereby grants to XYZ the exclusive right and license to manufacture, use and sell automatic transmissions embodying the inventions covered by said Letters Patent 8,765,432 and any reissue or extension thereof, in the entire territory comprising the United States of America with the exception of the State of Michigan.

Form No. 13.03

Nonexclusive License
Limited as to Place of Manufacture

ABC hereby grants to XYZ a nonexclusive license to make in its principal place of business wherever situated, and at
no other place or places, and to use and sell in the United States and throughout the world automatic transmissions embodying the inventions claimed in said Letters Patents.

Form No. 13.04

Nonexclusive License
Limited as to Place of Manufacture

ABC hereby grants to XYZ the nonexclusive right and license to manufacture Licensed Products solely at XYZ's factory in Detroit, Michigan, and to sell such Licensed Products throughout the United States, its territories and possessions.

§14. Quantity Limitations: A quantity or quota provision in a patent license agreement may relate (1) to the minimum number of patented devices or articles that the licensee must make, (2) to the maximum number of patented products that the licensee may make, or (3) to the maximum number of unpatented items that may be produced by the licensee by a patented machine or process. A minimum quota provision, which may be used to insure exploitation by the licensee, will be considered in Section 32, while the two types of maximum quota provisions will be discussed below.

A license limited in respect to the maximum number of patented products that may be made by the licensee operates within the scope of the patent grant and serves to accord the licensee immunity from infringement liability. However, such immunity extends solely to products produced by the licensee within the authorized number; patented products produced in excess of the licensed number are infringing products. [Aspinwall Manufacturing Co. v. Gill, 32 F. 697 (D.N.J., 1887).] Also, it appears that maximum quotas, at least to the extent that they are confined to the production of patented products, may properly be based on a percentage of either industry sales or

A restriction on the total number of unpatented items that may be made by a licensee is clearly objectionable. But, a limitation in a patent license agreement concerning the number of unpatented products that the licensee may produce by a patented machine or process is in a different category. So long as the licensee is free to make any number of unpatented items by processes or machines other than those licensed, the quota limitation solely restricts the extent of use of the patented machine or process and, therefore, would appear to be within the scope of the machine or process patent. This reasoning, however, has not been adopted by all courts, and doubt remains as to the legal status of quota limitations on unpatented products resulting from a patented machine or process. [Approved: Q-Tips, Inc. v. Johnson & Johnson, 109 F. Supp. 657, 660-1 (D.N.J., 1951). Disapproved: United States v. General Electric Co., 82 F. Supp. 753, 814 (D.N.J., 1949). Also see: American Equipment Co. v. Tuthill, 69 F. 2d 406 (C.A. 7, 1934).]

Form No. 14.01

Nonexclusive License
Quantity Limitation

ABC hereby grants unto XYZ the nonexclusive right and license to make, use and sell throughout the United States, its territories and possessions, one hundred (100) automatic transmissions embodying the inventions covered by said Letters Patent 8,765,432 and any reissue or extension thereof.
Nonexclusive License Under Process
Quantity Limitation

ABC hereby grants to XYZ a nonexclusive license to use throughout the United States, its territories and possessions, the process covered by said Letters Patent to make not in excess of one thousand (1000) clutch plates each year during the term of this Agreement.

§15. Style, Use and Customer Limitations: Most products and devices are adapted to be made in a variety of styles, used in diverse fields, used in different territories, sold in combination with other products or devices, and sold through various trade channels. Not uncommonly, a licensor finds it desirable to limit the scope of the license in one or more of these areas. Frequently, limitations of this type are generically referred to as “field-of-use” limitations.

Usually, a product patent covers a variety of species, types or styles of a particular product, and a process patent covers the processing or making of a variety of species, types or styles of a particular product. In general, the owner of the patent may grant a license limited in respect to the styles or classes of a patented product that are authorized to be made and used or sold, or the styles or classes of a product that are authorized to be made or processed by a patented process. Simple style limitations have received judicial approval. [Atlas Imperial Diesel Engine Co. v. Lanova Corporation, 79 F. Supp. 1002 (D. Del., 1948). Also see: Rubber Company v. Goodyear, 76 U.S. 788 (1896); Becton, Dickinson & Co. v. Eisele & Co., 86 F. 2d 267 (C.A. 6, 1936); Popsicle Corporation v. Good Humor Corporation, 66 F. 2d 659 (C.A. 3, 1933); Whitfield & Sheshunoff, Inc. v. Fairchild Engine & Airplane Corp., 158 F. Supp. 463 (E.D.N.Y., 1957), affirmed, 269

Numerous patented devices are adapted to be incorporated with other mechanisms and, in such cases, a licensor may desire either to prohibit its manufacturing licensee from selling the patented device alone or to limit the style of other mechanisms with which its licensee may sell the patented device. Since this type of limitation is a direct restriction solely on the right of the licensee to sell patented devices, it has been held to be within the scope of the patent grant. [Vulcan Mfg. Co. v. Maytag Co., 73 F. 2d 136 (C.A. 8, 1934). Also see: Melard Mfg. Co. v. Chase Brass & Copper Co., Inc., 1959 Trade Cases Par. 69,595 (N.D. Ill., 1959); American Optical Co. v. New Jersey Optical Co., 58 F. Supp. 601 (D. Mass., 1944).]

Many patented devices are adapted to be used in diverse fields. A licensor may desire to limit the licensee’s right to sell patented devices for use in certain fields only. This limitation is, in effect, a limitation on the class of customers to whom the licensee may sell. Thus, customers can be classified according to the expected and usual use to which they will put the patented device. For example, one group of customers may normally make only a private use of the patented article, while another group
may normally make only a commercial use of the article. In such case, a licensee might be limited to selling the patented article solely to one of the two groups. Limited licenses to sell to customers who will use the patented device solely in certain fields or for certain prescribed purposes have been uniformly upheld by the courts. [General Talking Pictures Corp. v. Western Electric Company, 304 U.S. 175 (1938), on rehearing, 305 U.S. 124 (1938); Automatic Radio Mfg. Co. v. Hazeltine Research, Inc., 339 U.S. 827 (1950); Armstrong v. Motorola, Inc., 152 USPQ 535 (C.A. 7, 1967); Aluminum Co. of America v. Sperry Products, Inc., 285 F. 2d 911 (C.A. 6, 1960); Hazeltine Research v. Admiral Corp., 183 F. 2d 953 (C.A. 7, 1950). Also see: Hampton v. Paramount Pictures Corporation, 279 F. 2d 100 (C.A. 9, 1960); Deering, Milliken & Co. v. Temp-Resisto Corporation, 160 F. Supp. 463 (S.D.N.Y., 1958), modified on other grounds, 274 F. 2d 626 (C.A. 2, 1960); Gamewell Fire-Alarm Telegraph Co. v. City of Brooklyn, 14 F. 255 (E.D.N.Y., 1882)].

Customers can also be classified according to the expected and usual place in which they will either use or resell the device. This type of limitation is useful for example in connection with territorially limited licenses. Ordinarily, a territorially limited licensee is under no obligation to refrain from selling a patented device to a customer who intends to take the device outside of the authorized territory of the licensee. [Hobbie v. Jennison, 149 U.S. 355 (1893).] To create such an obligation, a licensor might specify that its licensee can sell patented devices for use in certain areas only or can sell only to customers who normally will use or resell the patented device in the designated area. [Dorsey Revolving Harvester Rake Co. v. Bradley Manufacturing Co., 7 Fed. Case 946 (N.D.N.Y., 1874). Also see Elliott Co. v. Lagonda Mfg. Co., 205 F. 152 (W.D. Pa., 1913), modified, 214 F. 578 (C.A. 3, 1914).]

Many channels of distribution are available for the

Our final consideration is a limited license authorizing a manufacturing licensee to sell patented devices to customers individually approved or licensed by the licensor. This limited license would appear to be within the scope of the patent grant because it merely concerns the licensee's right to sell patented devices. Also, the customer approval or licensing would seem to be supported by the line of authority holding that a patent owner may grant user licenses and require such licensees to purchase patented devices for use under the license from authorized manufacturing licensees. [Steiner Sales Co. v. Schwartz Sales Co., 98 F. 2d 999 (C.A. 10, 1938); United States v. The Consolidated Car-Heating Co., Inc., 1950-1951 Trade Cases Par. 62,656 (S.D.N.Y., 1950). Also see: Baldwin-
Form No. 15.01
Nonexclusive License
Style Limitation

ABC hereby grants unto XYZ the nonexclusive right and license under said Letters Patents to make, have made, use and sell throughout the United States, its territories and possessions, stationary, marine, industrial and automotive engines with a piston displacement of not more than 1,000 cubic inches.

Form No. 15.02
Nonexclusive License
Style Limitation

ABC hereby grants to XYZ a nonexclusive right and license under said Letters Patents to make, use and sell throughout the United States automatic transmissions identical to the
sample which has been deposited by XYZ with ABC and which is identified in Schedule A.

XYZ agrees not to directly or indirectly engage in the manufacture or sale of any automatic transmissions covered by said Letters Patents other than those licensed hereunder, except such as XYZ might manufacture and furnish another licensee of ABC, and then only such constructions thereof as such other licensee should be licensed by ABC to manufacture and sell.

Form No. 15.03

Nonexclusive License
Limited as to Style
Limited as to Plants and Products

ABC hereby grants unto XYZ a nonexclusive license, to manufacture in any of its plants or factories and in such plants or factories as it may hereafter own or lease, and to use, vend and lease throughout the United States of America and its possessions and in any foreign country, (1) aircraft engines, aircraft type engines and/or parts thereof; (2) aircraft and/or parts thereof; and (3) apparatus or equipment and/or parts thereof, intended for use or application to, on or with aircraft, embodying, utilizing, comprising or including any and all of the processes; and/or apparatus and/or products, covered by Letters Patent of the United States and foreign countries and applications therefor which ABC owns, provided that XYZ shall not have the right under said license to manufacture or process cylinders or other engine parts for other manufacturers, or engines or other aircraft parts other than XYZ's without ABC's consent.

Form No. 15.04

Nonexclusive License
Limited to Unfinished Articles
Limited as to Class of Customers

ABC hereby grants to XYZ a nonexclusive license to prac-
tice throughout the United States the inventions covered by said Letters Patent in the manufacture of pressed glass blanks for cutting, to be sold only to cutting houses for use in the manufacture of cut glassware.

It is understood by the parties hereto that the practice of any of said patented inventions by XYZ in finishing glassware to be put upon the market without cutting, otherwise known as pressed glassware, or sold to other than cutting houses, will be an infringement of said Letters Patent; it being the intention and purpose of this license that said patented inventions shall not be used by XYZ in the manufacture of "imitation cut glassware" or other pressed glassware.

Form No. 15.05

Nonexclusive License
Limited to Manual Apparatus

ABC hereby grants to XYZ a nonexclusive license to manufacture, use and sell throughout the United States manually operated feather picking apparatus covered by the claims of said Letters Patent.

The parties understand and agree that this license is limited to manually operated apparatus and that it does not extend to or include automatic apparatus; that is, apparatus wherein a conveyor or other non-manual means are used to convey fowls into contact with the feather picking apparatus, and XYZ specifically agrees that it will not make or sell any automatic apparatus covered by the claims of said Letters Patent during the life of said Letters Patent.

Form No. 15.06

Exclusive License
Reservation as to Possible Future Fields of Use

ABC hereby grants to XYZ the exclusive right and license under said Letters Patents to manufacture, use and sell through-
out the United States automatic transmissions for automotive vehicles.

It is understood and agreed that there may hereafter develop other uses for the automatic transmissions than the application of the same as a part of automotive vehicles, which is the subject matter of this Agreement, and XYZ understands and agrees that ABC shall have the unrestricted right to manufacture, use and sell automatic transmissions for such other purposes. It is agreed, however, that if ABC does not itself engage in the manufacture of automatic transmissions for such other purposes XYZ shall have the right to acquire a nonexclusive license to manufacture, use and sell such automatic transmissions upon terms equally favorable with those which ABC may be willing to make to others for the manufacture, use and sale of said automatic transmissions.

Form No. 15.07

Nonexclusive License
Sales Limited to Prescribed Combination

ABC hereby grants to XYZ a nonexclusive license under said patents and patent application to manufacture and sell throughout the United States swinging wringers and gear mechanisms shown in the attached circular, for use only in connection with and as a part of power-operated washing machines of the general type and design shown in the circular attached hereto and make a part hereof.

XYZ agrees not to sell any of said patented devices separately or as part of any other mechanism than on the washing machines made by it of the general type shown in the attached circular to any person, firm or corporation, except for repairs to machines previously sold by XYZ.

Form No. 15.08

Exclusive License
Customer Limitation (Field of Use)

ABC hereby grants to XYZ the exclusive right to make,
use and vend the inventions covered by said Letters Patents for the following purposes and no others; that is to say, for the purpose of constructing and operating telegraph wires and instruments within the corporate limits of any of the incorporated cities or villages, or other incorporated municipalities analogous to cities and villages, in any of the states and territories of the United States, when said telegraph lines and instruments are used solely by the municipal authorities for fire-alarm or the transmission of police or other municipal intelligence.

Form No. 15.09

Nonexclusive License
Customer Limitation (Field of Use)

ABC hereby grants to XYZ a nonexclusive license to manufacture said apparatus and to sell said apparatus of XYZ's manufacture, as follows: (a) To radio amateurs for use in radio amateur stations; (b) To radio experimenters and scientific schools or universities, for use in experimental and scientific school or university radio stations; (c) To purchasers in the United States for use in their own non-commercial land radio stations, i.e., stations used for the private purposes of their owners, and which do not receive or transmit for others commercial messages for money or other valuable consideration.

Form No. 15.10

Nonexclusive License
Customer Limitation (Field of Use)

ABC hereby grants to XYZ a nonexclusive license to manufacture and sell throughout the United States power supply and power amplifying units embodying the inventions of said Letters Patents for radio amateur reception, radio experimental reception, and radio broadcast reception.
The term "amateur reception", for the purpose of this Agreement, means reception by one not a professional investigator who is more than a mere broadcast listener, and who evidences his interest in the art of wireless telephony by study, investigation, or experiment in the art.

The term "experimental reception", for the purpose of this Agreement, means the use in a laboratory, college, school or scientific society, or in professional investigations, but not in any case reception of messages, directly or indirectly, for business purposes.

The term "broadcast reception", for the purpose of this Agreement, is defined as follows: The reception from radio broadcast stations of news, music, speeches, sermons, advertising, and entertainments, educational and similar matter, or any of them, or combination of any of them, for the purpose of exhibition, entertainment or instruction.

Form No. 15.11

Exclusive License
Customer Limitation (Territory of Use)

ABC hereby grants to XYZ an exclusive license to manufacture machines embodying the inventions of said Letters Patents and to sell said machines to purchasers for use solely in the State of Michigan.

Form No. 15.12

Nonexclusive License
Customer Limitation (Trade Classification)

ABC hereby grants to XYZ a nonexclusive license under said Letters Patents to manufacture cigar lighters throughout the United States and to sell said cigar lighters to distributors, jobbers and dealers for resale as attachments, replacements, or accessories to automobiles.
It is expressly understood by the parties that the license herein granted does not authorize XYZ to sell said cigar lighters to automobile manufacturers for use as standard equipment on automobiles.

§16. Price Limitations: This section is concerned with price control exercised by a licensor over a manufacturing licensee. It is possible to exercise such control, for example, by fixing the absolute or minimum price at which the licensee may sell patented articles, or by binding the licensee to sell at the same price, or at not less than the price, used by the licensor in its own sales. Ordinarily, price fixing is illegal per se. [United States v. Socony-Vacuum Oil Co., 310 U.S. 150 (1940); United States v. Trenton Potteries Co., 273 U.S. 392 (1927).] However, in the 1926 General Electric case, the Supreme Court held that price limitations were permissible in patent licenses at least within the context of the facts presented to it in that case. [United States v. General Electric Company, 272 U.S. 476 (1926). Also see Bement v. National Harrow, 186 U.S. 70 (1902).]


Nevertheless, the use of any price limitations in patent licenses is on an extremely precarious footing. Since 1926, the Supreme Court has had occasion to reconsider the
General Electric rule. Although a majority of the Court has not overruled the General Electric case, neither has a majority reaffirmed it. [United States v. Huck Manufacturing Co., 382 U.S. 197 (1965); United States v. Line Material Co., 333 U.S. 287, 304 (1948).] In these circumstances, the value of the General Electric case as a reliable precedent has been considerably diminished.

Moreover, the extent to which price control by patent license is still permissible at all has been considerably circumscribed by numerous court decisions. First, it appears that a price fixing agreement is legal only when it is imposed by a licensor who sells the licensed product in competition with its licensee and who would be benefited as a result of such price control. [United States v. Vehicular Parking, 54 F. Supp. 828, 838 (D. Del., 1944).]

Grant of Patent Rights


Thirdly, the licensor must retain the absolute right to fix the sale price of the patented product and may not relinquish to the licensee any control over the determination or enforcement of prices. [Cummer-Graham Co. v. Straight Side Basket Corporation, 142 F. 2d 646 (C.A. 5, 1944); United States v. Krasnov, 143 F. Supp. 184, 198 (E.D. Pa., 1956), affirmed per curiam, 355 U.S. 5 (1957). Also see Interstate Circuit v. United States, 306 U.S. 208 (1939).]


Finally, as discussed in Section 28, the validity of a patent under which a price restriction is imposed may be challenged either by the licensee or by the government.

Form No. 16.01

Price Limitation

XYZ agrees to sell Licensed Devices at not less that fifty dollars ($50.00) per unit.

Form No. 16.02

Price Limitation

The license herein granted is conditioned on XYZ selling Licensed Devices at prices, terms and conditions of sale no more favorable to the customers than those followed by ABC in making its sales.

Form No. 16.03

Price Limitation

XYZ agrees not to sell Licensed Devices at less prices or on more favorable terms of payment and delivery to the purchasers than those set forth in Schedule A.

Form No. 16.04

Price Limitation

XYZ agrees that in the event it seeks to sell Licensed Devices to known established customers of ABC, then and in that event, XYZ will not sell or offer to sell such devices to said
known established customers of ABC at a price less than or effectively less than the established price of ABC for the same or similar device in similar quantities. ABC shall within ten (10) days of the execution of this Agreement provide XYZ with a list of ABC’s current customers and the prices being charged said customers for devices. The restriction provided for in this paragraph shall apply only to the customers named in the aforesaid list.

Form No. 16.05

Price Limitation

ABC reserves to itself, as one of the considerations, conditions and limitations of this Agreement, the right to fix the minimum selling prices of all Licensed Products manufactured and sold by XYZ. XYZ promises and agrees to observe, maintain and cooperate in maintaining said minimum selling prices of Licensed Products established by ABC, and promises and agrees that failure to observe and maintain said minimum selling prices shall render void the license herein granted to XYZ. Terms of payment, time of delivery and differential for quantity shall all be set forth in the price schedules furnished by ABC to XYZ, and deemed for all purposes herein to be a part of the selling prices.

Form No. 16.06

Price Limitation

ABC reserves the right to establish minimum sales prices for the articles or products which XYZ is licensed to manufacture hereunder and to modify or change such minimum prices from time to time during the life of this Agreement. XYZ shall not, without the consent of ABC, sell or offer for sale, or otherwise dispose of any of said licensed devices or products below said minimum sales prices, or on more favorable terms of sale than those set forth in any such scale of prices so established by
ABC. Contemporaneously with the execution and delivery of this Agreement, XYZ has received from ABC a schedule of minimum prices, effective as of the date hereof, below which none of the products or devices made under this license shall be sold. ABC reserves the right, upon thirty (30) days’ notice in writing given by ABC to XYZ, to change said minimum prices from time to time during the life hereof.

Form No. 16.07

Price Limitation

ABC grants this license on the express condition that the prices, terms and conditions of sale for use or sale in the United States, its territories and possessions of products embodying the invention covered by said Letters Patent and so long as such products continue to be covered by said patent, shall be no more favorable to the customer than those which from time to time ABC establishes and maintains for its own sales of similar or competing products under said patent to such or other similarly situated customer purchasing in like quantities. XYZ shall be notified of all such prices, terms and conditions of sale fixed by ABC. The prices, terms and conditions of sale of ABC may be changed by ABC from time to time, notice being given XYZ, but not less than five (5) days’ notice shall be given before any such change shall go into effect. It is agreed that the sale of said products by XYZ at prices lower, or on terms or conditions more favorable, than those set forth by ABC shall constitute a breach of this Agreement.

§17. Tying Arrangements: In general, the exclusionary rights of a patent owner are limited to the specific invention defined in the patent claims and do not extend to supplies required for practicing the invention. Accordingly, except insofar as Section 271 of the Patent Act may be concerned, licenses that restrict the source from which the licensee may purchase supplies or components
for practicing a patented invention are outside of the scope of the patent grant.


Tying conditions may also be imposed by offering alternative types of patent licenses; one at a specified royalty rate regardless of whether the licensee purchases required supplies from the licensor, and the other at a lower royalty rate, or royalty-free, on condition that the licensee purchase required supplies solely from the licensor. The use of licensing agreements involving different royalty rates to tie-in the sale of supplies required in practicing a licensed invention has repeatedly been condemned by the courts, not only as a misuse of patents, but also as a violation of the antitrust laws. [National Foam System v. Urquhart, 202 F. 2d 659 (C.A. 3, 1953); Dehydrators, Limited v. Petrolite Corporation, Limited, 117
The application of the misuse doctrine to tying arrangements has been modified to a limited extent by Section 271 of the Patent Code. Under this section, certain tie-ins of components may be permissible provided the components constitute a material part of the patented invention, are especially made or especially adapted for use in the invention, and are not a staple article or commodity of commerce suitable for substantial non-infringing use. Also see: Buxton Incorporated v. Julen Incorporated, 223 F. Supp. 697 (S.D.N.Y., 1963); Amalgamated Dental Co. v. William Getz Corp., 90 USPQ 339 (N.D. Ill., 1951); Calhoun v. United States, 339 F. 2d 665 (Ct. Cl., 1964). But compare: Baldwin-Lima-Hamilton Corp. v. Tatnall Measuring Systems Company, 169 F. Supp. 1, 31-33 (E.D. Pa., 1958), affirmed per curiam, 268 F. 2d 395 (C.A. 3, 1959); Dr. Salsbury's Laboratories v. I. D. Russell Co., 212 F. 2d 414 (C.A. 8, 1954).] Thus, it appears that a patent owner may sell such components and grant a license to purchasers to use the components in the patented product, system or process,
or may license another to make and sell such components and authorize the purchasers, either directly or through the licensee, to use the components in the patented invention.

There is also an apparent exception to the misuse doctrine when the tied product is patented. For example, a patent may contain one set of claims covering components, material or apparatus and another set of claims covering a method or system in which the patented components, material or apparatus are adapted to be used. In this circumstance, it appears permissible for the patent owner to sell the patented components and grant a license to purchasers to use the components in the patented method, or to license another to make and sell the patented components and authorize the purchasers, directly or indirectly, to use the components in the patented method. [Libby-Owens-Ford Glass Co. v. Sylvania Industrial Corporation, 64 F. Supp. 516 (S.D.N.Y., 1945), appeal dismissed, 154 F. 2d 814 (C.A. 2, 1946). Also see Eastern Venetian Blind Co. v. Acme Steel Co., 188 F. 2d 247 (C.A. 4, 1951).]

Similarly, when a patent owner grants a license to another to use patented material or devices that the user is not going to manufacture itself, a restriction is occasionally incorporated in the license requiring the licensee to purchase all patented material or devices, which it intends to use under its license, only from the licensor or from a manufacturer specified by the licensor. This type of restriction, which is in form an exclusive purchase provision, has been approved in a few decisions. [Steiner Sales Co. v. Schwartz Sales Co., 98 F. 2d 999 (C.A. 10, 1938); Baldwin-Lima-Hamilton Corp. v. Tatnall Measuring Systems Company, 169 F. Supp. 1, 25-28 (E.D. Pa., 1958), affirmed per curiam, 268 F. 2d 395 (C.A. 3, 1959); United States v. The Consolidated Car-Heating Co., Inc., 1950-51 Trade Cases Par. 62,656 (S.D.N.Y., 1950). Also see Car-
Form No. 17.01

Nonexclusive License to Make and Sell
Nonstaple Components for Use in Patented Construction

ABC hereby grants to XYZ a nonexclusive license to make and sell throughout the United States [nonstaple] seals for use in said packing construction covered by said Letters Patents as a part of, repair for, or replacement in devices in which said packing construction is a part, and hereby licenses any purchaser from XYZ to use the seal so sold, in accordance with said patent.

Form No. 17.02

Nonexclusive License to Make and Sell
Patented Composition for Use in Patented Method

ABC hereby grants to XYZ a nonexclusive license to make and sell throughout the United States molding compositions covered by said Letters Patent, and hereby licenses XYZ to authorize any purchaser from XYZ to use the patented molding compositions so sold in the method covered by said Letters Patent.

Form No. 17.03

Nonexclusive Use License
Limitation as to Source of Patented Devices

ABC hereby grants to XYZ the nonexclusive right and license to use said patented towel cabinets, including any improvements thereon, for the term of this Agreement; restricted, however, to XYZ’s own business and own use in the following cities and adjoining suburbs.

XYZ agrees to purchase said patented towel cabinets and improvements solely and exclusively from ABC or from a manufacturer authorized by ABC.
CHAPTER 3
MONETARY CONSIDERATION

§18. Prefatory: Patent licenses are usually granted in exchange for some form of monetary consideration. Broadly classified, the consideration may be fixed or variable. When the compensation is arranged on a variable basis, there may be provisions concerning minimum and maximum payments, and there usually are provisions concerning royalty reports and related accounting matters.

In reference to compensation, "royalty" is a term commonly associated with patent licenses. Although this term most frequently is used to refer to variable forms of compensation, it may also be used in a technical sense to refer to all forms of compensation. [Hazeltine Corporation v. Zenith Radio Corporation, 100 F. 2d 10 (C.A. 7, 1938).]

Court decisions of recent years have raised several problems relating to the establishment of royalties. Generally, royalties need not be reasonable. [Meurer Steel Barrel Co. v. Martin, 1 F. 2d 687 (C.A. 3, 1924).] However, one court has indicated that the imposition of "exorbitant and oppressive" royalties which materially affect prices constitutes patent misuse. [American Photocopy Equipment Company v. Rivico, Inc., 359 F. 2d 745 (C.A. 7, 1966), on remand, 257 F. Supp. 192 (N.D. Ill., 1966).] Additionally, in a series of cases, the use of discriminatory rates in the leasing of patented machines has been held to be a violation of Section 2 of the Sherman Act, a violation of Section 5 of the Federal Trade Commission Act, or a misuse of patents. [Peelers Company v. Wendt, 260 F. Supp. 193 (W.D. Wash., 1966); La Peyre v. Federal Trade Commission, 366 F. 2d 117 (C.A. 5, 1966); Laitram Corporation v. King Crab, Inc., 245 F. Supp. 1019 (D. Alaska, 1965).] Further, the extension of royalty payments beyond the expiration of the licensed patent has been condemned. [Brulotte v. Thys Co., 379 U.S. 29 (1964). Also see Technograph Printed Circuits, Ltd. v. Bendix Avia-
tion Corp., 218 F. Supp. 1, 47 (D. Md., 1963), affirmed, 327 F. 2d 497 (C.A. 4, 1964).] The foregoing decisions concerning exorbitant, discriminatory and post-expiration royalties, together with the decisions referred to in Section 10 concerning royalties in relation to package licensing, must be given careful attention during the preparation and negotiation of the royalty provisions of a license agreement.

§19. Fixed Consideration: A fixed consideration may assume the form of a single lump sum payment, or a fixed sum payable in installments over a period of months or years, or a series of fixed sums each payable for a designated period of use of the invention (e.g., fixed monthly or annual payments).

This form of compensation offers certain advantages to both parties. From the licensee's standpoint, it is unnecessary to disclose its business affairs to the licensor by monthly reports, to maintain special books and records for the benefit of the licensor, or to permit regular audit of its accounts for royalty purposes by the licensor. Moreover, the licensee has unrestricted freedom to sell to or through affiliated corporations. From the licensor's standpoint, all risk involving the licensee's sales volume is shifted from the licensor to the licensee, and the uniform fixed payments afford the licensor an element of financial stability. Finally, because of the simplicity of the arrangement, possible disputes regarding payments under the contract are maintained at a minimum.

To encourage prompt payment of sums payable in installments, and to simplify the mechanics of recovery of unpaid installments, occasionally provision is made for acceleration. That is, upon the non-payment or late payment of any installment, the entire amount remaining unpaid becomes due and payable immediately. [Otto v. Orange Screen Co., 57 F. Supp. 134 (D.N.J., 1944).] Also, interest on overdue payments may be required.
Form No. 19.01

Lump Sum Payment

XYZ hereby agrees to pay to ABC the sum of ten thousand dollars ($10,000) within ten days of the execution of this Agreement.

Form No. 19.02

Fixed Sum Payable in Installments

XYZ hereby agrees to pay to ABC the sum of ten thousand dollars ($10,000), one thousand dollars ($1,000) being payable within ten days of the execution of this Agreement and three thousand dollars ($3,000) being payable on each of the three successive anniversary dates of the execution of this Agreement.

Form No. 19.03

Fixed Annual Payments

XYZ hereby agrees to pay to ABC one thousand dollars ($1,000) on execution of this Agreement and annually thereafter during the term of this Agreement.

Form No. 19.04

Fixed Quarterly Payments

XYZ hereby agrees to pay to ABC a royalty in quarterly payments of $250 each on January 1, April 1, July 1 and October 1 of each year.

Form No. 19.05

Interest on Overdue Payments

XYZ shall pay interest to ABC upon any and all amounts of royalties that are at any time overdue and payable to
ABC at the rate of 6% per annum from the date when such royalties are due and payable as provided herein to the date of payment.

Form No. 19.06

Acceleration Provision

Upon XYZ’s failure to meet punctually the terms and conditions of this Agreement in respect to payments, the entire amount remaining unpaid under this Agreement shall become due and payable. The specific purpose of this paragraph is to insure exact compliance with the terms and conditions in reference to payments.

§20. Variable Consideration: As an alternative to receiving a fixed consideration, a licensor may agree to receive payments from a licensee in the form of “royalties” which are measured by prescribed activities of the licensee. There are two principal factors involved in royalty payments: first, the rate of payment (namely, the amount of money that must be paid for each designated unit dealt with pursuant to the license agreement) and, second, the base upon which payments are made (namely, the definition of the units themselves).

The royalty rate may be predicated upon a direct proportion relationship, a descending graduated basis, an ascending graduated basis or a differential basis. Under the first arrangement, a uniform price is payable for each unit made, processed or sold pursuant to the agreement; therefore, irrespective of the number of units dealt with, the unit-payment remains the same. If a descending royalty rate is employed, the payment per unit decreases as the number of units dealt with increases. Neither fixed unit royalty rates nor descending royalty rates, standing alone, appear objectionable. [Arthur J. Schmitt Foundation v. Stockham Valves and Fittings, Inc., 151 USPQ 474, 485 (N.D. Ala., 1966); Eversharp, Inc. v. Fisher Pen Co., 204
F. Supp. 649, 669 (N.D. Ill., 1961); and other cases cited throughout this section.

In connection with ascending royalty rates, the payment per unit increases as the number of units dealt with increases. Because ascending royalty rates are invariably imposed to compel, or at least to encourage, compliance with suggested quota or territorial limitations established by the licensor, they would seem to be subject to the same tests of legality that are applied to quota and territorial limitations in general. [See Secs. 13-14.] When differential or separate royalty rates are employed, the licensee is offered one rate if purchases of supplies are made on the open market and a lower rate if purchases of supplies are made from the licensor. Since a differential royalty serves to tie in supplies with the grant of a patent license, the legality of such an arrangement is questionable and would appear to depend on the legality of the tie-in itself. [See Sec. 17.] It will be appreciated that the rate of royalty may be expressed in terms of percent of sales as well as price per unit.

In general, bases used in the determination and computation of royalty payments fall into two groups, those that bear a direct relationship to the use made of the patent right and those that do not.

Specified royalty rates may, for example, be applied to the amount of raw materials, measured either by volume or cost, used in a patented process or machine or for producing a patented article, or to the number of articles, measured by volume or sales, treated or produced by a patented process or machine or produced under a product patent. [Carbo-Frost, Inc. v. Pure Carbonic, 103 F. 2d 210 (C.A. 8, 1939); United States v. Linde Air Products Co., 83 F. Supp. 978 (N.D. Ill., 1949); United States v. Parker-Rust-Proof Co., 61 F. Supp. 805 (E.D. Mich., 1945); Ceramic Process Co. v. Cincinnati Advertising Products Co., 28 F. Supp. 794 (S.D. Ohio, 1939), appeal dismissed, 116 F. 2d 497 (C.A. 6, 1940). Also see Armstrong v. Emer-
son Radio and Phonograph Corp., 179 F. Supp. 95 (S.D. N.Y., 1959).] In the case of patented apparatus offered for rent by the licensee, royalty rates may be applied to the rental compensation received by the license. [Carbo-Frost, Inc. v. Pure Carbonic, 103 F. 2d 210 (C.A. 8, 1939).] The foregoing royalty bases bear a direct relationship to the actual use of the patent right.

Broader royalty bases have also been approved on the theory that it is permissible to exact royalties for the privilege of use, as well as for the actual use, of the patent right. In this connection, specified royalty rates may be applied:


2. To unpatented parts as well as to complete patented instrumentalities. [Wagner Electric Corporation v. Hydraulic Brake Co., 12 F. Supp. 837 (S.D. Cal., 1935).]

3. To the licensee's sales of patented and competitive or similar articles. [Flexwood Co v. Faussner & Co., 145 F. 2d 528 (C.A. 7, 1944); Ohio Citizens Trust Co. v. Air-Way Electric Appliance Corporation, 56 F. Supp. 1010 (N.D. Ohio, 1944).]


5. To the licensee's total sales of certain products whether or not manufactured in accordance with the process of any of the licensed patents.


But compare the finding of the Supreme Court in United States v. United States Gypsum Co., 333 U.S. 364, 397 (1948), that royalties payable on the production of unpatented gypsum board was "strongly indicative of an agreement not to manufacture unpatented board." Royalty rates may also be applied to the profits of the licensee. [McCullough v. Kammerer Corporation, 166 F. 2d 759 (C.A. 9, 1948); Tate v. Lewis, 127 F. Supp. 105 (D. Mass., 1954); American Delinting Co. v. Pomeraning, 274 F. 212 (M.D. Pa., 1921).

In the interpretation of general royalty provisions, royalties are normally held to be payable not only on devices literally covered by the patent claims but also on equivalent devices under the doctrine of equivalents. [Sbicca-Del Mac, Inc., v. Milius Shoe Co., 145 F. 2d 389 (C.A. 8, 1944); Saco-Lowell Shops v. Reynolds, 141 F. 2d 587 (C.A. 4, 1944); Skinner v. Reynolds Metals Co., 69 F. Supp. 306 (W.D. Ky., 1946), affirmed, 166 F. 2d 66 (C.A. 6, 1948).

Courts have also required the payment of royalties on certain devices without regard to the patent claims.
when the licensee has been found to be estopped, by con-
tact or conduct, to deny that the devices come within the
scope of the claims. [See Sec. 28.] When a provision speci-
fies that royalties shall be paid on the sale of certain prod-
ucts identified in terms of complete units, the payment of
royalties is not required on the sale of component parts of
the product. [Krantz v. Van Dette, 165 F. Supp. 776 (N.D.
Ohio, 1958), affirmed per curiam, 272 F. 2d 709 (C.A. 6,
1959).] When a percentage royalty is based on "net sales"
of the licensee, it has been held that royalties need not be
paid on patented items manufactured but not sold. [Mac-
Cluny v. Kelsey-Hayes Wheel Company, 186 F. 2d 552
(C.A. 6, 1951). But compare Chemical Foundation, Inc. v.
Bethlehem Steel Co., 46 USPQ 290, 292 (N.Y. Sup. Ct.,
1940).] However, once patented items have been sold,
royalties ordinarily must be paid even though the licensee
is not paid for the items. [Confectioners' Machinery & Mfg.
Co. v. Panoulas, 134 F. 593 (C.A. 2, 1904); Bee Machine
Co. v. Freeman, 40 F. Supp. 299 (S.D. Ohio, 1939),
affirmed per curiam, 121 F. 2d 451 (C.A. 6, 1941).]

To avoid disputes concerning the foregoing subjects,
it will be apparent that the license agreement should be
carefully drafted to clearly define what devices are subject
to royalties, when they are subject to royalties, and, in
appropriate circumstances, what constitutes a sale, what
part of gross receipts is to be included in the sales base,
and the effect of credit losses on royalties. In certain situa-
tions, special provision may be made for: a minimum unit
royalty when royalties are otherwise based on a percent of
sale price, the addition of interest on overdue royalty pay-
ments [Form No. 19.05], an allowance for royalties payable
by the licensee to others, an exemption on the licensee's
sales of licensed equipment to others licensed by the
licensor, and/or the payment of but one royalty for each
licensed unit sold by the licensee. When the licensee has
some doubt concerning the validity and scope of the li-
censed patent, the parties may agree to a temporary low
royalty rate until these issues have been adjudicated in a suit against a third party. [Galion Iron Works & Mfg. Co. v. J. D. Adams Mfg. Co., 105 F. 2d 943 (C.A. 7, 1939).] The agreement may further provide that termination thereof shall not affect the licensee's obligation to pay royalties that may have accrued up to the time of termination, [McEvoy Co. v. Kelly, 171 F. 2d 837 (C.A. 5, 1948).]

When royalties are computed as a percentage of sale price, it is possible for a licensee to sell licensed devices to an affiliate at a price lower than it would ordinarily charge the public and thereby unfairly reduce royalty liability. In such circumstances, the licensor may be entitled to general equitable relief. [Hazeltine Corporation v. Emerson Television-Radio, Inc., 23 USPQ 344 (S.D.N.Y., 1934).] However, it is preferable to cover the matter specifically by contract. This can be done by prescribing special terms of royalty payments on sales made by the licensee to affiliates. [In re Celotex Company, 17 F. Supp. 254 (D. Del., 1936).] Alternatively, the licensee can be bound not to make any sales to affiliates. [Coats Loaders & Stackers, Inc. v. Henderson, 233 F. 2d 915 (C.A. 6, 1956).]

Form No. 20.01

Unit Royalties; Uniform Rate

XYZ hereby agrees to pay to ABC a royalty of ten dollars ($10.00) for each machine made and sold under the license herein granted.

Form No. 20.02

Unit Royalties; Uniform Rate

Total Sales of Licensee

XYZ agrees to pay to ABC, or to one whom ABC may designate in writing, a royalty of ten dollars ($10.00) for each automatic transmission made and sold by XYZ after the effective
date of this Agreement, whether or not said automatic transmissions fall within the scope of one or more of the claims of said Licensed Patent, it being the understanding of the parties that such royalty arrangement is for the purpose of simplifying the determination of the royalty payable for the license herein granted.

Form No. 20.03

Unit Royalties; Uniform Rate
Temporary Low Rate

XYZ agrees to pay to ABC royalties as follows:

(A) $5.00 per machine for all machines manufactured and sold subsequent to the date of this Agreement, embodying one or more claims of said patent until either one or more claims of said patent have been held valid by a court of competent jurisdiction in a decision on the merits and of such scope as to cover machines now being made by XYZ and MNO Manufacturing Company, or until MNO accepts a license from ABC under said patent at a royalty of $15.00 per machine, or has been enjoined from manufacturing, selling and using machines under said patent or has ceased to manufacture such machines, whichever first occurs.

(B) From and after the happening of any of the above-mentioned events XYZ agrees to pay ABC a royalty of $15.00 per machine upon each machine manufactured or sold by XYZ embodying one or more claims of said patent.

Form No. 20.04

Unit Royalties; Descending Rate

XYZ hereby agrees to pay to ABC a royalty on all machines made and sold annually under the license herein granted, as follows

First 100 machines — $10 per machine
Second 100 machines — $9 per machine
All machines thereafter — $8 per machine
Form No. 20.05

Unit Royalties; Ascending Rate

XYZ hereby agrees to pay to ABC a royalty on all machines made and sold annually under the license herein granted, as follows:

- First 100 machines — $10 per machine
- Second 100 machines — $11 per machine
- All machines thereafter — $12 per machine

Form No. 20.06

Unit Royalties to be Collected by Licensee
Selling Components for Use in Patented Construction

There shall be paid to ABC for each packing construction used in accordance with said patent, a royalty of one-fourth cent (1/4¢) irrespective of the size of such construction. XYZ shall act as the agent of ABC in the collection of such royalty from purchasers of seals from XYZ for use in said packing constructions, and shall make payment to ABC in the manner herein-after set forth.

Form No. 20.07

Unit Royalties Based on Size of Licensed Devices

XYZ agrees to pay to ABC a royalty on all engines made and sold under the license herein granted. Royalties shall be payable on the basis of the piston displacement of each such engine, as follows:

- Under 500 cubic inches: $10 per engine
- 500-1000 cubic inches: $15 per engine
- over 1000 cubic inches: $20 per engine
Form No. 20.08

Definition of "Sold"

For the purpose of computing royalties hereunder, an article shall be deemed sold when it is completed and ready for shipment to the customer.

Form No. 20.09

Definition of "Sold"

Licensed Devices shall be deemed to have been sold when billed out, or when shipped, or when paid for, whichever shall occur first.

Form No. 20.10

Definition of "Sold"

For the purpose of computing royalties hereunder, Licensed Devices shall be regarded as sold when they are billed out, or if not billed out, when they have been shipped, or otherwise delivered to the purchaser, except where such Licensed Devices are shipped by XYZ on consignment or memorandum, in which event the earned royalty shall be payable to ABC when the Licensed Devices are sold by the consignee and billed by XYZ.

Form No. 20.11

One Royalty Payment Per Unit

Regardless of the number of inventions or patents pertaining to any Licensed Device sold by XYZ, and regardless of the number of times any Licensed Device is sold, only one royalty payment therefor shall be due ABC.
Form No. 20.12

Royalty Base:

Amount of Supplies Consumed in Patented Process

XYZ agrees to pay to ABC an amount of five cents ($0.05) for each pound of welding rod used by XYZ in practicing said patented welding process.

Form No. 20.13

Royalty Base:

Cost of Supplies Consumed in Patented Process

XYZ agrees to pay to ABC royalties equal to three percent (3%) of the net price paid by XYZ for all solid carbon dioxide deposited or used in apparatus manufactured in accordance with said Inventions for the purpose of converting such solid carbon dioxide into liquid and/or gas.

Form No. 20.14

Royalty Base:

Compensation Received by Licensee While Using Licensed Apparatus or Method

XYZ agrees to pay to ABC a royalty of five percent (5%) of the amount received by XYZ from customers for any work performed by XYZ during the continuance of this Agreement, in which XYZ shall employ the Licensed Apparatus or Method.
Form No. 20.15

Royalty Base:
Compensation Received by Licensee
for Use of Patented Apparatus

XYZ agrees to pay to ABC a sum equal to three percent (3%) of any and all sums paid by the user of said apparatus for the use thereof, whether by way of rental or other charge, howsoever designated.

Form No. 20.16

Royalty Base:
Net Sales of Licensed Devices
Minimum Unit Royalty

XYZ agrees to pay to ABC a royalty of ten percent (10%) of the net selling price, but not less than fifty dollars ($50.00), for each and every Licensed Device sold by it and/or by its sublicensees, under the terms of this Agreement.

Form No. 20.17

Royalty Base:
Net Sales of Licensed Machines
Descending Rate

XYZ agrees to pay to ABC royalties on net sales in each 12-month period of machines made and sold under the license herein granted, as follows:

<table>
<thead>
<tr>
<th>Net Sales Range</th>
<th>Royalty Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under $1,000,000</td>
<td>1%</td>
</tr>
<tr>
<td>$1,000,000-$2,000,000</td>
<td>3%</td>
</tr>
<tr>
<td>Over $2,000,000</td>
<td>½%</td>
</tr>
</tbody>
</table>
Form No. 20.18

Royalty Base:

Net Sales of Licensed Devices
Royalties on Certain Sales Subject to Negotiation

XYZ hereby agrees to pay to ABC from the date of this Agreement, as royalty for the use of said invention, eight percent (8%) of the net selling price of all devices made and sold under the license herein granted, provided, however, that royalties payable on devices sold by XYZ to the United States government, or any agency thereof, shall be subject to negotiations between the parties hereto.

Form No. 20.19

Royalty Base:

Net Sales of Licensed Devices
Allowance for Royalties Payable to Others

XYZ agrees to pay to ABC a royalty of five percent (5%) of the net selling price of said units, or the portions thereof embodying any of the inventions listed in Exhibit A hereof, it being understood that if any unit embodies more than one of said inventions but one royalty of five percent (5%) is to be paid on such unit regardless of the number of patents involved. In the event any unit upon which a royalty is payable hereunder includes inventions other than those of ABC, upon which XYZ is required to pay a royalty to others, then an apportionment of the net selling price shall be made in accordance with accepted accounting practices, to arrive at the portion of the net selling price upon which the royalty to ABC is to be based, but this shall in no event be less than one-half the entire net selling price of the unit.
Monetary Consideration

Form No. 20.20

Royalty Base:

Adjusted Invoice Price
Credited Against Prescribed Advance Payments

XYZ agrees to pay ABC a royalty of 2% of the adjusted invoice price of Licensed Devices sold under the present Agreement. As used herein, "adjusted invoice price" means the actual invoice price exclusive of excise taxes, fully credited returned articles, and allowances for cash payment. Royalty payments made pursuant to this paragraph shall be credited against said advance installment payments provided for in the preceding paragraph.

Form No. 20.21

Royalty Base:

Net Sales of Patented and Competitive Articles

XYZ agrees to pay to ABC a royalty of three percent (3%) of the net selling price of all articles manufactured and/or sold under the license herein granted.

XYZ may manufacture and/or sell, during the term of this Agreement, any article or articles which compete with any or all of the articles authorized to be manufactured and/or sold under said patents or applications for patents, and it shall be wholly optional with XYZ as to whether it will manufacture and/or sell any articles under said patents or applications for patents, or any of them, but in any and in every such event or events, XYZ shall pay to ABC the same royalties that it would be required to pay to ABC if said competitive article or articles so manufactured and/or sold had been manufactured and/or sold under any of said patents or applications for patents.
Form No. 20.22

Royalty Base:
Gross Sales of Patented and Similar Material

XYZ agrees to pay to ABC an amount hereinafter called royalty equal to 10% of the gross sales of said patented material and any other wood veneer, wall covering or other material similar in character and general use to said patented material.

Form No. 20.23

Royalty Base:
Total Sales of Product Whether Patents Involved or Not

XYZ agrees to pay to ABC an amount of one cent ($0.01) for each pound of solid carbon dioxide manufactured and sold by XYZ whether or not such solid carbon dioxide has been manufactured in accordance with the methods, processes and apparatus of any one of the licensed patents.

Form No. 20.24

Royalty Base:
Net Sales of Entire Class of Apparatus

XYZ agrees to pay ABC a royalty of two percent (2%) of the net selling price of all equipment manufactured and sold by XYZ embodying systems, apparatus for and methods of operation of hydraulic presses of the self-contained, high speed, oil pressure type, including all types of circuits, methods of control, and power and control elements therefor. It is specifically
covenanted and agreed by and between the parties that said
royalty shall be paid on all of the foregoing equipment irrespec­
tive of whether or not any patented invention of ABC is em­
bodied therein.

**Form No. 20.25**

**Royalty Base:**

**Net Sales of Entire Class of Apparatus**

As a consideration for the privilege of using the inventions
of any desired number which XYZ may elect of ABC’s patents
in the radio and television field, XYZ agrees to pay to ABC
a royalty of one percent (1%) of the net selling price of all radio
and television receivers manufactured and sold by XYZ.

**Form No. 20.26**

**Definition of “Net Selling Price”**

The term “net selling price” means the actual price at
which the article is sold by XYZ, f.o.b. XYZ’s plant. Royalties
shall be payable regardless of terms of payment by XYZ’s
vendee or credit risks or losses. Appropriate adjustments in
royalty payments shall be made to reflect bona fide returns.

**Form No. 20.27**

**Definition of “Net Selling Price”**

The term “net selling price” shall mean the invoice price
less quantity and cash discounts thereon actually allowed, and
less sales, use, and other similar taxes and any transportation
or delivery charges borne by XYZ. No royalty shall be due on
Licensed Products which are not accepted by the customer, and
when royalties shall have been paid on such products they shall be credited against future royalties to be paid hereunder.

Form No. 20.28

Definition of "Net Invoice Price"

The term "net invoice price" shall mean the total gross sales billed, less the following items of expense to the extent to which they are paid or allowed and included in gross sales billed in accordance with recognized principles of accounting: (1) sales, use or turnover taxes on sales invoices; (2) excise taxes, custom duties or consular fees; (3) transportation and insurance on shipments to customers; (4) trade or quantity discounts (but not cash discounts); and (5) credits allowed for returned goods.

Form No. 20.29

Sales to Affiliates

The price for which XYZ shall sell any Licensed Product to an Affiliate (as hereinafter defined) shall be deemed to be the higher of the actual price charged or the price of such product when sold by the Affiliate to the ultimate user.

Form No. 20.30

Sales to Affiliates

Anything herein to the contrary notwithstanding, royalties with respect to all sales, transfers or consignments made by XYZ to an Affiliate (as hereinafter defined) or to any purchaser which otherwise does not deal at arms-length with it, shall be computed on an amount equal to the price at which XYZ, at the time of such sales, transfers or consignments, would invoice the same or similar items to purchasers dealing at arms-length with XYZ.
Form No. 20.31

Definition of “Affiliate”

As used herein, “Affiliate” means (A) any entity in which XYZ or any of its stockholders, directors or officers has a direct or indirect ownership interest (other than insubstantial interests in publicly held companies) or (B) any entity which directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with, XYZ.

Form No. 20.32

Sales to Associates

If XYZ shall make any sales of Licensed Products to a subsidiary, associated or affiliated company, or through any agency or sublicensee, then the selling price subject to royalty shall be that charged to the consumer or customer, by XYZ’s subsidiary, associated or affiliated company, or agency, or sublicensee.

Form No. 20.33

Sales Through Related Company

XYZ shall have the right to conduct sales through a subsidiary or related company provided that XYZ shall be responsible for the payment of royalties and for other obligations under this Agreement, and the net selling price subject to royalty shall be deemed the price at which Licensed Devices are sold or resold by XYZ or by its subsidiary or related company, whichever be the highest.

Form No. 20.34

Sales to Affiliates Prohibited

XYZ agrees that it will not sell to any distributor or dealer in which it or any of its stockholders or officers have any financial interest, directly or indirectly, unless otherwise mutually agreed upon.
Form No. 20.35

Sales to Other Licensees
Royalty Base: Profits

XYZ shall not be required to pay any royalties on sales of Licensed Equipment or parts thereof to Other Licensees as above specified in this Agreement, except as follows:

Until XYZ has made a profit of fifteen percent (15%) upon the net selling price of said equipment, ABC shall receive no royalties or payments; in case of profits to XYZ in excess of fifteen percent (15%) XYZ and ABC shall divide equally such excess over fifteen percent (15%) until ABC shall have received five percent (5%) and XYZ twenty percent (20%) of said net selling price.

§21. Minimum and Maximum Payments: Minimum payment provisions are of interest to the licensor, while maximum payment provisions are of interest to the licensee.

To guarantee that the licensor will receive some compensation even though the licensee may not exploit the licensed invention, provision may be made for an initial down payment of a fixed sum to supplement the conventional royalties otherwise payable. The down payment thus serves as a minimum payment. The parties can provide either that the down payment shall be completely independent of other royalties payable, or that it may be credited against future accrued royalties.

Correspondingly, to protect the licensor, a minimum royalty may be established. The agreement may provide, for example, that the minimum royalty shall equal at least a certain amount in designated time periods, or that it shall be paid on not less than a certain number of articles, irrespective of the extent of exploitation by the licensee under the license. A minimum royalty is a proper and sufficient consideration to support a patent license agreement. [Automatic Radio Mfg. Co. v. Hazeltine Research, Inc., 339 U.S.


Monetary Consideration

827 (1950); Brawley v. Crosby Research Foundation, Inc., 68 USPQ 406 (Cal. App. Ct., 1946).] The payment of a minimum royalty may be mandatory or optional.

Mandatory minimum payments may be required for a fixed term of years or for the life of the licensed patent. During the prescribed period, and in the absence of any provision to the contrary, the licensee cannot refuse to make minimum payments and cannot terminate the license agreement. [American Delinting Co. v. Pomeraning, 274 F. 212 (M.D. Pa., 1921); International Photo Recording Machines, Inc. v. Microstat Corporation, 61 USPQ 834 (N.Y. Sup. Ct., 1944); Miller v. McClintock, 49 USPQ 458 (Minn. Sup. Ct., 1941).] Even if the licensee has an express right to terminate the agreement, it may be compelled to pay minimum royalties up to the date of termination when the obligation to pay is found to be absolute. [McEvoy Co. v. Kelly, 171 F. 2d 837 (C.A. 5, 1948); American Radiator Co. v. Foster, 98 F. 2d 135 (C.A. 6, 1938).] Ordinarily, minimum royalties must be paid for the full term of the agreement even though licensed devices are not made and the licensee does not operate under the license. [Elgin National Watch Co. v. Bulova Watch Co., 96 USPQ 176 (N.Y. App. Div., 1953); Bucky v. Sebo, 88 USPQ 161 (N.Y. Sup. Ct., 1951).] However, when a licensor has agreed to disclose a commercially usable process, the licensee is not obligated to pay minimum royalties if the process is found not to be usable commercially. [Kraus v. General Motors Corporation, 120 F. 2d 109 (C.A. 2, 1941).]

Alternatively, payment of a minimum royalty may be made optional on the part of the licensee. For example, minimum royalties may be required only so long as the licensee desires (a) to maintain the exclusive features of an exclusive license [Kennedy v. Engelhard Industries, Inc., 283 F. 2d 642 (C.A. 3, 1961)], and/or (b) to maintain the license in full force and effect. [Standard Appliance Co. v. Standard Equipment Co., 296 F. 456 (C.A. 6, 1924); Roberts Numbering Machine Co. v. Black Heat Electric
In the event of nonpayment, the licensor is given the right to cancel the exclusive features and/or to terminate the license outright. The licensor is afforded these remedies in lieu of the right to collect unpaid minimum royalties. An option to convert an exclusive license to a nonexclusive license may, in appropriate circumstances, be accompanied by a provision effecting, upon exercise of the option, termination of or modification in certain other rights, such as the right to sue third parties, originally granted the licensee.

An implied duty to work or exploit the invention is usually imposed on an exclusive licensee, and a minimum royalty provision alone may not suffice to discharge this duty. [See Sec. 32.] Therefore, if the payment of minimum royalties is to be in full satisfaction of the duty to exploit, this fact should be recited in the agreement. Additionally, to compensate for possible fluctuations in the licensee’s activities under the license, provision may be made for crediting certain royalties paid in one year against the minimum royalty required in a subsequent year.

Finally, to limit the licensee’s liability, the license agreement may provide for the cessation of royalty payments after a certain amount has been paid to the licensor in each year or in total. [Tesla Company v. Holland Furnace Company, 73 F. 2d 553 (C.A. 6, 1934).] A maximum royalty payment provision is a limitation only and does not create an absolute obligation on the part of the licensee to pay the maximum amount designated. [Grauer v. Schenley Products Co., 32 F. Supp. 225 (S.D.N.Y., 1940).]

Form No. 21.01

Supplementary Initial Payment

In addition to the royalties specified herein, XYZ hereby agrees to pay to ABC the sum of five thousand dollars ($5,000) within ten days of the execution of this Agreement.
Form No. 21.02
Supplementary Initial Payment
Credit Against Royalties

The first annual royalty period shall commence with the
date of execution of this Agreement. XYZ agrees to pay to ABC
within ten days of such date of execution the sum of five thou­
sand dollars ($5,000), which amount shall be credited only
against the royalties due from XYZ to ABC for the first annual
royalty period, and not otherwise.

Form No. 21.03
Advance Royalty Payment

Upon execution of this Agreement, XYZ agrees to pay to
ABC fifty thousand dollars ($50,000) as advance royalties,
which amount shall be non-returnable but which shall be
credited against royalties becoming due and payable from XYZ
to ABC pursuant to the succeeding paragraph.

Form No. 21.04
Minimum Royalty
Payment Mandatory

The minimum royalty per calendar year under this Agree­
ment shall be five thousand dollars ($5,000), beginning with
the calendar year 2000 and continuing throughout the life of
this Agreement. The minimum royalty herein specified shall be
paid by XYZ to ABC regardless or irrespective of actual manu­
facture or sale of Licensed Devices.

Form No. 21.05
Minimum Royalty
Payment Mandatory

Beginning January 1, 1937, and continuing thereafter for
the life of said patents or until this license and agreement is
voided by mutual consent or nonperformance, XYZ agrees that if the royalties at the rate of 5% on gross sales or installations made by XYZ do not amount to as much as a total of Twenty-four Hundred Dollars ($2,400) in one year, the difference between the amount of said royalty and the sum of Twenty-four Hundred Dollars ($2,400) will be paid as an additional royalty to ABC.

Form No. 21.06

Minimum Royalty
Advance Payment Mandatory

XYZ agrees that, starting with the date of this Agreement, it will pay to ABC a minimum of twelve thousand dollars ($12,000) per year on account of royalties under the license provided herein, said annual minimum to be paid in advance installments of three thousand dollars ($3,000) per quarter, and such advance installments to apply against earned royalties due during the following quarterly period under the license provided herein, and it is further agreed that if and when royalties are payable in accordance with paragraph X hereof, the payment of such royalties shall be credited against the advance payment to be made by XYZ at the beginning of each calendar quarter as provided for in this paragraph.

Form No. 21.07

Minimum Royalty; Payment Optional
Exclusiveness Subject to Termination

If payments made by XYZ to ABC in any one year do not total five thousand dollars ($5,000), ABC at its option may terminate the exclusive features of the license herein granted, and XYZ shall then have a nonexclusive license.
Form No. 21.08

Minimum Royalty; Payment Optional

Right to Grant Another License

If payments made by XYZ to ABC in any one year do not total five thousand dollars ($5,000), ABC may at its option license one other manufacturer to make and sell Licensed Devices on the same terms and conditions as are provided in this Agreement, except for the payment of advance royalties.

Form No. 21.09

Minimum Royalty; Payment Optional

License Subject to Termination

During the life of this Agreement, the Agreement shall not be terminable for lack of diligence so long as the minimum royalty herein specified shall be paid. XYZ agrees that to entitle it to retain the license herein granted, a minimum royalty as follows shall be payable:

(a) For the first three years royalties on fifty (50) Licensed Devices per year.

(b) Thereafter royalties on twenty-five (25) Licensed Devices per year.

Failure on the part of XYZ to account to ABC for the annual minimum royalty hereunder shall constitute a breach of this Agreement and be cause for termination hereof in the manner and subject to the provisions of paragraph X hereof, and such termination shall be ABC's sole remedy for such breach.

Form No. 21.10

Minimum Royalty; Payment Optional

License Subject to Termination

In the event that the royalties payable under this Agreement during any twelve (12) months' period shall not equal
fifteen thousand dollars ($15,000), ABC shall have the right to notify XYZ of the amount of the deficiency. XYZ may thereupon within sixty (60) days pay to ABC the difference between the actual royalties received by ABC during the preceding twelve (12) months' period and fifteen thousand dollars ($15,000). In the event that XYZ fails to make such payment, ABC may as its sole remedy terminate this Agreement.

**Form No. 21.11**

**Minimum Royalty Based on Production**

**Payment Optional**

**License Subject to Termination**

XYZ agrees that if beginning with January 1, 2000 it does not sell five hundred (500) devices annually per calendar year, ABC shall have the right at its option, within thirty (30) days after the end of each calendar year, in which XYZ has failed to sell five hundred (500) devices as aforesaid, to terminate this Agreement by notice in writing, provided, however, that if XYZ should make payment of a sum equal to the difference between the royalty on the number of devices actually sold and the royalty on five hundred (500) devices, such notice of cancellation shall not be effective, and this Agreement shall continue in effect.

**Form No. 21.12**

**Minimum Royalty**

**Carry Over Provision**

In connection with said minimum royalty it is agreed that if in any year or years the royalty paid by XYZ exceeds the minimum above recited for that year or years, such excess may be taken into consideration and used by XYZ for its credit toward the minimum required in any year or years that the royalty called for by the actual sales of XYZ has not equaled the minimum specified, and in the event XYZ shall in any year
pay royalty in excess of that called for by its actual sales in order to pay the minimum required for that year, and in any subsequent year shall have actual sales calling for a royalty in excess of the minimum, it may credit against royalty called for in excess of the minimum in the subsequent year the royalty paid in excess of that called for by actual sales in the said previous year, and XYZ shall be held to have complied with said minimum royalty requirement up to any specified date so long as its total royalty payments from the date of this Agreement to such date shall equal the total of the annual minimum royalties specified for the same period.

**Form No. 21.13**

**Maximum Royalty**

After XYZ has paid ABC royalties totaling fifty thousand dollars ($50,000), XYZ's obligation to pay royalties shall cease, and XYZ shall thereafter have a royalty-free paid-up license under said patent.

**Form No. 21.14**

**Maximum Royalty**

XYZ hereby agrees to pay to ABC the sum of one dollar ($1.00) per unit for each set of Licensed Controls made and sold by it, until there has been paid to ABC the sum of fifty thousand dollars ($50,000).

§22. Reports and Related Accounting Matters: In addition to specifying how royalties are to be computed, it is necessary to prescribe (a) when the licensee is obligated to render reports of royalties due and payable (and the contents of such reports) and (b) when the licensee is obligated to make payments of such royalties. And, so that the licensor may verify the licensee's reports and payments of royalties, it is customary for the licensee to agree to keep books and records of sales of licensed devices and to permit
examination of such books and records by the licensor. Permission to examine books and records may be given broadly to any representative of the licensor, or limited to a certified public accountant or a designated accounting firm. The right of the licensor to inspect the books and records of the licensee does not by implication include the right to have the records copied and furnished to it. [National Pigments & Chemical Co. v. C. K. Williams & Co., 94 F. 2d 792, 796 (C.A. 8, 1938).]

To minimize the licensee's burden of maintaining books and records, it may be desirable to stipulate that the licensor's right to examine the licensee's books and records relating to any particular year is limited to a prescribed period (e.g., one year) following the end of that year. Additionally, to protect the licensee, the licensor may be expressly bound to maintain confidential all information concerning the licensee's operations. To permit an orderly windup of affairs upon termination of the license agreement, the parties may provide that the right of the licensor to examine the licensee's books and records shall survive termination for a prescribed period.

Form No. 22.01

Reports; Time of Royalty Payments
Books of Account; Examination

For the purpose of computing the royalties referred to in Paragraph X of this Agreement, the year shall be divided into quarters, beginning January 1, April 1, July 1, and October 1 of each year. Within thirty (30) days after the end of each quarter, reports shall be made by XYZ to ABC setting forth the number of devices embodying the above-mentioned invention, which have been sold during the preceding quarter, and also showing the net selling price of such devices. XYZ's remittance for the full amount of royalties due for such quarter shall accompany such reports. XYZ agrees to keep complete and cor-
rect account of the number and sales price of said devices embodying the above-mentioned inventions made and sold, and ABC or its representative shall have the right to examine XYZ's books of account at all reasonable times to the extent and insofar as is necessary to verify the accuracy of the above-mentioned reports.

Form No. 22.02

Reports; Time of Royalty Payments
Books of Account; Examination

XYZ agrees to keep regular books of account and to render a statement within thirty (30) days after the end of each calendar quarter setting forth, under oath if requested, the class of units sold, the number of each class sold, the net selling price thereof, and the royalty due thereon, and shall accompany each such report with a remittance covering the royalty due. Such books of account shall be open at all reasonable business hours for inspection by ABC or its duly authorized representative.

Form No. 22.03

Reports; Time of Royalty Payments

XYZ agrees to render a report (under oath if requested by ABC) to ABC on or before the last day of each month, setting forth the total billing covering sales by XYZ of the licensed equipment and parts thereof during the preceding month, which billing shall correctly represent the net sales prices and the total number of units billed out during said month, and to accompany said report with payment to ABC of five percent (5%) of the amount of said billing covering sales, provided, however, that if any part of billing so reported has not been paid for by the customer at the time of making said report, then as to said unpaid part, said five percent (5%) shall not be remitted until
the time of making the next monthly report following the date
of payment by the customer. With respect to accounts uncol-
lectible, in whole or in part, XYZ shall not be required to pay
a greater proportion of the five per cent (5%) than the propor-
tion of said account collected by XYZ. In case XYZ writes off
any account as uncollectible, in whole or in part, it shall so re­port to ABC, but in case any such items are subsequently col­lected, sufficient records shall be kept so that ABC shall receive
due credit.

Form No. 22.04

Books and Records; Examination

XYZ agrees to make and keep full and accurate books and
records showing the sales of Licensed Products sold under the
license herein granted in sufficient detail to enable royalties
payable hereunder to be determined, and further agrees that
ABC shall be permitted to inspect such books and records from
time to time, during business hours, as contain any data mate­rial to the computation of royalties hereunder, and to make
copies thereof to the extent necessary to verify the royalty re­ports and payments provided by this Agreement.

Form No. 22.05

Reports; Records; Examination

XYZ agrees that it will render to ABC with each royalty
payment specified in the preceding paragraph a written re­port setting forth the sales price of all Licensed Devices sold
under this Agreement during the period covered by such state­ment, together with a computation of the royalty accruing by
virtue of such sales; and XYZ agrees to keep a separate record
in a suitable book or set of books provided for the purpose in
sufficient detail to enable the royalties payable hereunder to
be determined, and further agrees that it will permit such book
or set of books and related records and accounts to be examined by an auditor or accountant authorized so to do by ABC at any reasonable time during business hours to the extent necessary to verify the reports, records and payments provided for herein. XYZ agrees not to destroy such records prior to the expiration of one year subsequent to the termination of this Agreement.

**Form No. 22.06**

**Books and Records**

XYZ agrees to keep full, accurate and complete records and books of account showing the quantity, cost and selling price of all automatic transmissions coming under the terms of this Agreement.

**Form No. 22.07**

**Verification of Reports and Payments**

**Books of Account; Examination**

XYZ hereby agrees that ABC shall have the right, during any normal working day for the life of this Agreement, to have a duly authorized agent or representative in its behalf come upon and enter the premises of XYZ’s operations, plants or business premises to check and verify all statements, records, reports or payments made or required to be made by XYZ to ABC hereunder. XYZ further agrees to keep accurate books of account covering all sales made of Licensed Products, all orders received for Licensed Products, and all Licensed Products on hand. Such account or accounts shall be available for examination by ABC or a duly authorized agent or representative of ABC in its behalf, in accordance with the provisions of this paragraph, and for the purpose of verifying the correctness of any reports, statements or payments made by XYZ to ABC.
Form No. 22.08

Audits

It is agreed that ABC shall have the privilege of having a certified public accountant audit all statements of account, reports, etc. provided for in this Agreement to be made by XYZ to ABC, as frequently as ABC may desire to have such audits made, and that XYZ shall place at the disposal of said certified public accountant for the purposes of this paragraph any and all records essential to the verification of such reports. The expense of such audits and verifications shall be borne by ABC.

Form No. 22.09

Verification of Reports

Each monthly report shall be subject to an independent verification, at the option and expense of ABC, by an independent certified public accountant selected by ABC, to whom all books and records of XYZ relating to Licensed Products and reasonably necessary to verify said reports shall be accessible at reasonable times and for reasonable periods to verify the reports and payments required by the preceding paragraph; provided that no more than four audits shall be made during each calendar year, and provided further, that the accountant shall not disclose to ABC the names of XYZ's customers or the prices charged by XYZ for Licensed Products.

Form No. 22.10

Royalty and Audit Information to be Maintained Confidential

ABC agrees to hold strictly confidential all information concerning royalty payments and reports and all information learned in the course of any audit hereunder, except when it is necessary for ABC to reveal such information in order to enforce its rights under this Agreement.
In the event of termination of this Agreement for any reason whatsoever, XYZ agrees to permit ABC, its auditors, accountants or agents to inspect all said records and books of XYZ and to investigate generally all transactions of business carried on by XYZ pursuant to this Agreement and the license hereby granted, for a period of six (6) months after such termination.
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; while the licensee may agree expressly to acknowledge the validity of the licensed patent. Who has the responsibility for enforcement of a licensed patent, and the effect of a judicial holding of invalidity 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. 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 No. 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.

Form No. 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 No. 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 execu-
tion 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 No. 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 No. 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.

§25. Warranties by Licensor: 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, express or implied. 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. [All Steel Engines, Inc. v. Taylor
Other Principal Rights and Obligations

Engines, Inc., 88 F. Supp. 745 (N.D. Cal., 1950), affirmed, 192 F. 2d 171 (C.A. 9, 1951). Also, there is an implied warranty by the licensor that it has the right to grant the license. [Kent v. Addicks, 126 F. 112 (C.A. 3, 1903). Also see Seal v. Beach, 113 F. 831 (D.N.J., 1901).] Generally, there are no implied warranties by the licensor:

1. That the licensed invention has commercial utility. [Appliance Corp. of America v. Speed Queen Corp., 186 F. 2d 798 (C.A. 7, 1951); Johnson v. Brewer-Titchenor Corporation, 28 F. Supp. 1002 (N.D. N.Y., 1939).]


3. That the licensed invention does not infringe any patents owned by third parties. [See Sec. 34.]

If a licensor is to be bound on any warranties that are not implied in law, they must be expressly set forth in the license agreement. Similarly, if a separate clause negates implied warranties [See Sec. 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. [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 (N.Y. Sup. Ct., 1948).]

Form No. 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 No. 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 No. 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 No. 25.04
Warranty of Validity

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

§26. Most Favored Licensee: In the absence of an express prohibition, a licensor ordinarily may grant two or more nonexclusive licenses on different terms. [McKay v. Smith, 39 F. 556 (D. Mass., 1889).] 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. [La Peyre v. Federal Trade Commission, 366 F. 2d 117 (C.A. 5, 1966); Peelers Company v. Wendt, 260 F.
Other Principal Rights and Obligations

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. [Cold Metal Process Co. v. McLouth Steel Corp., 170 F. 2d 369 (C.A. 6, 1948); Newport News Shipbuilding & Dry Dock Co. v. Isherwood, 5F. 2d 924 (C.A. 4, 1925).] The legality of a most favored licensee clause has been specifically upheld. [Technograph Printed Circuits, Ltd. v. Bendix Aviation Corp., 218 F. Supp. 1, 51 (D. Md., 1963), affirmed, 327 F. 2d 497 (C.A. 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 U.S. 76, 83 (1950).]

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 period of infringement. [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). Also see Lathrop v. Rice & Adams Corporation, 17 F. Supp. 622 (W.D.N.Y., 1936).] 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. [St. Joseph Iron Works v. Farmers Manufacturing Co., 106 F. 2d 294 (C.A. 4, 1939).] 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. [Foster v. Goldschmidt, 21 F. 70 (S.D.N.Y., 1884). Also see Raytheon Manufacturing Company v. Radio Corporation of America, 21 USPQ 253 (Mass. Sup. Ct., 1934).] Correspondingly, 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. [Harley C. Loney Co. v. Mills, 205 F. 2d 219 (C.A. 7, 1953).]

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.” [Hazeltine Corporation v. Zenith Radio Corporation, 100 F. 2d 10 (C.A. 7, 1938).] 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. [Prestole Corp. v. Tinnerman Products, Inc., 271 F. 2d 146 (C.A. 6, 1959).] Another court, however, has held that non-royalty concessions are not covered by a limited “favorable royalty” clause. [The India Machine and Rubber Mold Company v. The B. F. Goodrich Company, 4 USPQ 310 (E.D. Ohio, 1930).] 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 required to give the original licensee any reduction in rate under its agreement. [Dwight & Lloyd Sintering Co. v. American Ore Reclamation Co., 44 F. Supp. 391 (S.D.N.Y., 1937). Also see Raytheon Manufacturing Company v. Radio Corporation of America, 21 USPQ 253 (Mass. Sup. Ct., 1934).]

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. [Prestole Corp. v. Tinnerman Products, Inc., 271 F. 2d 146 (C.A. 6, 1959); St. Joseph Iron Works v. Farmers Manufacturing Co., 106 F. 2d 294 (C.A. 4, 1939).]

Form No. 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 No. 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 No. 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 No. 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.
Form No. 26.05
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 No. 26.06
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 No. 26.07
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 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 No. 26.08
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 No. 26.09
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 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.

§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

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

Form No. 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 No. 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 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 No. 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 No. 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 such 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.

Form No. 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 No. 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.

§28. Acknowledgment of Validity and Admission of Infringement: As a general rule a licensee is estopped to deny the validity of the patent under which it is licensed. [Automatic Radio Mfg. Co. v. Hazeltine Research, Inc., 339 U.S. 827 (1950).] Although this estoppel is implied by law, it is nevertheless customary, and not improper, to have the licensee expressly acknowledge the validity of the licensed patent and agree not to contest it. [Steiner Sales Co. v. Schwartz Sales Co., 98 F. 2d 999, 1009 (C.A. 10, 1938); Carter Products v. Colgate-Palmolive Company, 164 F. Supp. 503, 525 (D. Md., 1958), affirmed on other grounds, 269 F. 2d 299 (C.A. 4, 1959).]

When a license concerns several patents, a specific identification of only one patent in an express stipulation of validity may preclude an estoppel arising as to the other patents coming under the license. [Chance v. Lehigh Navigation Coal Company, 25 F. Supp. 532 (E.D. Pa., 1938), affirmed per curiam, 107 F. 2d 1009 (C.A. 3, 1939).] A licensee under a limited license ordinarily is not estopped to contest the validity of the licensed patent in defense of an infringement action concerning operations of the licensee outside the scope of the limited license. [Davis v. Buck-Jackson Corporation, 230 F. 2d 655 (C.A. 4, 1956); T. H. Symington Co. v. National Malleable Castings Co., 257 F. 564 (N.D. Ill., 1919); Indiana Mfg. Co. v. Nichols & Shepard Co., 190 F. 579 (E.D. Mich., 1910).] However, a li-

Usually, the estoppel to deny validity, or an acknowledgment of validity, ceases when the license terminates, either because of lapse of time or the completion of the number of patented devices authorized by the license, or through complete repudiation of the license by the licensee, or by cancellation or revocation of the license by the licensor. [Bucky v. Sebo, 208 F. 2d 304 (C.A. 2, 1953); Miehle Printing Press & Mfg. Co. v. Publication Corporation, 166 F. 2d 615 (C.A. 7, 1948); N. S. W. Co. v. Wholesale Lumber & Millwork, 123 F. 2d 38 (C.A. 6, 1941); International Burr Corporation v. Wood Grinding Service, 34 F. 2d 905 (C.A. 2, 1929); Eskimo Pie Corporation v. National Ice Cream Co., 26 F. 2d 901 (C.A. 6, 1928); General Motors Corporation v. Rubsam Corporation, 65 F. 2d 217 (C.A. 6, 1933); Tate v. Baltimore & O. R. Co., 229 F. 141 (C.A. 4, 1915); Mudgett v. Thomas, 55 F. 645 (S.D. Ohio, 1893); Brown v. Lapham, 27 F. 77 (S.D.N.Y., 1886).]

Whether a licensee can lawfully agree not to contest validity of patents beyond the termination of the license agreement is an unsettled question. It appears that such agreement may be proper if the patents involved are restricted in number. [Straight Side Basket Corporation v. Kull, 24 F. Supp. 771 (D. Idaho, 1938), appeal dismissed per curiam, 104 F. 2d 1015 (C.A. 9, 1939); Philadelphia Creamery Supply Co. v. Davis & Rankin Bldg. & Mfg. Co., 77 F. 879 (N.D. Ill., 1896). Also see: Eskimo Pie Corporation v. Na-
tional Ice Cream Co., 26 F. 2d 901 (C.A. 6, 1928); United States v. Wayne Pump Co., 44 F. Supp. 949 (N.D. Ill., 1942), appeals dismissed, 317 U.S. 200 (1942); United Shoe Machinery Co. v. Caunt, 134 F. 239 (D. Mass., 1904).] However, an agreement of this type concerning a large number of patents has been held to be against public policy and hence unenforceable. [Pope Manufacturing Company v. Gormully, 144 U.S. 224 (1892). Also see Nachman Spring-Filled Corporation v. Kay Mfg. Co., 139 F. 2d 781 (C.A. 2, 1943).]

would be for the purpose of showing the lack of patent justification for the otherwise illegal activities of the defendant.

Even when estopped to contest the validity of the licensed patent, 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. [Midland Steel Products Co. v. Clark Equipment Co., 174 F. 2d 541 (C.A. 6, 1949); Freeman v. Altwater, 129 F. 2d 494 (C.A. 8, 1942); Kessel v. Vidrio Products Corporation, 113 F. 2d 381 (C.A. 7, 1940); Galion Iron Works & Mfg. Co. v. J. D. Adams Mfg. Co., 105 F. 2d 943 (C.A. 7, 1939); Baldwin Rubber Co. v. Paine & Williams Co., 99 F. 2d 1 (C.A. 6, 1938); Pressed Steel Car Co v. Union Pacific R. R. Co., 270 F. 518 (C.A. 2, 1920); Timken-Detroit Axle Company v. Alma Motor Company, 47 F. Supp. 582 (D. Del., 1942), modified, 144 F. 2d 714 (C.A. 3, 1944). Also see Westinghouse Electric & Mfg. Co. v. Formica Insulation Company, 266 U.S. 342 (1924).] However, an express agreement not to contest the scope of claims may preclude the licensee from showing the state of the prior art to narrow the claims. [United Lens Corporation v. Doray Lamp Co., 93 F. 2d 969 (C.A. 7, 1937).] 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. [Galion Iron Works & Mfg. Co. v. J. D. Adams Mfg. Co., 105 F. 2d 943 (C.A. 7, 1939).]

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

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. [Universal Rim Co. v. Scott, 21 F. 2d 346 (N.D. Ohio, 1922).] The legal effect of an express general admission of infringement in a license agreement appears to be unsettled. One court 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. [Lathrop v. Rice & Adams Corporation, 17 F. Supp. 622 (W.D.N.Y., 1936). Also see: H. D. Smith & Co. v. Southington Mfg. Co., 247 F. 342 (C.A. 2, 1917); American Specialty Stamping Co. v. New England Enameling Co., 176 F. 557 (C.A. 2, 1910).] 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. [White v. Lee, 14 F. 789 (D. Mass., 1882)].

Form No. 28.01
Acknowledgment of Validity

XYZ shall not, either directly or indirectly, use said invention otherwise than in accordance with this license, nor shall it at any time during the continuance of this license dispute or object to the validity of said Letters Patent, or the novelty or utility of said invention.

Form No. 28.02
Acknowledgment of Validity

XYZ agrees that so long as this Agreement is in force and effect, it will not contest, nor assist others in contesting, the validity of the Letters Patent of the United States which are the subject of this Agreement, nor the title thereto of ABC; but it is understood and agreed that if this Agreement is cancelled, or otherwise terminated, then from the date of cancellation or termination, XYZ shall be free to contest the validity, scope and title of any of said Letters Patent under which it is licensed herein, to the same extent as if this Agreement had never been entered into.

Form No. 28.03
Acknowledgment of Validity

XYZ hereby acknowledges, during the life of this Agreement only, the validity of the patents and patents to be issued included in ABC's Patent Rights, and agrees not to contest the same, or be a party, directly or indirectly, to any procedure disputing the validity or tending to impair the value of the inventions or Letters Patent included in or resulting from the applications included in ABC's Patent Rights, or in which the enjoyment of full revenue from the same by ABC may be reduced.
Form No. 28.04

Acknowledgment of Validity

XYZ hereby expressly admits the title of ABC in and 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 within 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.

Form No. 28.05

Acknowledgment of Validity

XYZ hereby acknowledges for all time and all purposes the validity of each and every of the Licensed Patents which are or may become a part of this Agreement, hereby agrees not to contest, directly or indirectly, the validity of any of said patents either during the term of this Agreement or during the life of any of said patents, and hereby agrees that it will not lend its aid to any person, firm or corporation in attacking, directly or indirectly, the validity of any of said patents.

Form No. 28.06

Acknowledgment of Validity

XYZ agrees that it will not at any time hereafter, directly or indirectly infringe said patents, nor dispute, nor contest the validity of any of said patents, or the novelty or utility or patentability of any subject matter of any of said patents, or the title thereto of ABC, nor directly or indirectly assist any other person contesting the same, and that said patents shall throughout their respective terms, and for all purposes be deemed to be in force and valid. XYZ agrees that the expiration of this license or its termination shall not in any way affect
the operation of this paragraph nor release nor discharge XYZ from its obligation or its admissions or estoppels herein contained.

Form No. 28.07

Acknowledgment of Validity

XYZ agrees that it will not during the next twenty years after execution hereof, if ever, contest the validity or title of any of the above described patents, applications or inventions, irrespective of the fact that this Agreement and/or the license herein provided for, may be cancelled or terminated for any cause whatsoever; this recognition of title and validity in this Agreement shall be deemed to extend, in any event, to the end of said twenty years, in consideration of the waiver of damages herein, except as otherwise provided herein, and, provided no royalty is to be paid for the use of any patents after the same shall have expired, nor shall the parties hereto be restricted in the free use of such patents after the same have expired or may have been sooner held invalid by final decree from which no appeal is or can be perfected.

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. [Schutte & Koerting Co. v. Wheeler Condenser & Engineering Co., 295 F. 158 (E.D. Pa., 1924).] Also, a licensee under an exclusive license that is in legal effect an assignment may itself bring suit for infringement of the licensed patent. [Waterman v. Mackenzie, 138 U.S. 252, 255 (1890); Independent Wireless Telegraph Company v. Radio Corporation of America, 269 U.S. 459, 469 (1926).] In such circumstances, the licensor is not under any implied obligation to contribute to the cost of infringement suits brought by the licensee. [Simplex Phonograph Corp. v. Rudolph Wurlitzer Co., 47 USPQ 161 (N.D. Ill., 1940); Photochart v. del Riccio, 83 USPQ 401 (Cal. Ct. App., 1949).]

Many times, the responsibility for enforcing the licensed patent against infringers is expressly established in the license agreement. One approach, which has been upheld under the antitrust laws, is to impose full responsibility on the licensor. [Virtue v. Creamery Package Co., 227 U.S. 8 (1913); United States v. L. D. Caulk Company, 126 F. Supp. 693 (D. Del., 1954). Also see: Hazeltine Research v. Acco Manufacturing Corp., 227 F. 2d 137, 148 (C.A. 7, 1955); United States Consolidated Seeded Raisin Co. v. Griffin & Skelley Co., 126 F. 364 (C.A. 9, 1903).] Failure of the licensor to comply with a covenant to protect the licensed patent may relieve the licensee of its obligation to pay royalties. [Wilfley v. New Standard Concentrator Co., 164 F. 421 (C.A. 9, 1908). Contra: Specialties Development Corp. v. C-O-Two Fire Equipment Co., 207 F. 2d 753 (C.A. 3, 1953). Compare: Newport News Shipbuilding & Dry Dock Co. v. Isherwood, 5 F. 2d 924 (C.A. 4, 1925); Critcher v. Linker, 169 F. 653 (W.D. Wis., 1909). Also see Western Battery & Supply Co. v. Hazelett Stor-
age Battery Co., 61 F. 2d 220 (C.A. 8, 1932).] In this re-
spect, 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 di-
ligence in prosecuting infringers. [Straight Side Basket Cor-
poration v. Webster Basket Company, 10 F. Supp. 171
(W.D.N.Y., 1935), affirmed, 82 F. 2d 245 (C.A. 2, 1936).]
When a clause concerning enforcement of a patent includes
a condition that the licensor be "notified" of alleged in-
fringements, actual notification by the licensee is required
to render the clause operative. [General Motors Corpora-
tion v. Swan Carburetor Co., 88 F. 2d 876 (C.A. 6, 1937).]
Although the successful prosecution 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. [Frost Ry. Supply Co. v. T. H. Symington &
Son, 24 F. Supp. 20 (D. Md., 1938).]

Another approach is to give the licensee first option,
at its own expense and with the right to all recoveries, to
sue infringers. An exclusive licensee may even be given
the right to collect and recover for infringements occurring
prior to the license. [Ceramic Process Co. v. Cincinnati
Advertising Co., 28 F. Supp. 794 (S.D. Ohio, 1939), ap-
peal dismissed, 116 F. 2d 497 (C.A. 6, 1940).] Usually the
licensor is expressly obligated to cooperate with the li-
censee. Failure to cooperate precludes the licensor from
recovering royalties accruing thereafter. [Penly Bros. Co.
v. Hall, 84 F. 2d 371 (C.A. 1, 1936).] 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 obli-
gation to contribute to expenses might be limited to a de-
fined percentage of royalties payable by the licensee dur-
ing the period of the suit. And, the licensor's share in the
recoveries might be limited to the percentage of its con-
tribution 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 to cease paying royalties 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.

Form No. 29.01

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 No. 29.02

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
Other Principal Rights and Obligations

the patent rights set forth in Exhibit A hereof, which infringe-
ment, 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 No. 29.03

Enforcement of Licensed Patent
Licensor’s Obligations

ABC agrees to prosecute all substantial claims of infringe-
ment 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.

Form No. 29.04

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 here-
under 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 obli-
gation to prosecute more than one suit at a time.
Form No. 29.05

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 No. 29.06

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 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 No. 29.07

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 No. 29.08

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 No. 29.09

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 expenses of such suit or suits shall be paid 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 No. 29.10

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 interests of the monopoly secured by ABC's Patent Rights, and will in the event of litigation stand all the charges, costs, and expense 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 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 No. 29.11

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 (2¼%) of the amount standing to the credit of XYZ on the books of ABC at the time of payment of such royalties.

Form No. 29.12

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
Patent License Agreements

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 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, would be prosecuted or defended by money from this fund, then the liquidation of the fund shall be withheld until such conditions no longer exist.

Form No. 29.13

Enforcement of Licensed Patent
Joint Participation

Upon the 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 con-
tinue 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.

§30. Invalidity of Licensed Patent: In the absence of an express provision on the subject, the effect of invalidity of the licensed patent on the licensee’s obligation to pay royalties generally depends on whether the license is nonexclusive or exclusive. A nonexclusive license merely protects the licensee from a claim of infringement by the licensor. If the licensed patent is held invalid in a suit by the licensor against a third party, such holding is binding only on the parties to that suit, does not preclude the licensor from bringing other suits, and does not affect the protection received by the licensee under its license. In the case of a nonexclusive license, there is authority to the effect that the licensee is not, merely because the licensed patent has been held invalid, released from its obligation to pay royalties. [Automatic Radio Mfg. Co. v. Hazeltine Research, Inc., 176 F. 2d 799 (C.A. 1, 1949), affirmed on other grounds, 339 U.S. 827 (1950); Appleton Toy & Furniture Co. v. Lehman Co. of America, 165 F. 2d 801 (C.A. 7, 1948); Pope Manufacturing Co. v. Owsley, 27 F. 100 (N.D. Ill., 1886); M. Nirenberg Sons, Inc. v. Trubenizing Process Corporation, 49 USPQ 464 (N.Y. Sup. Ct., 1941). Compare Drackett Chemical Company v. Chamberlain Company, 63 F. 2d 853 (C.A. 6, 1933).] However, an exclusive license purports to grant the licensee a complete monopoly, and freedom from all competition, in the subject matter of the licensed patent. If the patent is held invalid in a suit against an infringer, the desired monopoly is destroyed and competition is authorized. In these circumstances, an exclusive licensee has the right to terminate its license and cease paying royalties, on the ground of failure of consideration or eviction. [Drackett Chemical Company v. Chamberlain Company, 63 F. 2d
Eviction is a defense to a suit for royalties accruing after, but not for those accruing before, the eviction occurred. [Drackett Chemical Company v. Chamberlain Company, 63 F. 2d 853 (C.A. 6, 1933); Barber Asphalt Paving Co. v. Headley Good Roads Co., 284 F. 177 (D. Del., 1922), affirmed, 292 F. 119 (C.A. 3, 1923).]

Because of the substantial economic consequences involved, the effect of invalidity of the licensed patent on the licensee's obligation to pay royalties should be expressly covered in the license agreement and not left to judicial fiat. 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. Under this type of provision, the licensee is relieved of paying any royalties with respect to devices covered solely by claims held invalid. However, 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. [Magnus Harmonica Corp. v. Harmonic Reed Corp., 106 USPQ 266 (E.D. Pa., 1955).] Moreover, this type of provision does not permit the licensee itself to attack the validity of the licensed patent. [United States v. Harvey Steel Co., 196 U.S. 310, 317 (1905). Contra: Miami Cycle & Mfg. Co. v. Robinson, 245 F. 556 (C.A. 6, 1917).] 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. [Mechanical Ice Tray Corp. v. General Motors Corp., 144 F. 2d 720 (C.A. 2, 1944); Galion Iron Works & Mfg. Co. v. J. D. Adams Mfg. Co., 105 F. 2d 943 (C.A. 7, 1939).] When
the licensee has an express right to cancel the license agreement in the event the licensed patent is held invalid, the licensee cannot rescind the agreement on the ground that the patent is invalid if the designated event has not occurred. [Bowers Mfg. Co. v. All-Steel Equipment Inc., 275 F. 2d 809 (C.A. 9, 1960).] Moreover, if the licensee has an express option to terminate the agreement on notice in the event the patent is held invalid, failure to give the specified notice after occurrence of the designated event precludes the licensee from raising the defense of eviction in a suit for unpaid royalties. [Sbicca-Del Mac, Inc. v. Milius Shoe Co., 145 F. 2d 389 (C.A. 8, 1944).] But, 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. [Rosenthal v. E. I. du Pont de Nemours & Co., 145 F. 2d 571 (C.A. 2, 1944).]

Form No. 30.01
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 No. 30.02
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 No. 30.03
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, until and 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.

Form No. 30.04
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.

§31. Know-how and Technical Assistance: 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 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.

Ordinarily, there is nothing inherently confidential in the relationship between a licensor and a licensee under a patent. [Laughlin Filter Corporation v. Bird Machine Company, 69 USPQ 23 (Mass. Sup. Ct., 1946).] 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 license agreement. 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. 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.

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.

**Form No. 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 No. 31.02**

**Furnishing of Technical Information**

ABC agrees that it will give XYZ the benefit of the knowl-
edge 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 No. 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.

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

Form No. 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 No. 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 No. 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 No. 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 manufac-
ture 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 No. 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 nonexclusive 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. [Dwight & Lloyd Sintering Co. v. American Ore Reclamation Co., 44 F. Supp. 391 (S.D.N.Y., 1937); Caron v. Nickel Processing Corporation, 106 USPQ 124 (N.Y., Sup. Ct., 1955); Guardino Tank Processing Corp. v. Olsson, 81 USPQ 318 (N.Y. Sup. Ct., 1949).] And, in the absence of clear intent to the contrary, a minimum royalty provision may not suffice to discharge this implied duty. [Driver-Harris Co. v. Industrial Furnace Corporation, 12 F. Supp. 918 (W.D.N.Y., 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 (C.A. 2, 1944).]

For breach by the licensee or assignee of an implied or express duty to exploit, the courts have approved rescission by the licensor or assignor of the agreement outside its express terms. [Oscar Barnett Foundry Co. v. Crowe, 219 F. 450 (C.A. 8, 1915); Neenan v. Otis Elevator Co., 194 F. 414 (C.A. 2, 1912); International Aluminum Window Corp. v. Ferri, 101 USPQ 131 (Fla. Sup. Ct., 1954); Guardino Tank Processing Corp. v. Olsson, 81 USPQ 318 (N.Y. 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 (W.D.N.Y., 1935).] Also, for breach of an express duty to exploit, a licensor has been awarded damages computed by reference to previous profits of the licensee [Stentor Electric Mfg. Co. v. Klaxon Co., 115 F. 2d 268 (C.A. 8, 1940)], an assignor has been awarded damages for sales that could have been made by the assignee but were not [General Finance Corp. v. Dillon, 172 F. 2d 924 (C.A. 10, 1949)], 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. [Neenan v. Otis Elevator Co., 194 F. 414 (C.A. 2, 1912).] 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 Sec. 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. [Carbo-Frost, Inc. v. Pure Carbonic, Inc., 103 F. 2d 210 (C.A. 8, 1939). Also see: Eclipse Bicycle Company v. Farrow, 199 U.S. 581 (1905); Mechanical Ice Tray Corp. v. General Motors Corp., 144 F. 2d 720 (C.A. 2, 1944);

Generally, obligations to exploit are strictly construed. For example, mere ownership and use of a competing patent do not necessarily in themselves constitute a violation of the implied obligation to use due diligence in working the licensed patent. [Dwight & Lloyd Sintering Co. v. American Ore Reclamation Co., 44 F. Supp. 391 (S.D.N.Y., 1937).] 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. [Mechanical Ice Tray Corp. v. General Motors Corp., 144 F. 2d 720 (C.A. 2, 1944).] 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. [Peck v. Shell Oil Company, 142 F. 2d 141 (C.A. 9, 1944).] Similarly, it has been held that 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. [Krantz v. Van Dette, 165 F. Supp. 776 (N.D. Ohio, 1958); Dixie Cotton Picker Co. v. Bullock, 188 F. 921 (N.D. Ill., 1911).] 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. [Daniels v. Brown Shoe Company, Inc., 77 F. 2d 899 (C.A. 1, 1935).]

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 demand, creating a demand and/or maintaining minimum production. 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.

**Form No. 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 Products 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 No. 32.02
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 No. 32.03
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 required by purchasers, but shall not incur any pecuniary liability to ABC for breach of this undertaking, it being understood and 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 No. 32.04

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 No. 32.05

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

Form No. 32.06

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 (2½%) of the net selling price of Licensed Products to be used and spent by ABC for the purpose of nationally advertising Licensed Products.
Form No. 32.07

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 No. 32.08

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 No. 32.09

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’ advance written notice of its intention so to do and/or may grant additional licenses to others in the field.
Form No. 32.10
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 No. 32.11
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 No. 32.12
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 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 No. 32.13
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
Other Principal Rights and Obligations

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 No. 32.14**

**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 commercial production.

**Form No. 32.15**

**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 No. 32.16**

**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 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 No. 32.17

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 No. 32.18

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
Other Principal Rights and Obligations

Devices. It 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 No. 32.19

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., Sec. 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 occurring after such notice.” [35 U.S.C., Sec. 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. [Gordon v. Easy Washing Machine Corporation, 39 F. Supp. 202 (N.D.N.Y., 1941); Hazeltine Corporation v. Radio Corporation of America, 20 F. Supp. 668 (S.D.N.Y., 1937).] 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. [Daniels v. Brown Shoe Company, Inc., 77 F. 2d 899 (C.A. 1, 1935).]

Form No. 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 No. 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 No. 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.
Other Principal Rights and Obligations

Form No. 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 No. 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-C. H. Daniels
U.S. Letters Patent
No. 1,828,320, October 20, 1931
with a figure "2" on the second line to identify XYZ.

§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. [Wynne v. Allen, 112 USPQ 405, 410 (N.C. Sup. Ct., 1957).] However, license agreements frequently 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. [Virtue v. Creamery Package Co., 227 U.S. 8, 32-3 (1913); Plastic Contact Lens Company v. Butterfield, 366 F. 2d 338 (C.A. 9, 1966); Covell v. Bostwick, 39 F. 421 (S.D.N.Y., 1889).] The licensor's commitment may extent 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. [Kool Vent Metal Awning Co. of America v. Bottom, 95 F. Supp. 798 (E.D. Mo., 1951), affirmed, 205 F. 2d 209 (C.A. 8, 1953). Also see Macneale v. Lalance & Grosjean Mfg. Co., 276 F. 491 (C.A. 6, 1921); M. Nirenberg Sons, Inc. v. Trubenizing Process Corporation, 49 USPQ 464 (N.Y. Sup. Ct., 1941). Compare Victory Bottle Capping Machine Co. v. V. O. & J. Machine Co., 280 F. 753 (C.A. 1, 1922).] But a licensor is not obligated, under the usual indemnification clause, to reimburse the licensee for sums paid by the licensee voluntarily, and without consulting the licensor, to settle an infringement suit. [Simplex Phonograph Corporation v. Rudolph Wurlitzer Company, 47 USPQ 161 (N.D. Ill., 1940).] 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. [Slezak v. Andrews, 21 F. Supp. 688 (D. Del., 1937).]

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. [Caddo Rock Drill Bit Co. v. Reed, 4 F. 2d 136 (S.D. Tex., 1925), affirmed, 12 F. 2d 207 (C.A. 5, 1926).] As a further alternative, the parties may agree to share the costs and expenses of defending infringement actions. [Leicester & Continental Mills Co. v. Macon Knitting Co., 116 F. 196 (C.A. 3, 1902).] 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 No. 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 No. 34.02**

**Defense of Infringement Suit**

XYZ agrees to promptly notify ABC, in writing, of any claim by another that the manufacture, use or 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 No. 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 disposition 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 No. 34.04

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 Pat-
ent, 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 No. 34.05

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.

§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. [Monsanto Chemical Works v. Jaeger, 31 F. 2d 188 (W.D. Pa., 1929), affirmed per curiam, 42 F. 2d 1018 (C.A. 3, 1930).] 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 con-
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 developments that are substantially different, either in construction, mode of operation or purpose, than the original invention. [American Cone & Wafer Co. v. Consolidated Wafer Co., 247 F. 335 (C.A. 2, 1917); Jenkins Petroleum Process Co. v. Sinclair Refining Co., 32 F. 2d 247 (D. Me., 1928), modified and affirmed, 32 F. 2d 252 (C.A. 1, 1929). Also see Barlow v. United States, 28 USPQ 499 (Ct. Cl., 1936).] Also, this type of phrase does not cover prior art or prior inventions. [Krantz v. Van Dette, 165 F. Supp. 776 (N.D. Ohio, 1958), affirmed per curiam, 272 F. 2d 709 (C.A. 6, 1959).] 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 in controversy. [Chicago Pneumatic Tool Co. v. Ziegler, 151 F. 2d 784 (C.A. 3, 1945); Frick Co. v. Geisler Mfg. Co., 100 F. 94 (C.A. 3, 1900); Stebbins Hydraulic Elevator Manufacturing Co. v. Stebbins, 4 F. 445 (S.D.N.Y., 1880). Also see American Cone & Wafer Co. v. Consolidated Wafer Co., 247 F. 335 (C.A. 2, 1917).]

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:

(2) variations of the licensed invention [West Disinfecting Co. v. United States Paper Mills, Inc., 44 F. 2d 803 (C.A. 3, 1930)];  
(3) new designs of the licensed invention [Frick Co. v. Geiser Mfg. Co., 100 F. 94 (C.A. 3, 1900)];  
(4) Improvements of any of the features covered by the licensed patent application [Barlow v. United States, 28 USPQ 499 (Ct. Cl., 1936)];  

On the subject of grant backs, the courts at the present time have refused to declare either assignment-back provisions or license-back provisions illegal per se. [Transparent-Wrap Machine Corp. v. Stokes & Smith Co., 329 U.S. 637 (1947).] Such conditions have been condemned only against the background of monopolistic practices and other illegal restraints of trade. [United States v. General Electric Co., 82 F. Supp. 753 (D.N.J., 1949); United States v. General Electric Co., 80 F. Supp. 989 (S.D.N.Y., 1948).] 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. [Stokes & Smith Co. v. Transparent-Wrap Machine Co., 161 F. 2d 565 (C.A. 2, 1947); United States v. Huck Mfg. Co., 227 F. Supp. 791 (E.D. Mich., 1964), affirmed *per curiam* by an equally divided court, 382 U.S. 197 (1965); International Nickel Company v. Ford Motor Company, 166 F. Supp. 551 (S.D.N.Y., 1958); Modern Art Printing Co. v. Skeels, 123 F. Supp. 426 (D.N.J., 1954), reversed on other grounds, 223 F. 2d 719 (C.A. 3, 1955); United States v. E. I. du Pont de Nemours & Co., 118 F. Supp. 41 (D. Del., 1953), affirmed on other grounds, 351 U.S. 377 (1956). Also see Zajicek v. Koolvent Metal Awn ing Corp. of America, 283 F. 2d 127, 132 (C.A. 9, 1960); Binks Mfg. Co. v. Ransburg Electro-Coating Corp., 281 F. 2d 252 (C.A. 7, 1960); Malco Mfg. Co. v. National Connector Corp., 151 USPQ 255 (D. Minn., 1966); Well Surveys, Incorporated v. McCullough Tool Company, 199 F. Supp. 374, 395 (N.D. Okla., 1961), affirmed and remanded, 343 F. 2d 381 (C.A. 10, 1965); H-P-M Development Corporation v. Watson-Stillman Co., 71 F. Supp. 906 (D.N.J., 1947).]

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.

Form No. 35.01
Improvements by Licensor
Included in License

ABC agrees that all inventions, Letters Patent, and appli-
cations 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 No. 35.02
Improvements by Licensor
Included in License

ABC shall communicate to XYZ any improvement or fur-
ther 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 sub-
sistence of this license free of all further royalties, charges, or
payments whatsoever.

Form No. 35.03
Improvements by Licensor
Included in License

The license granted hereinaabove also extends to future
improvements wholly owned, wholly acquired, or wholly con-
trolled by ABC. “Improvement” as used in this Agreement
shall mean any invention in any Licensed System or parts there-
of 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 No. 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 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 No. 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 Patents covering such of said improvements that XYZ desires to have included in the license.

**Form No. 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 No. 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 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 No. 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 No. 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 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 No. 35.10

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 con-
trolled 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 non-exclusive royalty-free right to 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 No. 35.11
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, acquired, 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 No. 35.12
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 immedi-
ately to and assigned to ABC, and ABC may at its expense en-
deavor to secure patents thereon and also on such improve-
ments 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 Agree-
ment.

Form No. 35.13
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 No. 35.14
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 No. 35.15
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 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 No. 35.16
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 No. 35.17
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 improve-
Patent License Agreements

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

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.

Form No. 36.01
Patent Application
Licensor's Responsibilities

ABC agrees to pay all the costs and expenses of prosecut-
ing 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 No. 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.

§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. [Esco Corporation v. Hensley Equipment Co., Inc., 251 F. Supp. 631 (N.D. Tex., 1966).]

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 to foreign countries, while foreign licensees are accorded a corresponding right to import into the United States. At the other extreme, the parties may agree that the domestic licensee will not export licensed products, at least to countries where the licensor has patent protection, and that the licensor or foreign licensees will not import licensed products into the United States. [Brownell v. Ketcham Wire & Mfg. Co., 211 F. 2d 121 (C.A. 9, 1954); United States v. L. D. Caulk Company, 126 F. Supp. 693 (D. Del., 1954); Osmose Wood Preserving Co. of Canada v. Osmose Wood Preserving Co. of America, 74 F. Supp. 435 (W.D.N.Y., 1947); American Optical Co. v. New Jersey Optical Co., 58 F. Supp. 601 (D. Mass., 1944).]

Form No. 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 No. 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 No. 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 No. 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 sublicenseing 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 in-
interest in and to any sublicenses in any of the foreign countries above specified to ABC to become ABC's exclusive property.

**Form No. 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 No. 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 nor permit the importation of Licensed Devices into the United States, its territories and possessions.

§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 No. 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 No. 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. [Paul E. Hawkinson Co. v. Carnell, 30 F. Supp. 178 (E.D. Pa., 1939), affirmed, 112 F. 2d 396 (C.A. 3, 1940).] 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

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. [St. Paul Plow Works v. Starling, 140 U.S. 184, 195 (1891); Automatic Radio Mfg. Co. v. Hazeltine Research, 176 F. 2d 799, 809 (C.A. 1, 1949), affirmed, 339 U. S. 827 (1950); Muth v. J. W. Speaker Corporation, 151 F. Supp. 188 (E.D. Wis., 1957), affirmed, 262 F. 2d 797 (C.A. 7, 1959); Miller v. O. B. McClintock Co., 49 USPQ 458 (Minn. Sup. Ct., 1941); Commonwealth Trust Co. of Pittsburgh v. 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 (C.A. 3, 1943).] However, 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

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. [Cold Metal Process Company v. United Engineering & Foundry Company, 107 F. 2d 27, 32 (C.A. 3, 1939); Howe v. Howe & Owen Ball Bearing Co., 154 F. 820, 826 (C.A. 8, 1907); Neenan v. Otis Elevator Co., 180 F. 997, 1000 (S.D.N.Y., 1910).] Thus, the breach of a covenant to pay royalties at the time stipulated is not ground for cancellation of a patent license. [Rowland v. Biesecker, 185 F. 515 (C.A. 2, 1911); Hazeltine Research Corporation v. Freed-Eisemann Radio Corporation, 3 F. 2d 172 (E.D.N.Y., 1924). Also see: Wagner Typewriter Co. v. Watkins, 84 F. 57 (S.D.N.Y., 1897); Consolidated Middlings Purifier Co. v. Wolf, 28 F. 814 (E.D. Pa., 1886).] 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 may be terminated by the licensor. [Oscar Barnett Foundry Co. v. Crowe, 219 F. 450 (C.A. 3, 1915). Also see: Shephard v. Kinner, 86 F. 638 (C.A. 2, 1898); Ruby v. Ebsary Gypsum Co., 36 F. 2d 244 (W.D.N.Y., 1929); Hat Sweat Mfg. Co. v. Porter, 34 F. 745 (D.N.J., 1888), on final hearing, 46 F. 757 (D.N.J., 1891); McKay v. Smith, 29 F. 295 (D. Mass., 1886), further proceedings,
By specific provision, a contracting party may acquire a right of termination which it would not otherwise have. [Miller v. O. B. McClintock Co., 49 USPQ 458 (Minn. Sup. Ct., 1941).] A clause authorizing termination for breach has been enforced in accordance with its literal terms. [National Rejectors v. A. B. T. Mfg. Corporation, 184 F. 2d 612 (C.A. 7, 1950).] However, 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. [Carr v. Jaeger Mach. Co., 69 F. 2d 434 (C.A. 7, 1934); Standard Stoker Co. v. Brewster, 277 F. 783 (C.A. 7, 1921); Critcher v. Linker, 169 F. 653 (W.D. Wis., 1909); Dare v. Bolyston, 6 F. 493 (S.D. N.Y., 1880).] Also, all conditions precedent must be performed by the party requesting cancellation. [Dixie Cotton Picker Co. v. Bullock, 188 F. 921 (N.D. Ill., 1911).] And, rescission of a license agreement for a breach thereof may be denied when the breach results from a mistaken interpretation of the agreement. [I. F. Laucks, Inc. v. Balfour Guthrie & Co., Limited, 35 USPQ 206 (W.D. Wash., 1937); Slezak v. Andrews, 21 F. Supp. 688 (D. Del., 1937).] Further, relief against a contractually authorized forfeiture may be obtained in a court of equity. [Standard Stoker Co. v. Brewster, 277 F. 783 (C.A. 7, 1921); Foster Hose Supporter Co. v. Taylor, 184 F. 71 (C.A. 2, 1911).] Ordinarily, in the absence of express words compelling automatic cancellation, breaches are not self-operative as forfeitures [Chadeloid Chemical Co. v. Johnson, 203 F. 993 (C.A. 7, 1913)], and a clause authorizing termination for breach confers a right only upon the non-defaulting party. [Kant-Skore Piston Company v. Sinclair Manufacturing Corporation, 32 F. 2d 882 (C.A. 6, 1929); Ohio Citizens Trust Co. v. Air-Way Electric Appliance Corporation, 56 F.
Patent License Agreements


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. [See: In re Diana Shoe Corporation, 80 F. 2d 827 (C.A. 2, 1936); In re Dr. Voorhees Awning Hood Co., 187 F. 611 (M.D. Pa., 1911), reversed on other grounds, 188 F. 425 (C.A. 3, 1911); New York Phonograph Co. v. Edison, 136 F. 600 (S.D.N.Y., 1905), affirmed per curiam, 144 F. 404 (C.A. 2, 1906).] 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." [Simmons v. National Tool Co., 110 F. 2d 850 (C.A. 6, 1940).]

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. [See Robertshaw-Fulton Controls Co. v. Patrol Valve Co., 106 F. Supp. 427 (N.D. Ohio, 1952), affirmed, 210 F. 2d 146 (C.A. 6, 1954).] 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 termi-
nation. [Pelzer v. City of Binghamton, 95 F. 823 (C.A. 2, 1899).] Also, as a control over commercial sales, the licensor may reserve the right to purchase from the licen-
see 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 sur-
vive the termination thereof.

Form No. 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 No. 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 No. 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 No. 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 owner or controlled by ABC, its successors or assigns, which contain a claim covering Licensed Products or parts thereof manufactured by XYZ.

Form No. 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 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 applications, divisions, reissues or extensions thereof shall automatically be included in the present Agreement.
Form No. 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 No. 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 indemnity for cancellation.

Form No. 40.08
Right of Either Party to Cancel
At Any Time on Notice

Either party hereto 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 No. 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 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 No. 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 No. 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 No. 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 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 No. 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 No. 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 giving 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 No. 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.

**Form No. 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 (30) 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 No. 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 No. 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, 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 No. 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 rescission in any way relieve XYZ of its obligation to pay monies then due ABC as herein provided.

**Form No. 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 patents limited as to time. Also, it is expressly agreed and understood that any such cancellation by ABC, as here-inbefore provided for, shall not in anywise release XYZ from liability to make any payments due from the date hereof under this Agreement.

**Form No. 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 No. 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 No. 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 No. 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 No. 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 No. 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.
Form No. 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 No. 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 con-
tract law on this subject; however, uniformity in the deci-
sions appears to be lacking. For example, when produc-
tion 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. [Patch v. Solar Corporation, 149 F. 2d 558 (C.A.
7, 1945).] Contrariwise, another court compelled payment
by the licensee of fixed sum royalties during the period of
interrupted production. [Otto v. Orange Screen Co., 57
F. Supp. 134 (D.N.J., 1944). Also see Ohio Citizens Trust
Co. v. Air-Way Electric Appliance Corporation, 56 F.
Supp. 1010 (N.D. Ohio, 1944).]

To avoid uncertainties in the effect of changed cir-
cumstances, 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 pe-
riods 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 accord-
ance with its terms. [Fast Bearing Co. v. Precision Devel-
opment Co., 67 USPQ 349 (Md. App. Ct., 1945).]

Form No. 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 un-
der this Agreement impossible for XYZ, XYZ's failure on that
account during such period shall be excused, and the mini-
mum royalty called for in the preceding paragraph shall not be required during such period or periods of inability to perform.

Form No. 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 No. 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, commandeering, 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 No. 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 wars 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. [Patrizi v. McAninch, 102 USPQ 44 (Tex. Sup. Ct., 1954). Also see: MacGregor v. Westinghouse Electric Mfg. Co., 329 U.S. 402, 407 (1947); Edward Katzinger Co. v. Chicago Metallic Mfg. Co., 329 U.S. 394, 401 (1947).] 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.

Form No. 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 No. 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.

§43. Arbitration: To avoid the expense and delays involved in court actions, and to gain the advantages of private hearings, an arbitration provision governing the resolution of future disputes may be incorporated in a license agreement. Although not used extensively, arbitration provisions concerning patent matters have been held valid and enforcible. [Schweyer Electric & Mfg. Co. v. Regan Safety Devices Co., 4 F. 2d 970 (C.A. 2, 1925); Cavicchi v. Mohawk Mfg. Co., 34 F. Supp. 852 (S.D.N.Y., 1940); Zip Manufacturing Company v. Pep Manufacturing Company, 9 USPQ 415 (D. Del., 1931); In re Kallus, 59 USPQ 440 (N.Y. App. Div., 1943).] Usually, the courts reserve the right to determine whether a particular dispute is within the scope of the arbitration clause. [Necchi v. Necchi Sewing Machine Sales Corp., 348 F. 2d 693 (C.A. 2, 1965).]
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. [See: Coulson, *The Business Lawyer Discovers Arbitration*, 50 ABA Journal 459 (1964).]

**Form No. 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 No. 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 Arbitration 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 No. 43.03

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 appoint 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 No. 43.04

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 non-exclusive, 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 Automatic 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 service as in the case of default with respect to quality of service and parts as hereinabove provided for.
§44. Waiver: The performance of an obligation may be waived by the party who has a right to enforce it. [Automatic Radio Co. v. Hazeltine, 339 U.S. 827, 835 (1950).] 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. [Otto v. Orange Screen Company, 57 F. Supp. 134 (D.N.J., 1944); Critcher v. Linker, 169 F. 653 (W.D. Wis., 1909).] 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. [Specialties Development Corp. v. C-O-Two Fire Equipment Co., 207 F. 2d 753 (C.A. 3, 1953); Miami Cycle & Mfg. Co. v. Robinson, 245 F. 556 (C.A. 6, 1917); Barnett v. Q. & C. Co., 226 F. 935 (C.A. 7, 1915).] 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.

Form No. 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 No. 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 No. 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.

§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. [McCullough v. Kammerer Corporation, 166 F. 2d 759 (C.A. 9, 1948).] 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 non-existence of an agency relationship and the like, or setting forth an agreement by the licensee not to act in behalf of the licensor.
Form No. 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 No. 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 No. 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 No. 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 No. 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.

§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 supersedes 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. 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. [Champlin Refining Co. v. Gasoline Products Co., 29 F. 2d 331 (C.A. 1, 1928).] 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. [Hotchner v. Neon Products, Inc., 163 F. 2d 672 (C.A. 6, 1947).] 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 appli-
cable to oral executory agreements only, and may not be effective in the case of executed modifications. [Hohmann & Barnard, Inc. v. Sciaky Bros., Inc., 333 F. 2d 5 (C.A. 2, 1964).]

Form No. 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 No. 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 No. 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 hereof 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 No. 46.04

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 No. 46.05

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 No. 46.06

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 No. 46.07

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.

Form No. 46.08

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.

§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. [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 (C.A. 8, 1947).] 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. [e.g., Hapgood v. Hewitt, 119 U.S. 226 (1886).] 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. [Farmland Irrigation Co., Inc. v. Doppelmaier, 113 USPQ 88 (Cal. Sup. Ct., 1957).]
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 authorize 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. [Loose v. Bellows Falls Pulp Plaster Co., 266 F. 81 (C.A. 2, 1920).] 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 and the apparent intention of the parties. [Rock-Ola Mfg. Corp. v. Filben Mfg. Co., 168 F. 2d 919 (C.A. 8, 1948); Lock Joint Pipe Co. v. Melber, 234 F. 319 (C.A. 3, 1916).]

Form No. 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 No. 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 No. 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 No. 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 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. Sub-
ject to the foregoing, this Agreement shall extend to and be binding upon the successors and permitted assigns of the parties hereto.

Form No. 47.05
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 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 No. 47.06
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 No. 47.07
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 No. 47.08
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 assignment 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 No. 47.09
Assignability

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

§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 con-
tracting governs [Specialties Development Corp. v. C-O-
Two Fire Equipment Co., 207 F. 2d 753 (C.A. 3, 1953); 
(C.A. 3, 1940)]; (2) the law of the place of performance 
governs; (3) the law expressly or presumably intended 
by the parties governs. [Hall v. Keller, 80 F. Supp. 763, 
773 (W.D. La., 1948), modified on other grounds, 180 F. 
2d 753 (C.A. 5, 1950).] Under the latter theory, the par-
ties 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. [American Type Founders v. Lans-
ton Monotype Machine Co., 137 F. 2d 728 (C.A. 3, 1943).] 
Usually, a license agreement will incorporate a provision 
that expresses the intent of the parties with respect to the 
governing law.

Form No. 48.01
Governing Law

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

Form No. 48.02
Governing Law

This Agreement shall be considered to have been exe-
cuted 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.

§49. General Assurances: To the extent possible, all 
documents to be executed, and all other acts to be per-
formed, 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 No. 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. When appropriate, the notice clause may also include reference to reports or statements, payments and other communications.

Form No. 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 No. 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, 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 No. 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 No. 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.

§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 No. 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
Form No. 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 No. 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.
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.

§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 Nos. 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 op-
tion 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 No. 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 No. 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 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.

§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. [Good Humor Corporation v. Bluebird Ice Cream & C. R., 1 F. Supp. 850 (E.D.N.Y., 1932), affirmed per curiam, 66 F. 2d 1013 (C.A. 2, 1933).]

Form No. 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 desirious 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 to 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.

§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.


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. [United States v. Singer Manufacturing Co., 374 U.S. 174 (1963); Clapper v. Original Tractor Cab Company, 165 F. Supp. 565 (S.D. Ind., 1958), reversed in part and remanded on other grounds, 270 F. 2d 616 (C.A. 7, 1959); Mason City Tent & Awning Company v. Clapper, 144 F. Supp. 754 (W.D. Mo., 1956);

§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 Office. In such proceedings, the Patent Office, 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 Patent Office 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.

However, an informal resolution of an interference must be legitimate, and an interference settlement agreement should not be used as a vehicle to suppress evidence, such as fraud, which would tend to invalidate any of the applications or patents in interference. Otherwise, neither

Furthermore, all agreements settling patent interference proceedings must be filed in the Patent Office. [Title 35, U.S. Code, Sec. 135 (c), as added by P.L. 87-831, October 15, 1962, 76 Stat. 958.] The Commissioner of Patents is obligated to notify the parties to an interference of this filing requirement, and settlement agreements normally must be filed before the termination of the interference. Upon request of any party filing such agreement, the copy will be made available only to government agencies on written request or to other parties on a showing of good cause. The failure to file a copy of such agreement renders the agreement and the patent involved permanently unenforceable. 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. [See United States v. Singer Manufacturing Co., 374 U.S. 174, 190 (1963).]

Form No. 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 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 [assignee 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 No. 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 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, may (1) accept a license from the patent owner — general principles of licensing are discussed throughout this book —, or (2) may agree to cease infringing the patent in issue and to acknowledge the validity of such patent.

Although the second type of settlement is not uncommon, whether the agreements by the alleged infringer will be enforced in all circumstances by the courts, when the legality thereof is challenged, remains unsettled. [Enforced: United Lens Corporation v. Doray Lamp Co., 93 F. 2d 969 (C.A. 7, 1937); Elliott Co. v. Lagonda Mfg. Co., 205 F. 152 (W.D. Pa., 1913), modified on other grounds, 214 F. 578 (C.A. 3, 1914). Not enforced: Pope Manufacturing Company v. Gormully, 144 U.S. 224 (1892); Nachman Spring-Filled Corporation v. Kay Mfg. Co., 139 F. 2d 781 (C.A. 2, 1943).] Moreover, under this type of settlement, the alleged infringer is not precluded from later denying the fact of infringement, at least as to products different than those made prior to the settlement agreement. [H. D. Smith Co. v. Southington Mfg. Co., 247 F. 342 (C.A. 2, 1917); American Specialty Stamping Co. v. New England Enameling Co., 176 F. 557 (C.A. 2, 1910).]

In connection with the settlement of a pending suit, the Order of Dismissal and the settlement agreement may each be silent as to the other instrument; the Order of Dismissal or a supporting stipulation may simply refer to
the agreement executed, or to be executed, by the parties; or, as is more frequently the case, the agreement may recite the terms under which the pending action will be dismissed. [Apex Electrical Mfg. Co. v. Altorfer Bros. Co., 238 F. 2d 867, 872 (C.A. 7, 1956).]

Form No. 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 No. 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 No. 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 No. 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 accounting is to be had in the said District Court in said case. Consent decrees are to be entered in favor of ABC in each of the other two pending cases above referred to in the usual form, excepting that all right to an accounting for past infringement in each case shall be waived.

XYZ shall at once discontinue the manufacture of said patented products, but it shall have the right within sixty (60) days hereafter to dispose of its stock of said products now on hand to the number of two thousand (2,000), reporting, however, to ABC all such sales, with the date of sale, name of customer, and number sold.

ABC shall not disturb by suit or otherwise any of the customers of XYZ on account of the past or future use of products heretofore made and sold by XYZ in infringement of any of said Letters Patent, all of such products being regarded as though rightfully made and sold by XYZ.

XYZ shall pay to ABC the sum of three thousand dollars ($3,000) within ninety (90) days from the date hereof in full for all damages, profits, and costs of suit for past infringement by itself and its customers of any of said Letters Patent, and as compensation to ABC for the future use by the customers of XYZ of such infringing products heretofore sold to them by it, and also as compensation for the right to dispose of said stock of products now on hand; and no costs shall be awarded
in favor of either party against the other in any of the said suits hereinbefore referred to, the judgment for costs in the District Court in the case first above referred to shall be entered satisfied, and the unpaid costs in any and all cases shall be paid by the party incurring the same.

Neither of the parties hereto shall hereafter make any printed advertisement of the terms of this settlement or any of the decrees hereinbefore referred to, either by circular or otherwise; but XYZ may, by circulars, advise the trade of its intention to abandon the manufacture and sale of products made according to said Letters Patent.

§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 pay-
Special Agreements and Provisions

ment, 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 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. 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 local 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, a provision concerning acknowledgment of validity [Sec. 28] includes an agreement by the licensee not to participate, directly or indirectly, as a party adverse to the licensor, in any opposition, revocation or compulsory licensing proceedings involving the licensed patent rights. 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 [Sec. 35] is to require the foreign licensee to grant the licensor a non-exclusive 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 [Sec. 43], be settled by arbitration. 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 agreement is to be governed by the law of a particular place [Sec. 48]. 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. 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.

Form No. 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 No. 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 No. 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 No. 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 thereto 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 No. 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 of 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 No. 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.
Form No. 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 No. 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 No. 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 No. 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 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 No. 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 No. 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 No. 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 No. 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.

Form No. 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 No. 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 No. 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 No. 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 applications for patent on said improvements 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 No. 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 No. 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 No. 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 Conciliation and Arbitration of the International Chamber of Commerce by arbitrators appointed in accordance with such rules.

Form No. 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 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 No. 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 No. 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.
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