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EXHIBITS.

Filed July 21, 1918.

Notice of Appeal.

In Chancery of New Jersey

Between INTERNATIONAL RADIO TELEGRAPH COMPANY, Complainant. and MARCONI WIRELESS TELEGRAPH COMPANY OF AMERICA, Defendant.	Notice of Appeal.

The defendant hereby appeals from the interlocutory decree made in this Court in the above-stated cause on the Sixteenth day of July, Nineteen Hundred and Eighteen, and from the whole and every part thereof to the Court of Errors and Appeals in the last resort in all causes.

Dated, July 18th, 1918.

GRIGGS & HARDING,
Solicitors and of Counsel with the Defendant.

I conceive there is good cause for the appeal in the above-stated cause.

JOHN W. HARDING,
Of Counsel with the Defendant.

Filed July 27, 1918.

Petition of Appeal.

NEW JERSEY COURT OF ERRORS AND APPEALS.

Between INTERNATIONAL RADIO TELEGRAPH COMPANY, Complainant-Respondent, and MARCONI WIRELESS TELEGRAPH COMPANY OF AMERICA, Defendant-Appellant.	On Appeal. Petition of Appeal.

To the Honorable the Court of Errors and Appeals in the last resort in all causes:

The petition of Marconi Wireless Telegraph Company of America, the appellant in the above-stated cause, respectfully shows that your petitioner finds itself aggrieved by an interlocutory decree made in the Court of Chancery of New Jersey, by his Honor, Edwin Robert Walker, Chancellor of the State of New Jersey, bearing date the Sixteenth day of July, Nineteen Hundred and Eighteen, wherein the above-named International Radio Telegraph Company was complainant and the above-named Marconi Wireless Telegraph Company of America was defendant, in these respects, to wit: That the said decree adjudged that the matter in controversy in said suit be referred to Charles M. Meyers, Esq., a Master in Chancery of the State of New Jersey, to take and state an accounting of all dealings and transactions between the complainant and defendant, under or in connection with the contract at-

tached to complainant's bill of complaint and marked Exhibit "A," including all dealings, transactions and contracts for the sale, leasing, rental or other disposition of wireless telegraph and wireless telephone sets and parts thereof, to any person or corporation whatsoever, and to the government of the United States and the government of any foreign country, during the period covered by said agreement prior to the termination thereof on May 30, 1917, whether such sale, leasing, rental or other disposition of such wireless telegraph or wireless telephone sets or parts thereof, was consummated by delivery, passing of title or otherwise, prior to or after the termination of said agreement on May 30, 1917, and also an accounting of any licenses granted under Clause 15 of said agreement, and in that said decree adjudged that for the better clearing of said account, the parties are to produce before the said master, upon oath or affirmation if required, leave with him all books and writings in their custody or power, relating thereto, and that they are to be examined upon interrogatories as the said master shall direct; and that said master is also to have power to examine other witnesses in relation to said account; and that in taking said account, he is to make to both parties all just allowances; and is to report what, upon such accounting, appears to be due from each party to the other; and also the balance which upon the said account shall appear to be due from either party to the other, and in that said decree adjudges that the said master is to make his report, touching the matters hereby referred to him, with all convenient speed, and that if, in taking the said account, any special matter shall arise, he is at liberty to state the same to the court.

And your petitioner appeals from the whole of said decree, upon the grounds that under the pleadings and proofs submitted on the hearing of said suit the said Chancellor should not have adjudged or decreed as aforesaid, but that said Chancellor should have adjudged and decreed, that under said pleadings and proof the said defendant was not liable to make any account whatever to said complainant, and that said complainant had no right to any accounting whatever from said defendant concerning the said dealings and transactions between said complainant and defendant hereinbefore mentioned or any or either of them, or otherwise, and that said Chancellor should have adjudged and decreed, that under said pleadings and proof the said defendant, according to said contract, was not liable to pay to the complainant anything whatever or to make any accounting whatever to the complainant, and that the complainant was not entitled to any relief prayed for in its said bill of complaint or to any affirmative decree whatsoever in this cause, and that said Chancellor by his order and decree should have dismissed the complainant's said bill of complaint.

Your petitioner, therefore, prays that the said decree may be wholly reversed, set aside and for nothing holden, and that your petitioner may have such further relief in the premises as shall be equitable and just.

GRIGGS & HARDING,
Solicitors and of Counsel with Defendant.

Answer to Petition of Appeal from Interlocutory Decree Directing an Accounting.

NEW JERSEY COURT OF ERRORS AND APPEALS.

Between INTERNATIONAL RADIO TELEGRAPH COMPANY, Complainant-Respondent, and MARCONI WIRELESS TELEGRAPH COMPANY OF AMERICA, Defendant-Appellant.	On Bill, etc. Answer to Petition of Appeal from Interlocutory Decree Directing an Accounting.

The answer of the above-named respondent to the petition of appeal to the above-named appellant.

This respondent, not acknowledging all or any of the matters which in the said petition of appeal are contained to be true, for answer thereto, nevertheless says and admits that an interlocutory decree was on the 16th day of July, 1918, made and entered in the Court of Chancery in the cause for that purpose mentioned in the said petition as is therein stated, but as to the substance and form thereof this respondent prays to refer thereto when the same shall be produced. And this respondent is advised and believes that the said interlocutory decree is agreeable to equity, and it prays that the same may be affirmed, with costs to be adjudged to this respondent.

LINDABURY, DEPUE & FAULKS,
Solicitors for and of counsel with Int'l Radio Telegraph Company, Respondent.

Bill of Complaint.

Filed February 11, 1918.

IN CHANCERY OF NEW JERSEY.

To the Honorable Edwin Robert Walker, Chancellor of the State of New Jersey:

The complainant, International Signal Company, respectfully shows:

1. That it is a corporation organized and existing under and by virtue of the laws of the State of Delaware.

2. That on or about October 15th, 1914, the defendant, a corporation organized and existing under and by virtue of the laws of the State of New Jersey, as party of the first part, and National Electric Signaling Company, a corporation organized and existing under and by virtue of the laws of the State of New Jersey, and Samuel M. Kintner and Halsey M. Barrett, Receivers, as party of the second part, entered into an agreement in writing, a copy of which is attached hereto and made a part hereof, and marked Exhibit "A," wherein and whereby, in consideration of the benefits and advantages to be derived by them, respectively, from the faithful performance of the covenants therein mentioned to be performed by them, respectively, it was, among other things, mutually covenanted and agreed as follows:

> "FIRST: That the party of the first part hereby grants to the party of the second part, during the term of this agreement and under the terms and conditions hereinafter specified, the right and license (but not exclusive) to make or cause to be made, sell or cause to be sold,

lease or cause to be leased, use or cause to be used, wireless telegraph and wireless telephone apparatus embodying the inventions of each and all of the patents enumerated and set forth in 'Schedule A' hereunto annexed, and in each and all of said Letters Patent, throughout the United States, its territorities and dependencies.

SECOND: That the party of the second part hereby grants unto the party of the first part, during the term of this agreement and the terms and conditions hereinafter specified, the right and license (but not exclusive), to make or cause to be made, sell or cause to be sold, lease or cause to be leased, and use or cause to be used, wireless telegraph and wireless telephone apparatus embodying the inventions of each and all of the patents enumerated and set forth in 'Schedule B,' throughout the United States, its territories and dependencies.

THIRD: The party of the second part does hereby grant unto the party of the first part during the term of this agreement the right and license (but not exclusive) to make or cause to be made, sell or cause to be sold, lease or cause to be leased, and use or cause to be used, wireless telegraph and wireless telephone apparatus embodying the inventions described in the applications for Letters Patent enumerated in 'Schedule B,' and embodying each and all of the inventions covered by any Letters Patent of the United States which may be granted on any of said applications throughout the United States, its territories and dependencies;

* * *

FOURTH: That (except as otherwise provided for herein) during the term of this agreement, on each and every wireless telegraph or wireless telephone main set which the party of the first part shall hereafter lease under this agreement, the party of the first part will pay to the party of the second part, as a license fee or royalty, for the licenses granted under clauses Second and Third thereof, one-half (½) of any rental over and above sixty dollars ($60.00) per month, which the party of the first part shall receive from such lessees as monthly rental for such main set, it being further agreed that this royalty or license fee shall be at least twenty dollars ($20.00) per month on each and every such main set so hereafter leased.

FIFTH: That (except as otherwise provided for herein), during the term of this agreement, on each and every wireless telegraph or wireless telephone main set which the party of the second part shall hereafter lease under this agreement, the party of the second part will pay to the party of the first part, as a license fee or royalty for the licenses granted to it under clause First hereof, one-half (½) of any rental over and above sixty dollars ($60.00) per month, which the party of the second part shall receive from such lessees as monthly rental for such main set, it being further agreed that this royalty or license fee shall be at least twenty dollars ($20.00) per month, on each and every such main set so hereafter leased.

SIXTH: That in view of the fact that the party of the first part has erected and is now maintaining, at great expense, a large number

of land stations with which ships may communicate, that the party of the second part will pay to the party of the first part a royalty or license fee of thirty dollars ($30.00) per month in addition to the royalty or license fee provided for in clause Fifth hereof, on each and every wireless telegraph or wireless telephone main set which it shall hereafter lease under this agreement for use on ships.

SEVENTH: That neither party shall be required to pay to the other party any license fees or royalties for the licenses herein acquired under this agreement, on any wireless telegraph or wireless telephone sets which are, at the date of this agreement, leased by either of the parties to this agreement, for use on ships, or for use in railway service, at a price of sixty dollars ($60.00) or less, per month, for the main set, during the period of such lease. But, if any such contracts shall be continued or renewed by either party hereto after the date when such contracts expire, then the license fees or royalties provided for in clauses Fourth, Fifth and Sixth shall be due and payable as provided for in this agreement.

EIGHTH: That the party of the first part shall pay to the party of the second part, and the party of the second part shall pay to the party of the first part, as a license fee or royalty, for the respective licenses granted as provided for in clauses First, Second and Third hereof, twenty per cent. (20%) of the gross selling price of each set of wireless telegraph or wireless telephone apparatus which it may, under the terms of this agreement, sell, including sales to the United States Government.

But, it is further agreed that, in the event that either party shall sell wireless telegraph or wireless telephone sets for use on ships other than ships of the United States Government, that it will pay to the other party, as an additional royalty or license fee, an additional thirty per cent. (30%) of the gross selling price of each and every set.

* * * * * *

TENTH: That the license fees or royalties herein provided for shall cover and include the right of either party to supply to its customers or the customers of its affiliated companies repair parts and supplies for the apparatus previously supplied to its customers, or customers of its affiliated companies, and further, that such license fees or royalties shall also cover and include all the duplicate and extra parts, appurtenances and auxiliaries furnished with the main set, without payment of any additional royalty or license fee.

ELEVENTH: That, in the event that either party has installed or erected, or shall hereafter install or erect, land stations for wireless telegraphy or wireless telephony, for its own use in the business of handling traffic between such stations, or between such stations and ships or railway trains, that no royalty or license fee shall be paid for such land stations.

TWELFTH: That each of the parties hereto shall keep a true and accurate written account of all apparatus which shall hereafter be sold, leased or otherwise disposed of by it under this agreement, and of any and all licenses which may be granted under clause Fifteenth hereof, which written account shall be open to the ex-

amination of the other party, or its duly authorized representatives, at all reasonable times.

THIRTEENTH: That each of the parties hereto shall, within fifteen (15) days after the first days of January, April, July and October of each and every year during the term of this agreement, render to the other party a written report, signed by one of its officers, stating therein fully and accurately the number and kinds of wireless telegraph and wireless telephone sets that shall have been hereafter sold, leased or otherwise disposed of by it under this agreement, during the preceding three (3) months, the selling or leasing price or rental of such sets, and when and to whom sold or leased or rented; such written report shall also contain a full statement of any and all licenses granted under clause Fifteenth hereof; the first of said written reports shall be rendered on the fifteenth (15th) day of January, 1915, and shall cover the period beginning the 15th day of November, 1914.

FOURTEENTH: That each of the parties hereto shall, within fifteen (15) days after the first days of February, May, August and November of each and every year, during the term of this agreement, pay to the other party the license fees or royalties hereinbefore provided for in the Fourth, Fifth, Sixth, Seventh, Eighth and Fifteenth clauses of this agreement, for such sets as it has sold, leased or otherwise disposed of under this agreement, during the preceding three (3) months, and for which it has received payment from its lessees, vendees or licensees. The first settlement of royalty shall be made on the fifteenth (15th) day of Febru-

ary, 1915, and shall cover the period beginning the 15th day of November, 1914.

FIFTEENTH: That neither party will hereafter grant any license or licenses under the patents covered by this agreement to any other person, firm, or corporation, without the consent previously obtained in writing from the other party to this agreement, except that the right is expressly reserved to both parties to hereafter grant licenses under the patents covered by this agreement, to any person, firm or corporation, to manufacture and sell wireless telegraph or wireless telephone apparatus to the Government of the United States. But it is expressly agreed that if either party hereto shall hereafter grant licenses to others, as provided for in this clause, such licenses shall not be granted at lower rates than is provided for in clause Eighth hereof, or on more favorable terms than those provided for in this agreement.

* * * * * *

NINETEENTH: That the term of this agreement shall be to and including the thirteenth day of April, 1926, (the date of the expiration of Fessenden patents Nos. 918,306 and 918,307) unless previously cancelled or terminated in accordance with the provisions hereof, provided, however, that either party may terminate or cancel the agreement at any time after the 15th day of October, 1918, by giving written notice to the other party that it has, under this clause of this agreement, elected to cancel and terminate the same, and such cancellation or termination shall become effective one (1) year after the giving of such notice; and provided, further, that the party of the first part may terminate or cancel this agreement at any time

after October 15th, 1915, and prior to October 15th, 1918, by giving written notice to the party of the second part that it has elected to cancel or terminate the same, and such cancellation or termination shall become effective ninety (90) days after giving such notice.

* * * * * *

TWENTY-FIFTH: The respective licenses granted by the parties hereto, each to the other, shall be personal and non-assignable, except that the licenses herein acquired by the party of the second part may be assigned by the receivers of the party of the second part to such firm, corporation or individual as the said court may hereafter direct, and with the further exception that the licenses covered by this agreement shall accrue to the benefit of such sub-companies of the parties hereto in the United States, its territories and dependencies, as the party of the first part or the party of the second part may now or hereafter own or control.

* * * * * *

TWENTY-EIGHTH: That should this agreement be hereafter cancelled or terminated, as provided for herein, the licenses herein granted by the respective parties each to the other shall not terminate or be cancelled with respect to the apparatus which either party may have, prior to such cancellation or termination, leased or caused to be leased, and for which the licensee shall continue to pay the royalties or license fees provided for in clauses Fourth, Fifth and Sixth hereof. But this clause shall not apply to land stations owned or operated by either party hereto at the date of such cancellation or termination.

TWENTY-NINTH: That the term 'main set' or 'set' as used in this agreement shall cover and include only the following elements:

1. Motor Generator.
2. Switch board (or) starting device.
3. Transformer.
4. Spark Gap and cooling device.
5. Oscillation producer (arc, spark or other).
6. Transmitting condenser.
7. Transmitting oscillation transformer.
8. Antenna inductance.
9. Operating key and (or) equivalent relay.
10. Antenna switch.
11. Receiving oscillation transformer.
12. Receiving condenser.
13. Detector.
14. Receiving oscillation producer.

It is further agreed that if either party shall sell any of the above elements less than the whole number, that then the licensee shall pay to the licensor twenty per cent. (20%) of the selling price of the elements sold.

It is also agreed that on apparatus leased under the terms of this agreement, every station shall be considered as having at least one 'main set' or 'set,' and in the event that any station is provided with more than two 'sets,' but one of this number shall be considered as auxiliary to the 'main set.'"

3. On or about March 1, 1917, pursuant to the provisions of Paragraph 19 of said agreement hereinbefore mentioned, the said defendant served writ-

ten notice upon the said National Electric Signaling Company and Samuel M. Kintner and Halsey M. Barrett, its receivers, that it had elected to cancel or terminate the said agreement, and that such cancellation or termination should become effective ninety days after the giving of such notice.

4. That on or about the 27th day of November, 1917, complainant acquired by assignment of the said National Electric Signaling Company, and Samuel M. Kintner and Halsey M. Barrett, its receivers, made in pursuance of the authority and direction of certain orders of the United States District Court for the District of New Jersey, in and by which court said receivers were duly appointed, all of the rights, privileges, licenses, benefits, profits, moneys and advantages then due or thereafter to grow due to the said Samuel M. Kintner and Halsey M. Barrett, as such receivers, or to the said National Electric Signaling Company, or either or any of them, under or by reason of the agreement so as aforesaid entered into between the said defendant and the said National Electric Signaling Company and Samuel M. Kintner and Halsey M. Barrett, its receivers as aforesaid.

And the said Samuel M. Kintner and Halsey M. Barrett, receivers as aforesaid, and the said National Electric Signaling Company, and each thereof, did by said assignment irrevocably appoint the said complainant, its successors and assigns, their and each of their true and lawful attorney or attorneys, and it thereby gave the said complainant, its successors and assigns, full power and authority for its or their own use and benefit, to ask, demand, collect, receive, enforce, compound and give acquittances for all of the said rights, privileges, licenses,

benefits, profits, moneys and advantages then due or thereafter to grow due under said agreement, and in the name of the said receivers and of the said National Electric Signaling Company, and either or any of them, and its or their successors or assigns, or otherwise, to prosecute and withdraw any suits or proceedings at law or in equity upon or under the same, or any thereof, as fully as the said receivers or as the said National Electric Signaling Company, or any or either of them, could or might do except for the execution of said instrument.

5. That from the date of the said agreement, and in strict compliance with the provisions thereof, the said National Electric Signaling Company and Samuel M. Kintner and Halsey M. Barrett, its receivers, have kept a true and accurate written account of all apparatuses which it has sold, leased, or otherwise disposed of under said agreement and of any and all licenses which have been granted under Clause 15 thereof, and has on the dates mentioned in Paragraph 13 of said agreement, and in strict compliance with the terms thereof, rendered a statement thereof to the said defendant, and pursuant to Paragraph 14 of said agreement have, on the dates therein specified, during the whole period of said agreement, paid to the said defendant all sums due and owing and required to be paid by it or them pursuant to the 4th, 5th, 6th, 7th, 8th and 15th clauses of said agreement, and have always otherwise carried out in good faith each and all of the terms of the said agreement according to the true intent and meaning thereof.

6. But that notwithstanding its said agreement, and although often requested so to do, the defend-

ant has refused, and still does refuse to render any report in respect to the kind of wireless telegraph and wireless telephone sets that have been sold, leased or otherwise disposed of by it under said agreement, the delivery of which was made subsequent to May 31, 1917, the said defendant pretending that it is under no obligation to make any reports or payments on account of or permit an examination of its written accounts by the said National Electric Signaling Company and Samuel M. Kintner and Halsey M. Barrett, its receivers, and complainant, or their duly authorized representative in respect to any wireless telegraph or wireless telephone sets, or parts thereof, that have been delivered subsequent to said 31st day of May, 1917; whereas complainant charges the contrary thereof to be true, and that it is entitled to the reports and accounting required by paragraphs 13 and 14 of said agreement in respect to any and all licenses granted under Clause 15 of said agreement and any and all wireless telegraph and wireless telephone sets, and parts thereof, the licensing, selling, leasing, rental or other disposition of which was negotiated during the term of said agreement and prior to May 31, 1917, without regard to whether delivery thereof was made during the term of said agreement or since then, or yet remains to be made, and to the payment to it of the sums so found to be due to it upon said account.

7. That there are no moneys due or owing to the said defendant by the said National Electric Signaling Company and Samuel M. Kintner and Halsey M. Barrett, its receivers, or complainant, under said agreement, but, on

the contrary, the complainant believes and charges the fact to be that upon a full, just and true accounting between the said National Electric Signaling Company and Samuel M. Kintner and Halsey M. Barrett, its receivers, and complainant, and the said defendant, there will appear to have been received by defendant on account of the licenses, sales and leases made by it under said agreement large sums of money in excess of the amount due from the said National Electric Signaling Company and Samuel M. Kintner and Halsey M. Barrett, its receivers, under said agreement, which said sums so due from defendant to complainant will aggregate the sum of $300,000.

Complainant is without adequate remedy in the courts of law, and therefore prays:

1. That Marconi Wireless Telegraph Company of America, who is the defendant in this suit, may answer this bill of complaint and each statement therein made.

2. That an account may be taken of all and every of the dealings and transactions covered by said agreement, including all dealings and transactions for the sale, leasing, rental or other disposition of wireless telegraph and wireless telephone sets, and parts thereof, covered by said agreement negotiated by the said defendant during the continuance of said agreement whether consummated before or after the termination thereof, and also on account of the moneys received in regard thereto.

3. That the said defendant may be directed to pay to complainant what, if any thereof, shall upon such account appear to be due to it, with interest and costs.

4. That a writ of subpoena may issue commanding said defendant to answer this bill of complaint, and to abide by such decree as this court may make in the premises.

LINDABURY, DEPUE & FAULKS,
Solicitors for and of Counsel
with Complainant.

Agreement.

AGREEMENT made in duplicate and entered into this 15th day of October, 1914, by and between MARCONI WIRELESS TELEGRAPH COMPANY OF AMERICA, a corporation organized and existing under and by virtue of the laws of the State of New Jersey, hereinafter called the party of the first part, and NATIONAL ELECTRIC SIGNALING COMPANY, a corporation organized and existing under and by virtue of the laws of the State of New Jersey, and SAMUEL M. KINTNER and HALSEY M. BARRETT, receivers of said National Electric Signaling Company, heretofore appointed by the United States District Court for the District of New Jersey, hereinafter called the party of the second part;

WHEREAS the party of the first part is the sole and exclusive owner of certain Letters Patent of the United States, described in the schedule hereto annexed and made a part hereof marked "Schedule A"; and

WHEREAS, the party of the second part is the sole and exclusive owner of certain United States Letters Patent and applications for Letters Patent de-

scribed in the schedule hereto annexed and marked "Schedule B"; and

WHEREAS, as hereinafter recited, several of said Letters Patent have been in litigation in the United States courts and several of them have been sustained as valid and held to have been infringed by the parties hereto, and they are under injunction restraining said infringements and are liable to pay damages and profits by reason thereof; and

WHEREAS, each of the parties hereto claims that others of its said Letters Patent of schedules "A" and "B" have been and now are being infringed by the other party and its customers, and that there are outstanding claims between the parties hereto for damages and profits for said alleged infringement, which claims remain unadjusted; and

WHEREAS, the party of the first part has heretofore brought suits in equity against the party of the second part in the United States District Court for the Eastern District of New York, upon its United States Letters Patent No. 609,154, to Oliver J. Lodge, dated August 16, 1898, and No. 763,772, to G. Marconi, dated June 28, 1904, referred to in said "Schedule A"; and

WHEREAS in said suits, by decrees entered therein on the sixth day of April, 1914, claims 1, 2 and 5 of said Lodge patent No. 609,154, and claims 1, 2, 3, 6, 8, 10, 11, 12, 13, 14, 16, 17, 18, 19 and 20 of said Marconi patent No. 763,772, were held valid and to have been infringed by the party of the second part, granting an injunction restraining said infringement and awarding damages and profits by reason thereof; and

WHEREAS, heretofore the party of the second part did institute a suit in equity upon its Letters Patent to Fessenden No. 918,306 and Letters Patent No. 918,307, in the United States District Court for the Eastern District of Pennsylvania against the Telefunken Wireless Telegraph Company of America *et al.*, in which a decree was entered on the 29th day of December, 1913, upon the mandate of the Circuit Court of Appeals for the Third Circuit, holding, adjudging and decreeing that claims 1 and 3 of Letters Patent No. 918,306 and claims 1, 2, 3 and 4 of Patent No. 918,307, granted to R. A. Fessenden on April 13, 1909, and referred to in said "Schedule B," were valid and infringed by the said Telefunken Company; and

WHEREAS, on the decision in said suit, the party of the second part hereto did institute, in the United States District Court for the District of New Jersey, a suit in equity, now pending, undetermined, against the party of the first part, for an injunction and damages and profits for the alleged infringement of said Letters Patent to Fessenden Nos. 918,306 and 918,307; and

WHEREAS, the party of the first part has also now pending in the United States District Court for the District of New Jersey, a suit in equity against the party of the second part for the alleged infringement of Letters Patent No. 773,069, to C. E. Freeman, dated October 25, 1904, in which it is alleged that claims 1, 6, 20, 22, 23 and 26 are valid and have been infringed by the party of the second part; and

WHEREAS, the party of the first part has now pending undetermined, in the United States Dis-

trict Court for the Southern District of New York, a suit in equity against the New England Navigation Company, one of the customers of the party of the second part, for the alleged infringement of said Marconi patent No. 763,772; and

WHEREAS, the party of the second part has now pending, undetermined, in the United States District Court for the Southern District of New York, two suits in equity against the party of the first part for the alleged infringement of Fessenden patents Nos. 706,736 and 706,738, dated Aug. 12, 1902, and which are referred to in said "Schedule B"; and

WHEREAS, each of the parties hereto desires to make lawful use of some or all of the inventions covered by the said Letters Patent of the other party; and

WHEREAS, there are numerous parties in the United States who are using apparatus manufactured by the parties hereto respectively, under one or more of the aforesaid Letters Patent, and numerous other parties in the United States are infringing upon one or more of said Letters Patent; and

WHEREAS, it is desired, in the interests of the public, that said conflicting claims of each of the parties hereto against the other should be adjusted, and the right of each party to manufacture, sell, use, and lease to others to be used, the patented apparatus, so that users of wireless telegraph and wireless telephone apparatus may obtain the most efficient apparatus and will not be subjected to claims under the patents of one party by reason of the purchase, lease or use of such apparatus from the other party; and

WHEREAS, the parties to this agreement are mutually desirous of settling and adjusting the controversy regarding the aforesaid patent rights which they respectively own, and of compromising the claims of the parties hereto against each other for past damages or profits arising out of any infringement of said Letters Patent of one party by the other, and of acquiring a license to transact its business under one or all of said patents owned by the other, as well as of protecting their said respective patent rights or the monopoly thereof;

NOW, THEREFORE, THIS AGREEMENT WITNESSETH That, in consideration of the premises and the benefits and advantages to be derived by them respectively from the faithful performance of the covenants hereinafter mentioned to be performed by them respectively, the parties hereto do hereby mutually covenant and agree as follows:

FIRST: That the party of the first part hereby grants to the party of the second part, during the term of this agreement and under the terms and conditions hereinafter specified, the right and license (but not exclusive) to make or cause to be made, sell or cause to be sold, lease or cause to be leased, use or cause to be used, wireless telegraph and wireless telephone apparatus embodying the inventions of each and all of the patents enumerated and set forth in "Schedule A," hereunto annexed, and in each and all of said Letters Patent, throughout the United States, its territories and dependencies.

SECOND: That the party of the second part hereby grants unto the party of the first part, during

the term of this agreement and the terms and conditions hereinafter specified, the right and license (but not exclusive) to make or cause to be made, sell or cause to be sold, lease or cause to be leased, and use or cause to be used, wireless telegraph and wireless telephone apparatus embodying the inventions of each and all of the patents enumerated and set forth in "Schedule B," throughout the United States, its territories and dependencies.

THIRDS The party of the second part does hereby grant unto the party of the first part during the term of this agreement the right and license (but not exclusive) to make or cause be made, sell or cause to be sold, lease or cause to be leased, and use or cause to be used, wireless telegraph and wireless telephone apparatus embodying the inventions described in the applications for Letters Patent enumerated in "Schedule B," and embodying each and all of the inventions covered by any Letters Patent of the United States which may be granted on any of said applications throughout the United States, its territories and dependencies; and the party of the second part agrees that upon the issuance of any Letters Patent upon any or all of the applications for patents enumerated in "Schedule B," hereunto annexed, it will execute or cause to be executed, if necessary, proper instruments in writing confirming to the party of the first part the license or licenses hereby granted, but without expense to the party of the first part, and without payment of any license fees or royalties other than that hereinafter provided for.

FOURTH: That (except as otherwise provided for herein) during the term of this agreement, on each and every wireless telegraph or wireless telephone

main set which the party of the first part shall hereafter lease under this agreement, the party of the first part will pay to the party of the second part, as a license fee or royalty, for the licenses granted under clauses Second and Third hereof one-half (½) of any rental over and above sixty dollars ($60.00) per month, which the party of the first part shall receive from such lessees as monthly rental for such main set, it being further agreed that this royalty or license fee shall be at least twenty dollars ($20.00) per month on each and every such main set so hereafter leased.

FIFTH: That (except as otherwise provided for herein), during the term of this agreement, on each and every wireless telegraph or wireless telephone main set which the party of the second part shall hereafter lease under this agreement, the party of the second part will pay to the party of the first part, as a license fee or royalty for the licenses granted to it under clause First hereof, one-half (½) of any rental over and above sixty dollars ($60.00) per month, which the party of the second part shall receive from such lessees as monthly rental for such main set, it being further agreed that this royalty or license fee shall be at least twenty dollars ($20.00) per month, on each and every such main set so hereafter leased.

SIXTH: That in view of the fact that the party of the first part has erected and is now maintaining, at great expense, a large number of land stations with which ships may communicate, that the party of the second part will pay to the party of the first part a royalty or license fee of thirty dollars ($30.00) per month in addition to the royalty or

license fee provided for in clause Fifth hereof, on each and every wireless telegraph or wireless telephone main set which it shall hereafter lease under this agreement for use on ships.

SEVENTH: That neither party shall be required to pay to the other party any license fees or royalties for the licenses herein acquired under this agreement, on any wireless telegraph or wireless telephone sets which are, at the date of this agreement, leased by either of the parties to this agreement, for use on ships, or for use in railway service, at a price of sixty dollars ($60.00) or less, per month, for the main set, during the period of such lease. But, if any such contracts shall be continued or renewed by either party hereto after the date when such contracts expire, then the license fees or royalties provided for in clauses Fourth, Fifth and Sixth shall be due and payable as provided for in this agreement.

EIGHTH: That the party of the first part shall pay to the party of the second part, and the party of the second part shall pay to the party of the first part, as a license fee or royalty, for the respective licenses granted as provided for in clauses First, Second and Third hereof, twenty per cent. (20%) of the gross selling price of each set of wireless telegraph or wireless telephone apparatus which it may, under the terms of this agreement, sell, including sales to the United States Government. But, it is further agreed that, in the event that either party shall sell wireless telegraph or wireless telephone sets for use on ships other than ships of the United States Government, that it will pay to the other party, as an additional royalty or

license fee, an additional thirty per cent. (30%) of the gross selling price of each and every set.

NINTH: That, on all wireless telegraph or wireless telephone stations other than train or ship stations, which either party shall hereafter lease, sell, erect or install under this agreement, to be operated in the United States, its territories and dependencies by others than the parties to this agreement it is agreed that such stations shall be licensed under the patents enumerated in schedules "A" and "B," only for use in the conduct of the private business of such lessees or vendees, and not for use in transmitting messages for which tolls could be charged.

TENTH: That the license fees or royalties herein provided for shall cover and include the right of either party to supply to its customers or the customers of its affiliated companies repair parts and supplies for the apparatus previously supplied to its customers, or customers of its affiliated companies, and further, that such license fees or royalties shall also cover and include all the duplicate and extra parts, appurtenances and auxiliaries furnished with the main set, without payment of any additional royalty or license fee.

ELEVENTH: That, in the event that either party has installed or erected, or shall hereafter install or erect, land stations for wireless telegraphy or wireless telephony, for its own use in the business of handling traffic between such stations, or between such stations and ships or railway trains, that no royalty or license fee shall be paid for such land stations.

TWELFTH: That each of the parties hereto shall keep a true and accurate written account of all apparatus which shall hereafter be sold, leased or otherwise disposed of by it under this agreement, and of any and all licenses which may be granted under clause Fifteenth hereof, which written account shall be open to the examination of the other party, or its duly authorized representatives, at all reasonable times.

THIRTEENTH: That each of the parties hereto shall, within fifteen (15) days after the first days of January, April, July and October of each and every year during the term of this agreement, render to the other party a written report, signed by one of its officers, stating therein fully and accurately the number and kinds of wireless telegraph and wireless telephone sets that shall have been hereafter sold, leased or otherwise disposed of by it under this agreement, during the preceding three (3) months, the selling or leasing price or rental of such sets, and when and to whom sold or leased or rented; such written report shall also contain a full statement of any and all licenses granted under clause Fifteenth hereof; the first of said written reports shall be rendered on the fifteenth (15th) day of January, 1915, and shall cover the period beginning the 15th day of November, 1914.

FOURTEENTH: That each of the parties hereto shall, within fifteen (15) days after the first days of February, May, August and November of each and every year, during the term of this agreement, pay to the other party, the license fees or royalties hereinbefore provided for in the Fourth, Fifth, Sixth, Seventh, Eighth and Fifteenth clauses of this agreement, for such sets as it has sold, leased or other-

wise disposed of under this agreement, during the preceding three (3) months, and for which it has received payment from its lessees, vendees or licensees. The first settlement of royalty shall be made on the fifteenth (15th) day of February, 1915, and shall cover the period beginning the 15th day of November, 1914.

FIFTEENTH: That neither party will hereafter grant any license or licenses under the patents covered by this agreement to any other person, firm, or corporation, without the consent previously obtained in writing from the other party to this agreement, except that the right is expressly reserved to both parties to hereafter grant licenses under the patents covered by this agreement, to any person, firm or corporation, to manufacture and sell wireless telegraph or wireless telephone apparatus to the Government of the United States. But it is expressly agreed that if either party hereto shall hereafter grant licenses to others, as provided for in this clause, such licenses shall not be granted at lower rates than is provided for in clause Eighth hereof, or on more favorable terms than those provided for in this agreement.

SIXTEENTH: That each of the parties hereto does hereby release, discharge and forever quitclaim to the other party and their respective vendees, lessees and customers, from all claims for damages and profits for alleged past infringement of its Letters Patent, and this clause shall be construed as giving the lessees, vendees and customers of both parties hereto, the unmolested right and license to continue the use of the apparatus which has, at the date of this agreement, been delivered, or contracted

to be delivered, to such vendees, lessees or customers, and without any claim for damages or profits or license fees by reason of such continued use.

SEVENTEENTH: That, within ten (10) days of the execution of this agreement, (1) the party of the first part shall withdraw, or have its appeal dismissed from so much of the aforesaid decree of the United States District Court for the Eastern District of New York, from which it took an appeal to the Circuit Court of Appeals for the Second Circuit, without costs in the Court of Appeals to either party as against the other; and the party of second part, within the same period, shall withdraw, or have its appeals dismissed, from so much of the aforesaid decrees as were entered in the two suits in the United States District Court for the Eastern District of New York, without costs in the Court of Appeals to either party as against the other, and that final decrees shall be entered in said suits on the said Lodge patent, No. 609,154 and Marconi patent No. 763,772, in the United States District Court for the Eastern District of New York, in accordance with the interlocutory decrees heretofore entered therein on April 6, 1914, and appealed from by the respective parties hereto, except that such final decrees shall include no finding for profits and damages. It is, however, further understood and agreed that if, for any reason, this agreement should hereafter be terminated or cancelled, and if the party of the second part should thereafter make, use or sell apparatus which the party of the first part claims is an infringement of the Marconi patent No. 763,772, that the party of the first part will proceed only by bringing a suit or suits for infringement against the party of the

second part in such District court of the United States as it shall elect, and that the party of the second part will appear in such jurisdiction and that the evidence and exhibits heretofore taken by both parties in the aforesaid suit on said Marconi patent may be introduced in evidence therein by either party hereto without cost or expense and with the same force and effect as if such testimony and exhibits had been taken in such suit. (2) That the aforesaid suit now pending in the United States District Court for the District of New Jersey by the party of the first part against the party of the second part upon the Freeman patent No. 773,069, shall be discontinued without prejudice and without costs to either party as against the other. (3) That the aforesaid suit now pending in the United States District Court for the Southern District of New York by the party of the first part against the New England Navigation Company, one of the customers of the party of the second part, on Marconi patent No. 763,772, shall be discontinued without prejudice and without costs to either party as against the other. (4) That the aforesaid suits now pending in the United States District Court for the Southern District of New York, by the party of the second part against the party of the first part, upon the Fessenden patents Nos. 706,736 and 706,738, shall be discontinued without prejudice and without costs to either party as against the other. (5) That the suit now pending in the United States District Court for the District of New Jersey by the party of the second part against the party of the first part upon the Fessenden patents Nos. 918,306 and 918,307, shall be discontinued without prejudice and without costs to either party as against the other. It is,

however, further understood and agreed that if, for any reason, this agreement should hereafter be terminated or cancelled, that the testimony and exhibits introduced in connection therewith, taken on behalf of the party of the first part, the defendant in said suit, may be used without costs or expense by the party of the first part, its vendees, lessees, or customers in any suit which may hereafter be brought by the party of the second part or its successors, or the owners of said Fessenden patents Nos. 918,306 and 918,307, against the party of the first part, its vendees, lessees or customers, with the same force and effect as if such testimony and exhibits had been taken in such suit.

EIGHTEENTH: The parties hereto having, by this agreement, respectively waived their claims for past damages and profits as against one another, and against their vendees and customers, by reason of the alleged past infringements of the patents enumerated in said schedules "A" and "B," and having further agreed to pay, each to the other, substantial royalties or license fees under said patents, and it being the intent and purpose of the parties hereto to protect said patents and the monopolies granted thereby, and to afford protection each to the other and their customers under the licenses hereby granted and acquired, it is further understood and agreed that, in the event that hereafter either party shall feel that it is not obtaining security and protection for the license or licenses hereby granted under any of the Letters Patent of the other party referred to in said schedules "A" and "B," due to the fact that other persons, firms or corporations are infringing upon one or more of said Letters Patent, then either party may

notify the other, in writing, of such infringement, and request that the other party institute a suit in equity against such infringer for the protection of the monopoly under such Letters Patent and the licenses hereby granted, and, upon receipt of such notice, such other party or owner of the patent shall promptly institute a suit in equity upon such Letters Patent and take all needful steps to secure an injunction against such infringer, and prosecute such suit to final decision with reasonable diligence; and if any suit or suits are hereafter brought upon either the aforesaid Lodge patent No. 609,154, or the aforesaid Marconi patent No. 763,772, or the aforesaid Fessenden patents Nos. 918,306 and 918,307, the owner of such patents shall defray the whole cost, expense and disbursements of such suit or suits, and shall be entitled to retain any and all recoveries obtained therein, but that if any suit or suits shall hereafter be brought by a licensor at the request of a licensee under this clause of this agreement, upon any of the other patents enumerated in schedules "A" and "B," that the parties hereto shall defray the expenses and disbursements and costs, share and share alike, and shall each be entitled to receive one-half (½) of any recoveries obtained therein.

NINETEENTH: That the term of this agreement shall be to and including the thirteenth day of April, 1926, (the date of the expiration of Fessenden patents Nos. 918,306 and 918,307) unless previously cancelled or terminated in accordance with the provisions hereof, provided, however, that either party may terminate or cancel the agreement at any time after the 15th day of October, 1918, by giving written notice to the other party that it has, under this clause of this agreement, elected to

cancel and terminate the same, and such cancellation or termination shall become effective, one (1) year after the giving of such notice; and provided, further, that the party of the first part may terminate or cancel this agreement at any time after October 15th, 1915, and prior to October 15, 1918, by giving written notice to the party of the second part that it has elected to cancel or terminate the same, and such cancellation or termination shall become effective ninety (90) days after giving such notice.

TWENTIETH: That if either of the parties hereto shall fail, refuse or neglect to fully and faithfully keep, observe and perform any covenant herein mentioned to be kept, observed and performed by it, then the other party may notify the defaulting party of such default, stating in such written notice the covenant or covenants of this agreement which the defaulting party has failed, or refused, or neglected to keep, observe or perform, and if the defaulting party shall, for a period of thirty (30) days after the service upon it of such written notice, continue to fail, refuse and neglect to keep, observe and perform, any such covenant or covenants, then the other party may cancel and terminate this agreement by serving upon the defaulting party a written notice of such termination and cancellation.

TWENTY-FIRST: That if either party is adjudicated a voluntary or involuntary bankrupt, then the other party may cancel and terminate the rights, licenses and privileges granted under this agreement, to the bankrupt, by serving upon its receivers or trustees in bankruptcy, a written notice of such termination or cancellation.

TWENTY-SECOND: Any notice which either party may serve upon the other under this agreement may be served by enclosing the same in a postpaid wrapper addressed to the other party, or its receivers or trustees in bankruptcy, at its or their last known address, and depositing the same in any Post Office to be transmitted by registered mail.

TWENTY-THIRD: The parties hereto agree, each with the other, that the party of the first part will mark on each and all wireless telegraph and wireless telephone sets sold, leased or otherwise disposed of by it under this agreement, the word "Patented," or a proper abbreviation thereof, and display, with reasonable prominence, that such apparatus is licensed under the aforesaid patents of the party of the second part; and the party of the second part agrees that it will mark on each and every telegraph or telephone set sold, leased or otherwise disposed of by it under this agreement, the word "patented," or a proper abbreviation thereof, and the dates of the Lodge patent No. 609,154, and Marconi patent No. 763,772, and display, with reasonable prominence, that such apparatus is licensed under said patents.

TWENTY-FOURTH: For the purpose of preventing disputes between the parties hereto as to the payment of royalties herein provided for, that notwithstanding the expiration of the Lodge patent No. 609,154 and the Marconi patent No. 763,772, enumerated in "Schedule A," before the expiration of said Fessenden patents Nos. 918,306 and 918,307, enumerated in "Schedule B," it is specifically understood and agreed that the party of the second part shall continue to pay the license fees hereinbefore provided for during the term of this agree-

ment, unless such agreement is sooner cancelled or terminated, as herein provided, for the reason that, at the date hereof, the party of the first part has now in operation or under lease many more wireless telegraph stations than has the party of the second part, and hence will be called upon to pay, under the terms of this agreement, more royalties or license fees than the party of the second part will be called upon to pay, although the license fees or royalties payable each to the other are at the same rate.

TWENTY-FIFTH: The respective licenses granted by the parties hereto, each to the other, shall be personal and non-assignable, except that the licenses herein acquired by the party of the second part may be assigned by the receivers of the party of the second part to such firm, corporation or individual as the said court may hereafter direct, and with the further exception that the licenses covered by this agreement shall accrue to the benefit of such sub-companies of the parties hereto in the United States, its territories and dependencies, as the party of the first part or the party of the second part may now or hereafter own or control.

TWENTY-SIXTH: That the party of the first part covenants and agrees that it is the sole and exclusive owner of the patents enumerated in the said "Schedule A," and that the title to each and all of said patents is free and unencumbered, and that it has the right to convey the licenses herein granted; and that the party of the second part hereby covenants and agrees that it is the sole and exclusive owner of the patents and applications for patents enumerated in said "Schedule B," and that the title to each and all of said patents and

applications for patents is free and unencumbered, and that it has the right to convey the licenses herein granted.

TWENTY-SEVENTH: That if any claim now being made or hereafter is made by Reginald A. Fessenden to the title to any of the patents or applications for patents, or any patents which may be granted thereon, enumerated in said "Schedule B," shall be sustained and the party of the second part or its successors or assigns in title to said patents, ousted from such title, this agreement may be forthwith terminated by the party of the first part.

TWENTY-EIGHTH: That should this agreement be hereafter cancelled or terminated, as provided for herein, the licenses herein granted by the respective parties each to the other shall not terminate or be cancelled with respect to the apparatus which either party may have prior to such cancellation or termination, leased or cause to be leased, and for which the licensee shall continue to pay the royalties or license fees provided for in clauses Fourth, Fifth and Sixth hereof. But this clause shall not apply to land stations owned or operated by either party hereto at the date of such cancellation or termination.

TWENTY-NINTH: That the term "Main set" or "set" as used in this agreement shall cover and include only the following elements:

1. Motor Generator.
2. Switch board (or) starting device.
3. Transformer.
4. Spark Gap and cooling device.
5. Oscillation producer (arc, spark or other).

6. Transmitting condenser.
7. Transmitting oscillation transformer.
8. Antenna inductance.
9. Operating key and (or) equivalent relay.
10. Antenna switch.
11. Receiving oscillation transformer.
12. Receiving condenser.
13. Detector.
14. Receiving oscillation producer.

It is further agreed that if either party shall sell any of the above elements less than the whole number, that then the licensee shall pay to the licensor twenty per cent. (20%) of the selling price of the elements sold.

It is also agreed that on apparatus leased under the terms of this agreement, every station shall be considered as having at least one "main set" or "set," and in the event that any station is provided with more than two "sets," but one of this number shall be considered as auxiliary to the "main set."

THIRTIETH: That notwithstanding anything herein contained, no personal liability shall in any event be incurred by or imposed upon the said Samuel M. Kintner and Halsey M. Barrett, or either of them, by reason of anything herein contained, or for any breach of this contract, or of any of the terms, conditions, agreements, covenants or warranties thereof.

IN WITNESS WHEREOF, the parties hereto have signed this agreement or caused it to be signed by their respective duly authorized officers or representatives, the day and year first above written, the au-

thority of the receivers to make the contract being shown by the order of the court hereto annexed.

MARCONI WIRELESS TELEGRAPH COMPANY OF AMERICA,

By J. Bottomley,
Vice-President.

Attest:
G. S. DESOUSA,
Asst. Treas'r.

(Seal)
Marconi Wireless Telegraph Company of America Incorporated under New Jersey Laws 1899.

NATIONAL ELECTRIC SIGNALING COMPANY

By John C. Baird,
President.

Attest:
A. E. BRAUN,
Secretary.
(Seal)

National Electric Signaling Company,
N. J. Corporate 1902 Seal.

SAM'L M. KINTENER
Receiver

HALSEY M. BARRETT
Receiver.

HAY WALKER, JR.
As holder of Receivers Certificates
T. H. GIVEN

STATE OF NEW YORK, }
COUNTY OF NEW YORK, } SS.:

On this 17th day of November, in the year 1914, before me personally came John Bottomley, to me known, who being by me duly sworn, did depose and say that he resides in the City of New York, that he is a Vice-President of Marconi Wireless Telegraph Company of America, one of the Corporations described in and which executed the above instrument; that he knows the seal of said Corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by order of the Board of Directors of said Corporation, and that he signed his name thereto by like order.

JAMES J. COSGROVE,
Notary Public,
New York County,
New York.

STATE OF PENNSYLVANIA, }
COUNTY OF ALLEGHENY, } SS.:

On this 17th day of November, in the year 1914, before me personally came John C. Baird, to me known, who being by me duly sworn did depose and say that he resides in the City of Pittsburgh, Pa.; that he is the President of the National Electric Signaling Company, one of the Corporations described in and which executed the above instrument; that he knows the seal of said Corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by order of the Board of Directors

of said Corporation, and that he signed his name thereto by like order.

ALICE A. TRILL,
Notary Public,
Allegheny County.

(Seal) My Commission Expires
January 16, 1917.

STATE OF NEW JERSEY, }
COUNTY OF MERCER, } ss.:

On this 16th day of November, 1914, before me personally came Samuel M. Kintner, one of the receivers of the National Electric Signaling Company, to me personally known and known to be one of the individuals described in and who executed the above instrument, and acknowledged that he executed the same.

B. F. HAVENS,
Master in Chancery of
New Jersey and Notary
Public of New Jersey.
Com. Ex. Nov. 11, 1915.

(Seal)
Benjamin F. Havens,
Notary Public,
New Jersey.

STATE OF NEW JERSEY, }
COUNTY OF MERCER, } ss.:

On this 16th day of November, 1914, before me personally came Halsey M. Barrett, one of the receivers of the National Electric Signaling Company, to me personally known, and known to me to be one of the individuals described in and who executed the above instrument, and acknowledged that he executed the same.

B. F. HAVENS,
Master in Chancery of
New Jersey and Notary
Public of New Jersey.
Com. Ex. Nov. 11, 1915.

(Seal)
Benjamin F. Havens,
Notary Public,
New Jersey.

STATE OF PENNSYLVANIA,
COUNTY OF ALLEGHENY, } ss.:

On this 17th day of November, 1914, before me personally appeared Hay Walker, Jr., and Thomas H. Given, to me known and known to me to be two of the individuals described in and who executed the foregoing agreement, and who being by me duly and severally sworn, stated that they were stockholders of the National Electric Signaling Company, and have purchased and now hold all the certificates issued by the receivers of the National Electric Signaling Company, in accordance with orders of the United States District Court for the District of New Jersey previously obtained, and that they have read the foregoing agreement, and carefully considered the same, and that, as holders of receivers' certificates of the National Electric Signaling Company, they assent to the foregoing agreement.

ALICE A. TRILL,
Notary Public,
Allegheny County.

(Seal) My Commission expires
January 16, 1917.

Schedule A.

Annexed to and made a part of the agreement between Marconi Wireless Telegraph Company of America and National Electric Signaling Company and others, dated October 15, 1914.

United States Letters Patent	Patentee	Dated
609,154	Oliver J. Lodge	August 16, 1898
763,772	G. Marconi	June 28, 1904
773,069	C. E. Freeman	October 25, 1904

Schedule B.

Annexed to and made a part of the agreement between Marconi Wireless Telegraph Company of America and National Electric Signaling Company and others, dated October 15, 1914.

LETTERS PATENT.

United States Letters Patent	Patentee	Dated
706,735	Fessenden	August 12, 1902
706,736	"	" " "
706,737	"	" " "
706,738	"	" " "
706,739	"	" " "
706,740	"	" " "
706,741	"	" " "
706,742	"	" " "
706,743	"	" " "
706,744	"	" " "
706,745	"	" " "
706,746	"	" " "
706,747	"	December 2, 1902
715,043	"	" " "
715,203	"	May 5, 1903
727,325	"	" " "
727,326	"	" " "
727,327	"	" " "
727,328	"	" " "
727,329	"	" " "
727,330		
727,331		

United States Letters Patent	Patentee	Dated
(Reissue 12,115)	"	May 26, 1903
730,753	"	June 9, 1903
731,029	"	June 16, 1903
742,779	"	October 27, 1903
742,780	"	October 27, 1903
Reissue 12,168	"	November 10, 1903
Reissue 12,169	"	November 10, 1903
752,894	"	February 23, 1904
752,895	"	February 23, 1904
753,863	"	March 8, 1904
753,864	"	March 8, 1904
754,058	"	March 8, 1904
777,014	"	December 6, 1904
793,647	"	July 4, 1905
793,648	"	July 4, 1905
793,649	"	July 4, 1905
793,650	"	July 4, 1905
793,651	"	July 4, 1905
793,652	"	July 4, 1905
793,718	"	July 4, 1905
793,777	"	July 4, 1905
814,951	"	March 13, 1906
846,081	Austin	March 5, 1907
897,278	Fessenden	September 1, 1908
897,279	"	September 1, 1908
915,280	"	March 16, 1909
916,428	"	March 30, 1909
916,429	"	March 30, 1909
917,574	"	April 6, 1909
918,306	"	April 13, 1909
918,307	"	April 13, 1909
921,531	"	May 11, 1909
923,962	"	June 8, 1909
923,963	"	June 8, 1909
928,371	"	July 20, 1909
932,111	"	August 24, 1909
932,112	"	August 24, 1909
938,836	"	November 2, 1909
941,565	"	November 30, 1909
948,068	"	February 1, 1910
950,781	Hogan	March 1, 1910
956,489	Fessenden	April 26, 1910
960,631	"	June 7, 1910
962,014	"	June 21, 1910
962,015	"	June 21, 1910
962,016	"	June 21, 1910
962,017	"	June 21, 1910
962,018	"	June 21, 1910
962,417	Boyle	June 28, 1910
974,762	Fessenden	November 1, 1910
979,144	"	December 20, 1910
979,145	"	December 20, 1910
981,406	"	January 10, 1911
998,567	"	July 18, 1911
1,002,049	"	August 29, 1911
1,002,050	"	August 29, 1911
1,002,051	"	August 29, 1911

United States Letters Patent	Patentee	Dated
1,002,052	"	August 29, 1911
1,002,141	"	August 29, 1911
1,014,002	Hogan	January 9, 1912
1,015,881	Fessenden	January 30, 1912
1,016,564	Hogan	February 6, 1912
1,019,236	Fessenden	March 5, 1912
1,020,032	"	March 12, 1912
1,022,539	"	April 9, 1912
1,022,540	"	April 9, 1912
1,022,584	"	April 9, 1912
1,035,334	"	August 13, 1912
1,039,717	"	October 1, 1912
1,042,778	"	October 29, 1912
1,044,637	"	November 19, 1912
1,045,781	"	November 26, 1912
1,045,782	"	November 26, 1912
1,046,670	"	December 31, 1912
1,050,441	"	January 14, 1913
1,050,735	"	January 14, 1913
1,059,665	"	April 22, 1913
1,069,666	"	April 22, 1913
1,074,423	"	September 30, 1913
1,074,424	"	September 30, 1913
1,080,271	"	December 2, 1913
1,101,914	"	June 30, 1914
1,101,915	"	June 30, 1914

APPLICATIONS FOR UNITED STATES LETTERS PATENT.

Serial Number	Inventor	Filed
164,738	Fessenden	July 8, 1903
168,798	"	August 8, 1903
191,316	"	January 30, 1904
206,392	"	May 4, 1904
222,298	"	August 26, 1904
222,299	"	August 26, 1904
222,301	"	August 26, 1904
222,302	"	August 26, 1904
236,862	"	December 14, 1904
251,539	"	March 22, 1905
269,879	"	July 15, 1905
275,163	"	August 21, 1905
291,737	"	December 14, 1905
291,738	"	December 14, 1905
294,928	"	January 2, 1906
312,724	"	April 19, 1906
319,241	Austin	May 29, 1906
316,521	Fessenden	May 12, 1906
348,196	"	December 17, 1906
348,839	"	December 21, 1906
352,210	"	January 14, 1907
352,213	"	January 14, 1907
355,748	"	February 4, 1907
355,749	"	February 4, 1907
356,814	"	February 11, 1907

Serial Number	Inventor	Filed
356,527	"	April 5, 1907
372,315	"	May 7, 1907
372,316	"	May 7, 1907
384,628	"	July 19, 1907
393,235	"	September 16, 1907
400,132	"	October 31, 1907
400,133	"	October 31, 1907
400,134	"	October 31, 1907
403,285	"	November 22, 1907
403,286	"	November 22, 1907
407,750	"	December 23, 1907
421,219	"	March 14, 1908
421,220	"	March 14, 1908
430,003	"	April 29, 1908
438,725	"	June 16, 1908
446,172	"	July 30, 1908
459,167	"	October 23, 1908
472,767	"	January 18, 1909
472,768	"	January 18, 1909
473,072	"	January 19, 1909
477,283	"	February 11, 1909
478,593	"	February 18, 1909
511,499	Austin	August 6, 1909
522,092	Fessenden	October 11, 1909
522,093	"	October 11, 1909
523,867	"	October 21, 1909
525,728	"	November 1, 1909
536,640	"	January 6, 1910
541,606	"	February 2, 1910
567,265	Austin	June 16, 1910
572,874	Fessenden	July 20, 1910
582,813	Cohen	September 20, 1910
594,887	Fessenden	November 30, 1910
626,073	Beakes	May 9, 1911
636,026	Kintner	June 29, 1911
682,642	Cohen	March 9, 1912
684,033	Weagant	March 15, 1912
688,028	Cohen & Kroger	April 2, 1912
697,654	Hogan	May 16, 1912
705,416	Lee	June 24, 1912
705,470	Kintner	June 24, 1912
705,471	Kintner	June 24, 1912
705,484	Kintner & Lee	June 24, 1912
709,663	Kroger	July 16, 1912
726,256	Forbes & Hogan	October 17, 1912
731,747	Lee & Hogan	November 16, 1912
735,877	Hogan	December 12, 1912
785,903	Kintner	August 21, 1913
785,126	"	August 22, 1913
787,630	Fessenden & Cohen	September 2, 1913
787,298	Vosburgh	August 29, 1913
787,486	Beakes	August 30, 1913
803,210	Forbes & Kroger	November 26, 1913
859,431	Fred Kroger	August 31, 1914
858,432	Fred Kroger	August 31, 1914

Order Authorizing Execution of Agreement with Marconi Wireless Telegraph Company of America.

UNITED STATES DISTRICT COURT

FOR THE DISTRICT OF NEW JERSEY.

Between DARWIN S. WOLCOTT, Complainant, and NATIONAL ELECTRIC SIGNALING COMPANY, Defendant.	On Bill for Receiver Order authorizing execution of agreement with Marconi Wireless Telegraph Company of America.

Due proof having been made of the mailing to each of the creditors and stockholders of the above-named defendant National Electric Signaling Company of a copy of the order made herein on the 23rd day of October, 1914, requiring such creditors and stockholders to show cause on the 2nd day of November, 1914, why Samuel M. Kintner and Halsey M. Barrett, the receivers of the said company heretofore appointed in the above-entitled cause, and the officers of the said company, should not be authorized and directed to make and execute a proposed agreement between the said National Electric Signaling Company and its said receivers and the said Marconi Wireless Telegraph Company of America, dated October 15, 1914, of which said proposed agreement a copy is annexed to the petition of the said receivers filed herein on the said 23rd day of October, 1914, and of the mailing to each of such creditors and stockholders of a copy of the

said agreement within the time and in the manner provided in the said order to show cause, and the said order to show cause having been duly brought on for hearing on the said 2nd day of November, 1914, by Messrs. Lindabury, Depue & Faulks, of counsel with the said receivers, in the presence of Thomas Howe, Esq., of counsel with Reginald A. Fessenden, who has heretofore intervened herein, and such hearing having been duly continued until this time, with the consent of counsel as aforesaid, and the court having considered the said petition of the said receivers and the said proposed agreement, and also the depositions of Hay Walker, Jr., Thomas A. Given and Robert H. Marriott, submitted on behalf of the said receivers, and the depositions of the said Robert H. Marriott and John Stone, submitted on behalf of the said Reginald A. Fessenden, and having heard and considered the arguments of counsel as aforesaid, and no creditors or stockholders of the said National Electric Signaling Company other than the said Reginald A. Fessenden having appeared or made objection hereto, and the court being of opinion that the execution of the said agreement will be for the best interests of all of such creditors and stockholders;

It is, on this ninth day of November, 1914, ordered that the said Samuel M. Kintner and Halsey M. Barrett, receivers as aforesaid, and the proper officers of the said National Electric Signaling Company, be and they hereby are authorized and directed to make and enter into the said proposed agreement between the said receivers and the said National Electric Signaling Company and the said Marconi Wireless Telegraph Company of America.

JOHN RELLSTAB,
Judge.

Filed March 11, 1918.

Answer.

IN CHANCERY OF NEW JERSEY.

Between INTERNATIONAL SIGNAL COMPANY, Complainant, and MARCONI WIRELESS TELEGRAPH COMPANY OF AMERICA, Defendant.	On Bill. Answer.

The answer of the defendant, Marconi Wireless Telegraph Company of America.

This defendant, answering the bill of complaint, says that:

1. This defendant has no knowledge or information sufficient to form a belief as to the statements in paragraphs 1 and 4.

2. This defendant admits that an agreement in writing was made by the parties and of the import and effect substantially as stated in paragraph 2 and as stated in the copy annexed to the bill of complaint referred to in paragraph 2, but the defendant has not at this time knowledge or information sufficient to form a belief as to whether said agreement is correctly and with accuracy set forth in paragraph 2 or whether the said copy thereof annexed to the bill is a correct and accurate copy; nor has this defendant knowledge or information sufficient to form a belief as to whether the National Electric

Signaling Company referred to in paragraph 2 is a corporation existing under or by virtue of the laws of New Jersey, and, therefore, defendant requires that the original agreement therein referred to be produced and proved on the hearing.

3. Paragraph 3 is admitted.

4. Paragraphs 5 and 7 are denied.

5. This defendant denies each and every allegation of paragraph 6, except that defendant admits that defendant has refused to render any report of any contracts for the sale of wireless telegraph and wireless telephone sets for which defendant has made contracts to sell prior to May 31st, 1917, the delivery of which was made subsequent to May 31st, 1917, and except that the defendant has claimed and now claims that it is under no obligation to make any reports or payments on account of or permit an examination of its written accounts by the said complainant and its receivers or their representative in respect to said wireless telegraph or wireless telephone sets or parts thereof that have been delivered subsequent to said 31st day of May, 1917, of any contracts for the said sale of wireless telegraph or wireless telephone sets for which defendant has made contracts to sell prior to May 31st, 1917, the delivery of which was made subsequent to May 31st, 1917.

6. This defendant, further answering, says and avers that defendant has rendered to the complainant all the written reports stating therein fully and accurately the number and kinds of all wireless telegraph and wireless telephone sets that the defendant has sold, leased or otherwise disposed of by it under said agreement, and defendant has fully paid

to the complainant all license fees or royalties provided for in said agreement for all such sets as defendant has sold, leased or otherwise disposed of under said agreement, which the defendant was liable to pay pursuant to the terms of and within the meaning of said agreement, and the defendant avers that the defendant owes nothing to the complainant, and that the complainant is not entitled to any accounting from the defendant under or in respect to said agreement or otherwise.

7. Defendant, further answering, says that, as stated in the preamble of the agreement attached to the bill of complaint, at the time said agreement was made there were conflicting claims of each of the parties to said agreement against the other relating to alleged infringements of Letters Patent, and especially was there pending in the United States District Court for the District of New Jersey a suit in equity against the defendant brought by the said Kintner & Barrett, Receivers, for an injunction and for damages and profits for the alleged infringement of claims 1 and 3 of Letters Patent No. 918306 and claims 1, 2, 3 and 4 of Letters Patent No. 918307 granted to R. A. Fessenden on April 13, 1909, and enumerated in said Schedule B; and that prior to and at the time of the making of said agreement the validity of the said claims of said last-named patents was disputed and denied in litigations then pending in the District Court of the United States for the Southern District of New York, in which litigation the parties to said agreement contemplated the possibility that said claims would thereafter be held to be invalid, and the defendant at the time of the making of said agreement so contemplating that said patents might thereafter be held invalid did cause to be provided in said agreement that the defendant might termi-

nate or cancel said agreement at any time after October 15th, 1915, and prior to October 15th, 1918, in the manner provided in the 19th paragraph of said agreement; and the defendant at the time of making the said agreement, also foreseeing that in the event of the adjudication of said invalidity, the defendant would have the right to make, sell, use, lease or otherwise dispose of apparatus involving the patented claims last referred to after said agreement was cancelled or terminated without incurring any liability therefor as an infringer, did expressly provide in said agreement in the 13th and 14th paragraphs thereof that the defendant should render a report stating the number and kinds of said sets that should thereafter be sold, leased or otherwise disposed of by it under said agreement, and that the defendant should pay the license fees or royalties therein provided therefor; but said agreement did not provide that the defendant should so render any report or pay any license fees or royalties for any of said sets which should be contracted to be sold by the defendant prior to the time of the cancellation or termination of said agreement by the defendant in case the defendant should give notice of the cancellation of the same, where such sets should not be delivered until after the time when the agreement should be so cancelled. And the defendant avers and shows that subsequently or on or about the 7th day of January, 1916, by the judgment and decree of the District Court for the Southern District of New York, in a suit therein pending, in which the said Kintner and Barrett, receivers, were complainants and the Atlantic Communication Company was defendant, the said claims of Letters Patent 918306 and 918307 were adjudged and held to be null and void; that the judgment of the District Court for the Southern

District of New York was subsequently on appeal in all things affirmed by the United States Circuit Court of Appeals for the second circuit. That thereupon and in consequence of those judgments and decisions this defendant exercised its right of cancelling said agreement. And the defendant further shows and avers that the alleged inventions covered by the said claims in said patents 918306 and 918307 were the only patents or inventions claimed by the said Kintner and Barrett, receivers, which were made use of by the defendant during the period that said agreement was in force. And the defendant avers that the true meaning and construction of said agreement according to the language used therein, under said facts and circumstances, are as hereinafter expressed, and that no sales of apparatus involving any of the patents specified in said Schedule B have been made by the defendant since the date on which the notice of cancellation of the said agreement went into effect.

GRIGGS & HARDING,
Sol'rs and of Counsel
with Defendant.

Filed May 13, 1918.

Stipulation No. 1.

IN CHANCERY OF NEW JERSEY.

Between
INTERNATIONAL RADIO TELEGRAPH COMPANY,
Complainant.
and
MARCONI WIRELESS TELEGRAPH COMPANY OF AMERICA,
Defendant.

Stipulation.

Counsel for the respective parties hereto stipulate and agree as follows:

1. It is admitted that the International Signal Company, the name of which company was subsequently changed to International Radio Telegraph Company, is a corporation of the State of Delaware.

2. It is admitted that on or about October 15, 1914, the defendant, Marconi Wireless Telegraph Company, a corporation organized and existing under and by virtue of the laws of the State of New Jersey, and the National Electric Signaling Company, a corporation organized and existing under and by virtue of the laws of the State of New Jersey, by Samuel M. Kintner and Halsey M. Barrett, receivers, entered into an agreement in writing, a true copy of which is attached to and made a part of the bill of complaint and marked Schedule A.

3. It is admitted that on or about November 27, 1917, the complainant acquired by assignment from the said National Electric Signaling Company, by Samuel M. Kintner and Halsey M. Barrett, receivers, made in pursuance of the authority and direc-

tion of certain orders of the United States District Court for the District of New Jersey, in and by which said receivers were duly appointed, all of the rights, privileges, licenses, benefits, profits, moneys and advantages then due or thereafter to grow due to the said Samuel M. Kintner and Halsey M. Barrett as such receivers, or the said National Electric Signaling Company, or any of them, under or by reason of the agreement so as aforesaid entered into between the said defendant and the said National Electric Signaling Company, and Samuel M. Kintner and Halsey M. Barrett, its receivers as aforesaid, and that the said Samuel M. Kintner and Halsey M. Barrett as aforesaid, and the said National Electric Signaling Company, and each thereof, did by said assignment irrevocably appoint the said complainant, its successors and assigns, their and each of their true and lawful attorney or attorneys, and it thereby gave the said complainant, its successors and assigns, full power and authority for its or their own use and benefit, to ask, demand, collect, receive, enforce, compound and give acquittances for all of the said rights, privileges, licenses, benefits, profits, moneys and advantages then due or thereafter to grow due under said agreement, and in the name of the said receivers and of the said National Electric Signaling Company, and either or any of them, and its or their successors or assigns, or otherwise, to prosecute and withdraw any suits or proceedings at law or in equity upon or under the same, or any thereof, as fully as the said receivers or as the said National Electric Signaling Company, or any or either of them, could or might do except for the execution of said instrument.

It is further admitted that on March 1, 1917, pursuant to the provisions of paragraph 19 of said

agreement entered into between the National Electric Signaling Company, by Samuel M. Kintner and Halsey M. Barrett, and the defendant, Marconi Wireless Telegraph Company of America, as aforesaid, the Marconi Wireless Telegraph Company of America served written notice upon the said National Electric Signaling Company and Samuel M. Kintner and Halsey M. Barrett, its receivers, that it, the Marconi Wireless Telegraph Company of America, had elected to cancel or terminate the said agreement, and that such cancellation should become effective 90 days after the giving of such notice.

5. It is further admitted that prior to May 31, 1917, the defendant, Marconi Wireless Telegraph Company of America entered into the 19 contracts with the United States Government composing Exhibit D 1, referred to in the statement entitled Statement I and marked Exhibit D 5. It also received from its general customers the 8 orders composing Exhibit D 2, and referred to in statement II, marked Exhibit D 6. It also received from its affiliated companies the 4 orders composing Exhibit D 3, and referred to in statement entitled Statement III and marked Exhibit D 7. It also entered into the leases composing Exhibit D 4, referred to in statement entitled Statement , and marked Exhibit D 8.

6. It is admitted that all things necessary to entitle complainant to an account have been done by complainant, if defendant is liable to account, it being admitted that the sole issue in the case is whether the Marconi Wireless Telegraph Company of America is liable to pay royalties on wireless telegraph and wireless telephone apparatus which it contracted to manufacture and sell, or which it leased or licensed prior to May 31, 1917,

but upon which said contracts of manufacture and sale, and said leases and licenses, deliveries were not made until after May 31, 1917.

7. It is admitted that claims 1 and 3 of letters patent 918306 and claims 1, 2, 3 and 4 of letters patent 918307, granted to R. A. Fessenden on April 13, 1909, enumerated in Schedule B annexed to the bill of complaint filed herein and known as the high frequency patents, are the same patents that were held to be valid in the case of National Electric Signaling Company *et al.* v. Telefunken Wireless Telegraph Company of the United States, decided by the Circuit Court of Appeals, Third Circuit, October 20, 1913, and reported in Volume 208, Federal Reporter, at page 679, etc.

8. It is also admitted that claims 1 and 3 of letters patent 918306 and claims 1, 2, 3 and 4 of letters patent 918307, granted to said R. A. Fessenden on April 13, 1909, and enumerated in Schedule B annexed to the bill of complaint filed herein and known as said high frequency patents hereinbefore referred to are the same patents that were held to be invalid in the case of Kintner *et al.* v. Atlantic Communication Company *et al.,* decided by the United States District Court for the Southern District of New York, Jan. 7, 1916, and affirmed by the Circuit Court of Appeals, Second Circuit, February 20, 1917, which said last mentioned decision is reported in Volume 240, Federal Reporter, on page 716. It is also admitted that a petition for a writ of certiorari to review said decision and decree of the United States Circuit Court of Appeals for the Second Circuit in the said suit of Kintner *et al.,* receivers, v. Atlantic Communication Co. *et al.* was subsequently presented to the United States Supreme Court and was denied, and that said denial of said petition was made as set

forth in Volume 244, U. S. Supreme Court Reporter, on page 661, as case No. 1154.

9. It is agreed that the reports contained in the Federal Reporter and United States Supreme Court Reports heretofore mentioned may be used as showing and setting forth the decisions and decrees made by the respective courts hereinbefore mentioned, concerning claims 1 and 3 of letters patent 918306 and claims 1, 2, 3 and 4 of letters patent 918307 granted to R. A. Fessenden on April 13, 1909, and enumerated in Schedule B annexed to the bill of complaint filed herein.

10. It is admitted that at the hearing the court granted to the complainant the right to present proof that the wireless telegraph and wireless telephone apparatus contracted to be manufactured and sold, or leased or licensed, by the Marconi Wireless Telegraph Company of America prior to May 31, 1917, but on which said contracts of manufacture and sale, and leases and licenses, deliveries were not made until after May 31, 1917, involved the patents mentioned and enumerated in Schedule B annexed to the complaint filed herein other than letters patent 918306 and letters patent 918307, in case the court should find such proof material to any issues in the cause.

LINDABURY, DEPUE & FAULKS,
Solicitors for Complainant.

GRIGGS & HARDING,
Solicitors for Defendant.

Dated, May 13, 1918.

The foregoing stipulation is endorsed as follows:

"Filed May 13/18
M. L.
V. C."

Stipulation No. 2.

NEW JERSEY COURT OF ERRORS AND APPEALS.

Between INTERNATIONAL RADIO TELEGRAPH COMPANY, Complainant-Respondent, and MARCONI WIRELESS TELEGRAPH COMPANY OF AMERICA, Defendant-Appellant.	On Appeal. Stipulation.

For the purposes of the argument of the appeal of the above-entitled cause before the above-stated court, it is hereby stipulated by and between Griggs & Harding, solicitors of the above-named appellant, and Lindabury, Depue & Faulks, solicitors of the above-named respondents, as follows:

1. That Exhibit D-1 consists of the 19 contracts between the appellant and the United States Government and are the same contracts referred to respectively in the statement marked "Statement I" and marked Ex. D-5 in the printed case; that 18 of said 19 contracts contain substantially the same terms as the terms of contract No. 27,209 hereafter agreed to be printed in the printed case, and that said contract No. 27,209 only of said 18 contracts shall be printed in the printed case, subject, however, to the right of either party on said argument to refer to each of said 19 contracts marked Ex. D-1, which shall be produced on the argument of said appeal for such purpose.

2. That Exhibit D-2 consists of 8 orders received by the appellant from its general customers and are

the same orders referred to respectively in the statement marked "Statement II" and marked Ex. D-6 in the printed case; that the 6th of said 8 orders mentioned in said statement and received from the Argentine Naval Commission provided that the apparatus was to be according to "the specifications" of the appellant; that none of the provisions of said 8 orders shall be printed in the printed case, except that above quoted, subject, however, to the right of either party on said argument to refer to any part of the same, and that they shall be produced on said argument for such purpose.

3. That Exhibit D-3 consists of 4 orders received by the appellant from its affiliated Companies and are the same orders referred to respectively in the statement marked "Statement III" and marked Exhibit D-7 of the printed case; that each of the three last of said four orders mentioned in said Statement III contains on the face of the order the following provision, viz.: "This order is placed subject to the conditions specified over leaf," and that said conditions appearing on each of said orders provided as follows, viz.:

> "This order is liable to be cancelled if the goods specified are not delivered by the date stated, or if the goods do not comply with the specifications and drawings, or if the material or workmanship be not first class in every respect. Unless otherwise specified, we stipulate that we are to have the option of paying for the goods now ordered either by cash, less 2½ per cent on the last Friday of the month succeeding that on which the goods were delivered, or on said day by bill (3 months) less 2½ per cent, plus Bank Rate interest and Bill stamp."

That none of the terms of said 4 orders shall be printed in the printed case, except those above quoted, subject, however, to the right of either party on said argument to refer to any part of the same, and that they shall be produced on said argument for such purpose.

4. That Exhibit D-4 consists of 24 contracts for leases made by the appellant and are the same contracts for leases referred to respectively in the statement marked "Statement IV" and marked Exhibit D-8 in the printed case; that each of said 24 contracts for leases contain substantially the same terms as the terms of said contract for lease dated March 2, 1917, hereafter agreed to be printed in the printed case, and that said contract for lease dated March 2, 1917, only of said 24 contracts for lease shall be printed in the printed case, subject, however, to the right of either party on said argument to refer to each of said 24 contracts for lease marked Exhibit D-4, which shall be produced on the argument of said appeal for such purpose.

Dated, Oct. 25, 1918.

LINDABURY, DEPUE & FAULKS,
Solicitors of Complainant-Respondent.

GRIGGS & HARDING,
Sol'rs of Deft.-Appellant.

Testimony.

May 13, 1918.

IN CHANCERY OF NEW JERSEY.

Between
INTERNATIONAL RADIO TELEGRAPH COMPANY,
Complainant.
and
MARCONI WIRELESS TELEGRAPH COMPANY OF AMERICA,
Defendant.

Transcript of shorthand notes of testimony taken in the above-entitled cause on May 13, 1918, at Chancery Chambers, Newark, New Jersey, before Hon. MERRITT LANE, *Vice-Chancellor.*

APPEARANCES:

MR. J. EDWARD ASHMEAD (of LINDABURY, DEPUE & FAULKS), for the Complainant.
MR. JOHN W. GRIGGS and MR. JOHN W. HARDING, for the Defendant.

DAVID SARNOFF sworn.

Direct examination by Mr. Griggs.

Q. Are you connected with the Marconi Company? A. Yes.

Q. With their office in New York? A. Yes.

Q. What is your position with the company? A. I am the commercial manager of the Marconi Company.

Q. And how long have you been connected with it? A. For the past thirteen years.

Q. Were you conversant with the commercial business of the company at the time the agreement between the company and the receivers was entered into? A. Yes.

Q. You knew of that transaction? A. I did.

Q. Were you conversant with the orders to the company for the manufacture and delivery and installment of apparatus? A. Yes.

Q. The Marconi Company has a manufacturing plant at Aldine, New Jersey, has it not? A. Yes.

Q. Where it manufactures wireless apparatus? A. Yes.

Q. Now, during the period that this contract was in force did the Marconi Company manufacture or sell any wireless apparatus that involved the use of any of the patents of the receiver other than those that are called the high frequency patent?

Mr. Ashmead: I object to that. He is not shown to be qualified to testify on that point.

Cross-examination by Mr. Ashmead.

Q. Are you an expert in patent matters? A. No.

Q. Are you familiar with the patents of the complainant in this suit? A. I am.

Q. Could you tell whether or not any apparatus infringed those patents or not? A. I think I am competent to tell that.

Q. You are not an expert in patent matters, are you? A. No.

Q. Have you ever testified as an expert in patent suits? A. No.

Q. Have you ever studied any of the patents of the National Electric Signaling Company with reference to whether or not the patents of the Marconi Wireless Telegraph Company were infringements or not? A. You mean the apparatus?

Q. The apparatus, yes. A. I have in a general way.

Q. Have you all of them? A. I don't know that; I don't think so.

Q. You don't think so? A. No.

Q. And you are not an expert in patent matters? A. No.

Q. (By the Court) Who of your organization would know any more about it than you as to whether or not you intentionally used any of these patents other than the one you referred to? A. We have never considered any other but the high frequency patent as involved in that contract, and that feature is clearly defined by the apparatus itself, and I can say with knowledge that the apparatus that we have installed did not use any of the known patents of the National Electric Signaling Company beside the high frequency patent.

Q. What do you mean by "known patents"? All of them are known, aren't they? A. Not generally in the art, as far as the ordinary ship wireless apparatus is concerned.

Q. You would not be willing to take an oath, would you, that the Marconi wireless apparatus don't infringe any of the patents? A. Of course, I am not a patent expert——

Q. And you are not——

Mr. Griggs: Let him finish his answer.

A. I am not a patent expert, so I would not be justified in taking an oath on that point, but I have been connected with the art for thirteen years, and

there has generally been a pretty clear understanding of what is high frequency patent apparatus and what is not.

Q. The Marconi Wireless Telegraph Company have never called you as an expert in any of their infringement suits, have they, to testify as to whether an apparatus of another concern was an infringement of their patent, or when suit has been brought against them, that their apparatus was not an infringement of the complainant's patent? A. Yes, it has.

Q. In what case? A. In Marconi v. Kilburn & Clark case.

Q. Weren't you merely a fact witness in that case? A. I gave testimony regarding the apparatus employed by the Kilburn & Clark Company and showed the circuits employed with their apparatus and how it infringed the Marconi patent.

Q. Merely as to those facts? A. Yes.

Q. You did not give an opinion, did you, as to whether or not it was infringement? A. No. Understand I am not claiming to be a patent expert.

Q. (By the Court) Do you know or is the nature of your connection with the firm such that you would know if there was any patent used by this firm other than that of high frequency patent, whatever you call it? A. Yes, I would, if we intentionally so used their patent.

Q. (By the Court) And to your knowledge you never used any other than that? A. To my knowledge we never have.

Further direct examination by Mr. Griggs.

Q. Now, under the contract, the Marconi Company had to make reports to the receivers of the apparatus they had sold in order to pay them royalties, did they not? A. Yes, they did.

Q. And who made up the statements showing the apparatus they had sold that involved any of their patents? A. The statements were made up by the Comptroller, but I had the final authority on this.

Q. Under your direction? A. Under my direction.

Q. And for a considerable period the Marconi Company paid a large amount of royalties. Now, on what, for the use of what particular one of their patents were all these payments made? A. For the use of the high frequency patent.

Q. And for no other? A. For no other, as far as I know.

Cross-examination by Mr. Ashmead.

Q. Is it not true that in making up those lists you did not have to determine whether or not a particular set involved any particular patent; the agreement was that you should pay royalties on all sets sold by you, wasn't it? A. That is correct.

Q. So in making up a list, it was not an issue what particular patents were involved in any particular set, was it? A. No.

Mr. Griggs: No, Mr. Ashmead, but if they had sold some apparatus which did not involve the high frequency they would have to determine whether that involved any other patent. That is my statement, that is not testimony.

Q. Well, you did on occasions, did you not, decide that sets involving other patents were sold, on which you actually paid royalties? A. To what other patents do you refer?

Q. Didn't you sell sets which did not involve the high frequency patent, on which you paid royalties? A. Yes.

Q. That is, you paid royalties on sets sold by you, which sets did not involve the high frequency patent? A. Yes.

Mr. Griggs: Explain that.

A. Under our contract with the National Electric Signaling Company we were obliged to pay to them a minimum royalty on the rental received from a shipowner for apparatus supplied by the Marconi Company to that ship, regardless of the type of apparatus, so that after the contract between the Marconi Company and the National Electric Signaling Company became effective we paid the National Electric Signaling Company a monthly royalty under certain contracts made by the shipowners and others.

Q. (By Mr. Griggs) But had that anything to do with the manufacture and sale of apparatus, to the Government, for instance? A. It had, excepting the contracts involved in this suit.

Q. That was not only true of leases, but it was also true of sales, was it not? A. Yes.

Q. (By Mr. Griggs) I understand under contracts you paid royalties on apparatus sold and installed on ships which did not involve any of their patents? A. We did not sell any such apparatus, but we rented such apparatus and paid royalties on it.

Q. (By Mr. Griggs) That is what I mean, you did not manufacture any such apparatus yourself? A. Not since the date of the contract.

Q. Did you not make sales of apparatus that did not involve the high frequency patent to Belgium, on which you paid royalties to the National Electric Signaling Company under this agreement? A. Belgium? So far as I know, we did not.

Q. To the Belgium Marconi Company or some company operating in Belgium? A. So far as I know, we did not.

Q. Are you sure there were not sales of that kind made, on which you paid royalties, for instance, 60 or 120 cycle sets? A. I understood the previous question to mean whether we manufactured any apparatus subsequent to our entering into an agreement with the N. E. S. Co., which did not involve the high frequency feature. Isn't that correct?

Mr. Griggs: Well, it has that aspect.

A. And whether we had sold such apparatus during the time of the contract.

Q. Now, I ask you this: Is it not true that you sold sets not involving the high frequency patent, on which you paid royalties to the National Electric Signaling Company or its receivers under this contract? A. I don't know of any specifically now, but it is possible we have sold to affiliated companies earlier types of apparatus, old apparatus, which might not have included the high frequency feature, but on which we paid royalty, but I don't know of such cases now.

Q. (By Mr. Griggs) Right here, did you pay royalty on account of any other patents, embracing any other patent except the high frequency? A. No, sir.

Q. Then you paid the royalties under the agreement? A. Yes.

Mr. Griggs: I understand, Mr. Ashmead, you do not claim that we have failed to pay you anything which we ought to account for under our theory of it?

Mr. Ashmead: No.

Mr. Griggs: There isn't any question about that; your bill says so. It is only apparatus

which we did not deliver until after the termination of the contract that there is any dispute about.

Further examination by Mr. Griggs.

Q. The statement for the payment of royalty under the contract was made up under your direction? A. Yes.

Q. And payments were made? A. Yes.

Q. Now, hasn't the Marconi Company paid for the royalty on all apparatus which, under the contract, they were subject to pay, on which was delivered on or before the 30th of May, 1917?

Mr. Ashmead: That includes a conclusion, of course.

The Court: I will permit it.

A. It has.

Q. (By Mr. Ashmead) I might ask you whether or not you have sold sets, second-hand sets, during the term of the contract, on which you have not paid royalties? A. I believe that we have sold sets, second-hand sets, and if I may add, our reasons for not including those were thoroughly threshed out between Mr. Nalley, the general manager, and Mr. Kintner, prior to the present controversy.

Q. Referring to those contracts that have been offered in evidence, did the Marconi Company get any payment on account of those contracts prior to May 31, 1917? A. So far as I know, it did not.

Q. The contracts do not call for any until they are delivered, do they? A. That is correct.

Q. Until they are delivered and accepted? A. That is correct.

Q. What is the custom of the United States Navy with reference to the acceptance of apparatus? A. The apparatus is delivered to the navy yard, to the particular navy yard designated in the contract; there it is tested, and if acceptable, the proper officer duly advises the department, which makes payments, and in due course payment is received. The contracts, among other things, provide that payment shall not be made by the Government until ten days after the apparatus has been tested and found acceptable.

Q. Suppose the apparatus is not acceptable? A. Then the contractor must make it acceptable, or else the contract is terminated and no payment is received.

Q. Now, some of this apparatus has not been delivered yet, has it? A. That is correct.

Q. Did you have a schedule made up here showing the different contracts, the dates of the contracts, the amount of the contract and date on which delivery was to be made? A. Yes.

Mr. Griggs: I offer this, if there is no objection. I offer in evidence a schedule of the Government contract, meaning thereby the contracts which we have offered in evidence. The date of delivery is the date called for and not the date of actual delivery. Then I offer in evidence a similar schedule of orders from the general public.

(Marked Exhibit D-5 and Exhibit D-6.)

The same explanation should be made with reference to the one I am now offering, the date of delivery is the contract date and not the actual date of delivery. I think that explanation better stand, it may be so, that is, those delivery dates may be contract dates,

may be the dates when the contract called for delivery, but not when the apparatus was actually delivered.

Then I offer a similar summary of orders received from the affiliated company.

(Marked Exhibit D-7.)

Q. I think you have already said that none of the apparatus covered by these contracts were delivered until after the 1st of June, 1917, is that right? A. That is correct.

Q. You might amplify a little on the methods of the Navy Department in placing these contracts that we have here.

Mr. Ashmead: That is already covered by your contract, Governor. The terms of the contract will be binding here and not any particular custom.

Mr. Griggs: I refer particularly to the fact of their sending out calls for bids. The object of my question was to show that in substantially all these cases that was the method, and to go on and show what the company did, etc., what kind of a transaction it was.

Q. In general the method adopted by the United States Government in the matter of procuring radial apparatus is to issue calls for bids. These bids describe generally the apparatus required; the various manufacturers of radial apparatus submit their competitive bids, and on a certain prescribed day these bids are opened, and thereafter awards are made by the Bureau of Steam Engineering of the United States Navy Department. The successful bidder receives a contract of the type introduced in evidence here, and with the contract he receives

amplifications of the preliminary specifications and is told more definitely of precisely the type of apparatus that is required, and then the manufacturer proceeds.

Q. Now, what about sample sets that is referred to in some of those contracts? A. In some cases the Government before actually making an award calls for a sample of the type of apparatus it requires. These samples are submitted to the navy yard designated by the Bureau of Steam Engineering; they are tested and reported on, and quite frequently the award is made on the success of the sample type of apparatus submitted by the manufacturer.

(Batch of Government contracts offered in evidence and marked Exhibit D-1.)

(File containing orders for delivery that were not made until after May 30 of apparatus other than for the United States Government offered in evidence and marked Exhibit D-2.)

(File of orders from affiliated companies with the Marconi Company offered in evidence and marked Exhibit D-3.)

Exhibit D-1.

NSA. 514.

Contract No. 27209 Opening July 25, 1916. In reply refer to No. 27209

NAVY DEPARTMENT,
Bureau of Supplies and Accounts.

Washington, D. C. August 10, 1916.

Sir:

A contract numbered 27209 and dated August 17, 1916, has been entered into with Marconi Wireless Telegraph Co. of America, of 233 Broadway, New York, N. Y. for furnishing the following articles to be delivered at the place and within the time stated for each class, and at the price set opposite each item, respectively and, unless otherwise provided, to be subject to the terms of the above contract quoted on the back hereof:

No. of Item.	Articles	—Unit Price— Dollars.	Cents.	—Total— Dollars.	Cents
	Class 15. (Bu. Req'n 14, G. A. A. Naval Supply Account, S. E.—App'n "Engineering, 1917." Sch. 9829).				
	To be delivered at the navy yard, Brooklyn, N. Y. marked "for Cavite," within 190 days after date of contract or bureau order.	See note.			
	If unable to make delivery within the time specified, state the actual time required. Alternate bids with a greater time of delivery may be submitted and will be considered, but the bureau reserves the right to make award on time stated above.	For an apparatus in accordance with specifications.			
	Stock classification No. 16				
	To be shipped by the Government, after, delivery to the radio station, Cavite, P. I.				
1	1, 5 K.W. spark type radio transmitting set, input voltage 220 volts, direct current.	5300	00	5300	00

Exhibit D-1.

Specifications.

All apparatus to be in strict accordance with "Specifications 16 RLA" issued by the Navy Department Dec. 1, 1915, as defined on page 1, in paragraph 1(a) of these specifications except as follows:

(a) The input current, for the motors of the motor-generators shall be 220 volts, direct current, in lieu of the 120 volts, direct current, specified under paragraph 3(a) of these specifications.

(b) The nameplate voltage specified in paragraph 3A(d) and the voltage for auxiliary apparatus shall be 220 volts, direct current.

(c) The automatic starter for the radio motor-generators, shall be of the clapper type.

Liquidated damages shall be calculated for failure to make complete delivery under the specifications within contract time, at the rate of $5 per day per set.

Inspection and test to be made at point of delivery only.

47077—16 27209

For one (1) radio transmitting set as called for by the specifications including all items of specifications 16-R-1a, pages 4 and 5, paragraph 2, as list of parts, under column for 5-k.w. sets.

Prints. 4212-A 4213-E
4210-E 4211-F

Cutler-Hammer Bulletins:
6215; page 1.
10250; " 1.
11110; " 7.
12302; " 1.

Crocker-Wheeler generator to be supplied.

Respectfully,

T. W. COWIE,
Paymaster General U.S.N.

Exhibit D-1.

(Written over signature: S. M. Cowan.)

To Marconi Wireless Telegraph Co, of America,
225 Broadway,
New York City, N.Y.

On the back of the foregoing Contract is the following:

The terms of the formal contract of number stated on the face hereof and as entered into by the contractor as party of the first part, and the Paymaster General, U. S. Navy, as party of the second part. provide that—

2. It is hereby mutually and expressly covenanted and agreed by and between the parties hereto that the article or articles to be furnished or services to be performed under this contract shall conform in all respects to the requirements of the specifications hereunto annexed, which specifications, the "Instructions, Deliveries, and Conditions", printed on the proposal of the said party of the first part shall be deemed and taken as forming a part of this contract with like operation and effect as if the same were incorporated herein, and, in any case where the specifications do not explicitly provide to the contrary, all workmanship and materials entering into the manufacture or construction of any article or articles under this contract, shall be of the very best commercial quality and manufacture, and said article, articles, or services shall upon delivery or completion be subject to inspection and examination by the officer or officers authorized by the said party of the second part to inspect and examine the same; and no article furnished or services performed under this contract shall be accepted until it or they shall have been inspected and approved by such officer or officers:

and any of said articles not so approved shall be re-

moved by the said party of the first part at own expense, and within ten days after notification.

3. It is further covenanted and agreed, as aforesaid, that time is an essential element of this contract, and that, if the said party of the first part shall fail to make delivery of any or all of the articles or materials or to perform any or all of the services herein contracted for, in conformity with the conditions and requirements of the contract and within the time or times prescribed, the said party of the second part will be damaged thereby, and the amount of said damages is hereby fixed and agreed to in advance, as liquidated damages and not as penalty and the said party of the second part shall make deductions from the contract price accordingly, as follows, viz;

For each day's delay, Sundays and holidays excepted, until satisfactory delivery or performance shall have been made, or until such time as the party of the second part may procure the same as hereinafter provided, at the rate of one-twentieth of 1 percent of the contract price, the deductions, however, not to exceed in any case 10 per cent of the stipulated value of the articles or materials not so delivered, or of the services not so performed, rejection of deliveries or performance not to be considered as waiving deductions, Provided, That no liquidated damages shall be deducted for such period, after the expiration of the time or times prescribed for delivery or performance as in the judgment of the party of the second part, shall equal the time that, either in the beginning or in the prosecution of the deliveries or services contracted for, shall have been lost on account of any cause for which the United States is responsible, or on account of strikes, riots, fire or other disaster, delays in transit or delivery on the part of

transportation companies, or any other circumstances beyond the control of the contractor but such circumstances shall not be deemed to include delays on the part of subcontractors in furnishing materials when such delays arise from causes other than those herein specified, And provided further, That the question whether delays are due to causes herein specified shall be determined by said party of the second part.

4. It is further covenanted, and agreed that if the said party of the first part shall fail in any respect to perform the contract the same may, at the option of the United States, be declared null and void without prejudice to the right of the United States to recover for defaults therein or violations thereof, or the said party of the second part may purchase or procure in such manner and from such person or persons as he deems proper, paying such price therefor as may be necessary in order to procure the same, such of said articles or materials of the kind specified as near as practicable, or procure the performance of such services, as the said party of the first part shall fail to deliver or perform as required, and may demand and recover from the said party of the first part the difference between the price so paid therefor and the price stipulated in the contract, and the amount of such difference shall be paid by the said party of the first part to the said party of the second part on demand.

5. It is further covenanted and agreed that the said party of the first part shall indemnify the United States and all persons acting under them for all liability on account of any patent rights granted by the United States that may be affected by the adoption or use of the articles herein contracted for.

Exhibit D-1.

6. It is further covenanted and agreed that in carrying out the provisions of the contract no person shall be employed who is undergoing sentence of imprisonment at hard labor which has been imposed by a court of the United States, or of any State, Territory, or municipality, having criminal jurisdiction, that the contract is upon the express condition that no Member of or Delegate to Congress, nor any person belonging to or employed in the naval service, is or shall be, admitted to any share or part therein or to any benefit to arise therefrom except as a member of a corporation; and that any transfer of the contract, or of any interest therein, to any person or party by the said party of the first part shall annual the same so far as the United States is concerned.

7. And this contract further witnesseth, That the United States party of the second part, in consideration of the foregoing stipulations do hereby covenant and agree, to and with the party of the first part as follows Viz:

That upon the presentation of the customary bills, and the proper evidence of the delivery, inspection and acceptance of the said article, articles, or services, and within ten days after such evidence shall have been filed in the Bureau of Supplies and Accounts, there shall be paid to the said contractor or to his order, by the Navy Pay Officer at Washington, D. C. (Disbursing Office), the sum found due for the articles delivered or services performed under this contract, Provided, however, that no payments shall be made on any one of said classes until all the articles or services embraced in such class shall have been delivered or performed and accepted except at the option of the party of the second part.

Exhibit D-2.

ARGENTINE NAVAL COMMISSION
WOODWARD BUILDING
WASHINGTON, D. C.

March 28, 1917.

Marconi Wireless Telegraph Co. of America,
Woolworth Building,
New York, N.Y.

ORDER No. 89-S.

We have your quotation of the March 13— '17 No..... and hereby advise you of the acceptance of same, subject to the following conditions:

CONDITIONS—Read Carefully

It is absolutely necessary that the Shippers furnish the Shipping Agents

..... with the following documents:

1.—Railroad Bill of Lading or Express Receipt.

2.—One copy of Commercial Invoice, wherein must appear the gross and net weight and measurements of shipments in cubic feet.

3.—Copy of the Customs Export Shippers' Declaration duly filled out, signed and sworn to, either before a Deputy Collector of Customs or a Notary Public.

4.—Certificate of Origin in triplicate.

5.—The original Bill of Lading duly signed must be surrendered to the Argentine Naval Commission with the Commercial Invoice in duplicate, on receipt of which payment will be promptly made.

TERMS

Shipment .....
Packing .....
Discount .....

MARK

ARISTOBULO

DEL VALLE

Detroit,

Michigan

DELIVERY FIVE Weeks.

Exhibit D-2.

One—2KW. Marconi Panel Set Complete as per your specifications 4622-S, and your letter dated March 13, 1917, Price $3750.

One—Battery Equipment (60 Cells 100 Ampere Hour) including charging panel price $1000 as per your letter dated March 13, 1917.

Also Install wireless apparatus on the vessel charging us $200 for installation as per your telegram dated March 27, '17. We also to pay additional expense incurred by reason of equipping this vessel in Detroit, Michigan.

Note: Communicate concerning particulars of installation etc., with Lieutenant Commander Pascual Brebbia,
Argentine Naval Sub-Commission,
c/o Great Lakes Engineering Works,
Detroit, Michigan.

GUY CAMPO MEGUYA,
Commander President of the
Argentine Naval Commission.

Please acknowledge receipt of this order by signing and returning Duplicate.

Exhibit D-3.

Order No. 413

SOCIETE ANONYME INTERNATIONALE DE TELEGRAPHIE SANS FIL.

Marconi House, Strand, London, W. C.

Telegraphic Addresses—
Inland Telegrams: "Expanse, Cable, London."
Cablegrams: "Expanse, London."

Telephone No. City 8710 (10 lines).

11th October 1916.

To Messrs. Marconi's Wireless Telegraph Co of America
Woolworth Building, New-York.

This Order is placed subject to the conditions specified overleaf.

Please supply the undermentioned Goods to:—
Messrs. Skiner, Eddie & Co,
Shipbuilders,
Seattle.

per &&&&&&& Carriage &&&&&&& Date for completion One Set March 1917, One Set June 1917.

Detailed Advice, quoting Order No., to be sent to S.A.I.T. and a copy to MARCONI HOUSE the SAME DAY as Goods are despatched. For instructions regarding INVOICES and STATEMENTS see overleaf.

---

2 (two) 2 K.W. panel sets, complete, as shown in your list No. 3648-S, attached to your letter "Traffic Dept" of the 22nd of December 1915.

2 (two) Auxiliary coil sets, consisting of 10″ coil, a 12 cell accumulator battery with

charging panel and the necessary spares and accessories, at S 240.—each.

Prices: The arrangement made with Mr. Nally will apply.

The above sets have to be fitted on the S. S. "STOLT NIELSEN", ready about June '17, Both ships "LOUISE NIELSEN", ready about March '17 and are building for Messrs. B. Stolt-Nielsen.

Will you please get in touch with the shipbuilders in order to obtain the necessary information as regards the Voltage of the ships dynamo, the available space for the cabin, the aerial arrangement etc.

SOCIETE ANONYME
INTERNATIONALE DE TELEGRAPHIE SANS FIL
BUREAU DE LONDRES
LE DIRECTEUR.
A. HUBERT

N.B.—No Goods to be supplied without an Official order.

The following conditions are specified overleaf:

"CONDITIONS.

1. All Gods to be delivered carriage paid unless otherwise stated.

2. This Order is liable to be cancelled if the Goods specified are not delivered by the date stated, or if the Goods do not comply with the specifications and drawings, or if the material or workmanship be not first class in every respect

3. All Goods, whether for use in the United Kingdom or for export, must be guaranteed for twelve months from date of delivery against breakdown or

failure of any description due to defective materials or workmanship, and in event of such breakdown or failure, the defective Goods shall be replaced by the suppliers at their own cost or by ourselves at the cost of the suppliers.

4. This Order must be acknowledged within three days or it may be cancelled.

5. Order No. must be quoted on all Invoices, Advices, and Correspondence relating to this Order.

6. Invoices in duplicate must be sent to Marconi House same day as Goods are delivered. Monthly Statements in duplicate must be sent to Marconi House by the 5th of the month following delivery of the Goods, otherwise payment will be deferred until following month.

7. Unless otherwise specified, we stipulate that we are to have the option of paying for the Goods now ordered, either by Cash, less 2½ per cent., on the last Friday of the month succeeding that in which the Goods were delivered, or on the said day by Bill (three months), less 2½ per cent., plus Bank Rate interest and Bill stamp.

Exhibit D-4.

CONTRACT FOR WIRELESS TELEGRAPH SERVICE

THIS AGREEMENT, made this Second day of March 1917 between MARCONI WIRELESS TELEGRAPH COMPANY OF AMERICA, a corporation organized under the laws of the State of New Jersey with its principal place of business located at No. 233 Broadway, New York, N. Y., of the one part and hereinafter referred to as the Marconi Company, and

CHAS. R. MCCORMICK & COMPANY

of the other part and hereinafter referred to as the Steamship Company:

WITNESSETH, That

WHEREAS the Marconi Company is operating a system of wireless telegraph, and

WHEREAS the Steamship Company owns, controls, or operates the following steamships:

"ERNEST H. MEYER"
"WAHKEENA"

NOW, THEREFORE, in consideration of one dollar ($1.00) each to the other paid, the receipt whereof is hereby acknowledged and of the premises and covenants hereinafter contained, the parties agree as follows:

First. The Marconi Company will equip the vessels named in this contract with its system of wireless telegraphy and furnish service for the term beginning from date of completion of installation and ending Two and one-half (2½) years from the first of the following month, and yearly thereafter

unless terminated by sixty days' notice in writing by either party, such notice to be given not less than sixty days prior to the ending of a yearly period; equipment rental, and other charges and particulars to be as follows:

For rental of the wireless telegraph apparatus (Main Set) One Hundred Dollars per month per ship. ($100.00).

For rental of the auxiliary set—Ten Dollars ($10.00) per month per ship.

For the wages of each wireless operator—Forty ($40.00) Dollars per month.

For installing Main Set—One Hundred and Twenty-five Dollars ($125.00) per ship.

For installing Auxiliary set—Twenty-five Dollars ($25.00) per ship.

The wireless apparatus shall be insured by the Steamship Company in favor of the Marconi Company in the sum of Three Thousand ($3,000.00) Dollars against all war risks, if the United States be at war and the vessels be then engaged in off-shore trade.

Second. The Marconi Company will maintain and operate on board each of the vessels covered by this contract its wireless service as above set forth, which shall fully comply with the laws of the United States as in force at the time of the execution of this agreement.

Third. The Marconi Company will during the term of this agreement transmit and receive on board said vessels through its own ship service stations in the United States, free of wireless charges,

messages having relation to the navigation or operation of said vessels, passing between the masters of said vessels and the Steamship Company or its accredited agents, or between the masters of said vessels and the masters of any other vessels equipped with the Marconi Company's apparatus. Said service messages transmitted via Marconi coast stations shall be limited to Six Thousand Words per annum, per ship; the tolls on all such messages to be computed at the Marconi Company's regular published coastal rates for similar service. Coast station tolls will be charged on all messages handled in excess of this amount. Settlement to be made yearly. Other line charges on all messages shall be paid by the Steamship Company.

Fourth. The Marconi Company guarantees and agrees that in the event of a suit being brought against the Steamship Company by owners or lessees of letters patent, and directed against the use of wireless telegraph apparatus manufactured or supplied by the Marconi Company and rented to the Steamship Company, it will defend (upon notice being given to the Marconi Company) such suit without cost to the Steamship Company. The Marconi Company hereby guarantees and agrees to indemnify and hold the Steamship Company harmless from any damages or claims which a court may adjudge to be due to the plaintiffs in any such action by reason of any infringing use by the Steamship Company of apparatus rented to the Steamship Company by the Marconi Company.

The Steamship Company agrees as follows:

(1) That it will pay to the Marconi Company the installation charge on completion of the work

and the rental and service charges, as above set forth, monthly in advance.

(2) That it will furnish a suitable room on each vessel for the wireless station and also the necessary power from the ship's electrical plant for the efficient operation of the main set; and further, that if required by law, it will supply, furnish and install the Auxiliary Power and appurtenances required to operate the main set as an Auxiliary, or an auxiliary wireless set in the event that the steamship company requests the wireless apparatus for such auxiliary set. It is hereby understood and agreed that the Marconi Company shall have no responsibility whatsoever for the supplying of power either for the efficient operation of the main set or for the auxiliary service as required by and under the laws of the United States.

(3) That it will furnish comfortable sleeping accommodations for the use of the operators, with board in the first cabin at seat or in port.

Where more than one operator is employed, sleeping accommodations shall be provided for them in a suitable room separate from the wireless room.

(4) That it will on request furnish transportation on all of its lines, including meals and berth, for the use of an inspector of the Marconi Company when on duty pertaining strictly to the inspection of the Steamship Company's vessels.

(5) That it will guarantee the return in good condition, reasonable wear and tear alone excepted, of the wireless apparatus to the Marconi Company, without expense, on the termination of this agree-

ment. The Steamship Company shall reimburse the Marconi Company for any damage done to its apparatus through the act or neglect of the Steamship Company or its employees.

It is mutually agreed by and between the parties hereto:

(1) That this contract is not assignable except on written consent obtained by the party wishing to make the assignment from the other party.

(2) That no interest in the apparatus passes to the Steamship Company by this agreement and that said apparatus remains the property of the Marconi Company.

(3) That should any vessel covered by this agreement on which the wages of the operators are paid by the Marconi Company, be taken out of commission or otherwise withdrawn from the service, the Marconi Company, upon receipt of proper notice in writing, shall make an allowance to the Steamship Company for all in excess of fifteen consecutive days computed as follows:

(a) Vessels employing two operators, at the rate of eighty dollars per month.

(b) Vessels employing one operator, at the rate or forty dollars per month.

Should a vessel covered by this contract be taken out of commission or otherwise withdrawn from the service at any port other than where equipped, the Steamship Company shall reimburse the Marconi Company for the wages and expense incurred in returning the operators to the port where equipped.

(4) That the installation charge covers the installing of the apparatus and making the necessary

connection in the wireless room; all other expenses in connection therewith, including the erection and maintenance of masts, blocks, halyards, carpenter work and running of leads from dynamo to operating room; the labor for lowering and raising the antenna when required, shall be borne by the Steamship Company.

(5) That the apparatus installed on a vessel may not be removed or relocated during the continuance of this agreement without the consent of the Marconi Company. If such removal or relocation is required by the Steamship Company, it shall be at its own expense.

(6) The wages and expenses incidental to supplying operators at ports other than the ports where the Marconi Company has made arrangements to provide operators shall be borne by the Steamship Company, as shall also the wages and expenses of returning them to the port where they were engaged, provided, however, that such expense is not occasioned by reason of neglect or through the fault of the Marconi Company or its employees.

(7) In case the above rent or charges shall remain unpaid for a period of thirty days after same become due then and in that event the Marconi Company shall have the right to enter upon the vessel and remove therefrom any apparatus belonging to it, without any liability on its part and without waiving any claims for damages it may have under and by virtue of this agreement.

(8) That the efficient operation of the apparatus and the furnishing of operators as provided for by this agreement is contingent upon the Acts of God, riots, strikes, lockouts, accidents, or force majeure.

Exhibit D-4.

(9) The Marconi Company shall be entitled to retain all revenues and tolls on all traffic derived from the transmission to and from said vessels of wireless messages by means of its system during the continuance of this agreement and in the case of any passenger-carrying vessels named in this Contract, the Marconi Company shall also be entitled to all revenues and profits derived from the publication of news matter received by wireless telegraph on said vessels and shall be permitted to publish and sell a newspaper on said vessels, said newspaper to contain news and advertisements.

IN WITNESS WHEREOF, The parties hereto have hereunto set their hands and caused their seals to be affixed the day and year first above written.

MARCONI WIRELESS TELEGRAPH COMPANY OF AMERICA

By M. Stevens,
Marine Supt.

Witness.
E. W. HORSMAN

CHAS. R. MCCORMICK & COMPANY,
By S. M. Hauptrual

Witness.
W. C. BALL

Exhibit D-5.

STATEMENT I.

CONTRACTS RECEIVED FROM U. S. GOVERNMENT PRIOR TO JUNE 1, 1917
RADIO APPARATUS CALLED FOR BY THESE CONTRACTS DELIVERED SUBSEQUENT TO JUNE 1, 1917

No. of Contract	Date of Contract	Contract Received From	Type of Apparatus	Quantity of Apparatus	Amount of Contract	Date of Delivery of Apparatus	Remarks
27209	Aug. 17, 1916	Navy Dept. Bureau Supplies & Accts.	5-KW Radio Set	1	$ 5,300.00	March 2, 1918	
27158	Aug. 24, 1916	" " " " "	Wavemeters	17	9,300.98	May, 1917— 9 June " — 3 Sept. " — 5	
28765	Jan. 24, 1917	" " " " "	Medium Type Wavemeters	10	6,920.00	Sept. 1917— 1 Oct. " — 4 Dec. " — 2 Jan. 1918— 2 Mar. " — 1	
28736	Jan. 27, 1917	" " " " "	Short Wave Receivers	60	20,725.80	Aug. 1917—14 Sept. " — 7 Oct. " — 9 Nov. " —28 Dec. " — 2	
28770	Feb. 3, 1917	" " " " "	10-KW Radio Sets	9	70,336.53	No deliveries have as yet been made.	
28772	Feb. 3, 1917	" " " " "	5-KW Radio Sets	23	137,248.21	Nov. 1917— 1 Dec. " — 4 Jan. 1918— 3 Feb. " —12 Mar. " — 3	
1188	Feb. 16, 1917	War Department	2-KW Motor Generator	1	900.45	June 6, 1917	
555	Mar. 12, 1917	Supply Officer, Washington, D. C.	Motor Generators, Spares, etc.	6	3,135.00	July 1917	
632	Mar. 17, 1917	Navy Dept. Bureau of Steam Engrg.	½-KW Motor Boat Sets	10	24,877.50	Dec. 1917— 1 Mar. 1918— 3 Apr. " — 1	5 sets still due
669½	Apr. 3, 1917	Supply Officer, Washington, D. C.	2-KW Radio Sets	30	160,202.70	Oct. 1917—21 Nov. " — 9	
669	Apr. 4, 1917	" " " "	½-KW Radio Sets	25	43,400.00	Oct. 1917—18 Nov. 1917— 7	
731	Apr. 16, 1917	" " " "	2-KW Gasoline Radio Sets	30	204,848.00	Oct. 1917— 1 Nov. " — 7 Jan. 1918— 8 Mar. " —11 Apr. " — 3	
3	Apr. 21, 1917	" " New York	½-KW, 500 cycle Sets	100	177,284.00	Oct. 1917—17 Nov. " —56 Dec. " —25 Jan. 1918— 1 Feb. " — 1	
IPA 327	Apr. 30, 1917	Bureau of Insular Affairs	2-KW Radio Sets	1	8,302.00	Delivery has not as yet been made.	
IPA 327	Apr. 30, 1917	Bureau of Insular Affairs	5-KW Radio Set	1	8,993.00	Delivery has not yet been made	
860	May 1, 1917	Navy Dept. Bureau of Steam Engrg.	Short Wave Receivers	200	82,980.00	Dec. 1917—30 Jan. 1918—27 Feb. " —61 Mar. " — 2 Apr. " —44	36 Receivers Still Due.
1335	May 3, 1917	Supply Officer, New York	5-KW Radio Sets	52	345,596.36	Jan. 1918— 8 Feb. " — 7 Mar. " —25 Apr. " — 4	8 sets still due.
3019	May 9, 1917	Department of Commerce	½-KW Panel Set	1	2,575.00	August 13, 1917	
30029	May 14, 1917	Navy Dept. Bureau of Supplies & Accts.	½-KW Radio Sets	50	84,162.00	Dec. 1917—19 Jan. 1918—13 Feb. 1918— 6 Mar. " —12	
			Total		$1,397,087.53		

Exhibit D-6.

STATEMENT II.

ORDERS RECEIVED FROM THE GENERAL PUBLIC PRIOR TO JUNE 1, 1917.

RADIO APPARATUS CALLED FOR BY THESE ORDERS DELIVERED SUBSEQUENT TO JUNE 1, 1917.

Date of Order	Contract Delivered From	Type of Apparatus	Quantity of Apparatus	Amount of Order	Date of Delivery of Apparatus	Remarks
Dec. 1916	Cuban Government	20-KW Set	1	$19,500.00	March, 1918	
Jan. 27, 1917	" "	¼-KW Portable Set	1	2,000.00		Not yet delivered.
Mar. 23, 1917	Vilaplana & Company	½-KW, 500 cycle Panel Sets	3	8,325.00	Oct. 1917	
Mar. 23, 1917	" "	¼-KW Cargo Sets	2	3,000.00	June, 1917	
Mar. 23, 1917	" "	½-KW Panel Set	1	2,525.00	June, 1917	
Mar. 29, 1917	Argentine Naval Commission	2-KW Set and Storage Battery	1	4,750.00	June, 1917	
Apr. 3, 1917	Siberian S. S. Mfg. & Trading Co., Ltd.	2-KW Panel Set	1	3,750.00	July 1917	
May 15, 1917	Electric Boat Company	½-KW Panel Sets	6	18,000.00		Not yet delivered
		Total		$61,850.00		

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Exhibit D-7.

STATEMENT III.

ORDERS RECEIVED FROM AFFILIATED MARCONI COMPANIES PRIOR TO JUNE 1, 1917
RADIO APPARATUS CALLED FOR BY THESE ORDERS DELIVERED SUBSEQUENT TO JUNE 1, 1917.

Date of Order	Order Received From	Type of Apparatus	Quantity of Apparatus	Amount of Order	Date of Delivery of Apparatus
Sept. 21, 1916	English Marconi Co.	¼-KW Cargo Sets	49	$40,257.02	June, 1917—25 Sets July, " —10 " Aug. " — 5 " Sept. " — 3 " Oct. " — 2 " Nov. " — 3 " Dec. " — 1 Set
Sept. 30, 1916	Belgian Marconi Co.	½-KW Panel Set SS GAOLA	1	1,545.60	June, 1917
Nov. 2, 1916	" " "	2-KW Panel Set SS STOLT NIELSEN	1	2,212.06	July 1917
Jan. 24, 1917	" " "	½-KW Panel Sets	6	8,158.86	July, 1917— 4 Sets June, " — 2 "
		Total		$52,173.54	

Exhibit D-8.

STATEMENT IV.

CONTRACTS FOR LEASE OF MARCONI APPARATUS INSTALLED ON MERCHANT VESSELS ENTERED INTO PRIOR TO MAY 31ST, 1917.

EQUIPMENT INSTALLED SUBSEQUENT TO MAY 31ST, 1917.

NAME OF S/S CO.	VESSEL	TYPE OF SET	CONTRACT DATED	TERM	DATE APPARATUS COMPLETELY INSTALLED	REMARKS
C. R. McCormick & Co.	E. H. Mayer	½-KW Panel	March 2-1917	2½ years	July 17-1917	
Sinclair Gulf Corp.	Jos. Cudahy	½-KW cargo	" 8-1917	"	" 7-1917	
Sinclair Gulf Corp.	Wm. Isom	½-KW Panel	" 18-1917	"	Nov. 10-1917	
Texas S/S Co.	Pennsylvania	2-KW "	" 24-1917	"	July 1-1917	
Vacuum Oil Co.	Olean	2-KW "	" 22-1917	"	" 17-1917	
The Texas Co.	Virginia	2-KW "	" 24-1917	"	" 22-1917	
W. R. Grace & Co.	Santa Ana	2-KW "	" 31-1917	"	Jan. 19-1918	
N. E. Coal & Coke Co.	Newton	2-KW "	April 3-1917	"	June 27-1917	
N. E. Coal & Coke Co.	Malden	½-KW cargo	" 3-1917	"	" 14-1917	
N. E. Coal & Coke Co.	Everett	2-KW Panel	" 3-1917	"	July 27-1917	
N. E. Coal & Coke Co.	Melrose	2-KW "	" 3-1917	"	Aug. 4-1917	
N. E. Coal & Coke Co.	Brandon	2-KW "	" 3-1917	"	" 20-1917	
N. E. Coal & Coke Co.	Arlington	2-KW "	" 3-1917	"	Sept. 4-1917	
Ore S/S Corp.	Cubore	½-KW "	" 9-1917	"	" 6-1917	
West India Sugar Corp.	Augusta	½-KW Cargo	" 12-1917	1 year	Aug. 25-1917	
Petroleum Trans. Co.	Edw. L. Doheny, Jr.	½-KW "	" 14-1917	2½ years	June 15-1917	
Petroleum Trans. Co.	G. G. Henry	2-KW syn.	" 14-1917	"	" 4-1917	
Petroleum Trans. Co.	Wm. Green	2-KW Panel	" 14-1917	"	July 12-1917	
Petroleum Trans. Co.	Harold Walker	½-KW Cargo	" 14-1917	"	June 7-1917	
France & Canada S/S Corp.	Schr. Edw. Winslow	½-KW "	" 19-1917	"	" 12-1917	
The Texas S/S Co.	Rhode Island	2-KW Panel	" 19-1917	"	Dec. 12-1917	
The Texas S/S Co.	Maine	2-KW "	" 19-1917	"	Oct. 6-1917	
Warren Trans. Co.	Matoa	½-KW "	May 27-1917	"	June 4-1917	
W. R. Grace & Co.	Santa Lucia	2-KW "	March 31-1917	"	May 23-1918	

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Conclusions.

IN CHANCERY OF NEW JERSEY.

July 5th, 1918.

Between
INTERNATIONAL SIGNAL COMPANY,
Complainant,
and
MARCONI WIRELESS TELEGRAPH COMPANY OF AMERICA,
Defendant.

On Bill. Conclusions.

Messrs. LINDABURY, DEPUE & FAULKS (Mr. ASHMEAD and Mr. STRYKER), for Complainant.
Messrs. GRIGGS & HARDING (Mr. GRIGGS and Mr. HARDING), for Defendant.

LANE, *V. C.*:

The first question to be determined is whether the word "sell" used in the eighth paragraph of the agreement under consideration is used in its strict legal sense so that a transaction to come within it must have been accompanied with delivery or passing of title, or whether it is used in a sense which would include a contract to sell. That it may be used in either sense is settled. The cardinal rule to be applied in construing a contract is to ascertain the intention of the parties. If more than one construction of the language used is possible, the circumstances surrounding the transaction may be considered as well as the written document.

If the intention is doubtful or obscure, a construction should be adopted which is most fair and reasonable and which will impose the least hardship upon either of the contracting parties. Citation of authority would be superfluous. At the time of the execution of the contract on October 15, 1914, complainant and the defendant's predecessor claimed each to be the owners of numerous valid patents of apparatuses and processes employed in wireless telegraphy; each claimed that certain of the patents of one infringed those of the other; that certain of the patents were invalid. There had been considerable litigation with respect to the contentions of the respective parties. The public were injured, the licensees of one were subjected to infringement suits by the other. The chaotic condition in which the situation stood is illustrated by the fact that the Circuit Court of Appeals for the Third Circuit had declared valid in an infringement suit two of complainant's patents (Marconi Telefunken Wireless Tel. Co., 208 Fed., 679), and that the same two patents in another suit since the making of the contract have been declared invalid by the Circuit Court of Appeals for the Second Circuit. Kinter v. Atlantic Communication Co., 240 Fed., 716.

On October 15, 1914, a contract was entered into in which there is a recital of the then pending litigations and the following statements: "Whereas, it is desired, in the interests of the public, that said conflicting claims of each of the parties hereto against the other should be adjusted, and the right of each party to manufacture, sell, use, and lease to others to be used, the patented apparatus, so that users of wireless telegraph and wireless telephone apparatus may obtain the most efficient apparatus and will not be subjected to claims under the patents of one party by reason of the purchase, lease

or use of such apparatus from the other party; and

"Whereas, the parties to this agreement are mutually desirous of settling and adjusting the controversy regarding the aforesaid patent rights which they respectively own, and of compromising the claims of the parties hereto against each other for past damages or profits arising out of any infringement of said Letters Patent of one party by the other, and of acquiring a license to transact its business under one or all of said patents owned by the other, as well as of protecting their said respective patent rights or the monopoly thereof."

The right is given to each party to make, sell, or cause to be sold, lease or cause to be leased, use or caused to be used, wireless telegraph and wireless telephone apparatus embodying the inventions of each and all of the patents enumerated and set forth in schedules annexed to the agreement. By the eighth paragraph there is to be paid by each party to the other twenty per cent. of the gross selling price of each set of wireless telegraph or wireless telephone apparatus which it may, under the terms of the contract, sell, including sales to the United States Government. By the fourteenth paragraph it is provided that settlements should be made at certain stated times, and that the license fees and royalties should be paid on such sets as the parties had sold, leased or otherwise disposed of under the agreement during the preceding three months, and for which it had received payment from its lessees, vendees or licensees. By the nineteenth paragraph it is provided that the term of the agreement should extend until the 13th day of April, 1926, unless previously cancelled or terminated in accordance with the provisions thereof; that either party might terminate or cancel the agreement at any time after the 15th day of October, 1918, by written notice, which cancellation or termination

should become effective one year after the giving of the notice. The Marconi Company might at any time after October 15, 1915, and prior to October 15, 1918, terminate or cancel the contract by giving written notice, which cancellation or termination should become effective ninety days after giving of notice.

On March 1, 1917, pursuant to paragraph nineteen, the Marconi Company gave notice of cancellation or termination. The question is whether it must account for sets contracted to be sold, but not delivered, within the ninety days succeeding March 1, 1917, and the determination of that question, as I have indicated, depends upon the meaning of the word "sell" used in the eighth paragraph. If the construction sought to be put upon the word by the defendant be adopted, it follows that had the agreement run its natural course until April 13, 1926, the parties would not be obliged to account for any sets contracted to be sold prior to April 13th, but not delivered until afterwards.

If the construction insisted upon by the defendant be put upon the language used in the contract, the defendant and all users of any sets of apparatus contracted to be sold during the term of the contract, but not delivered until after its termination, would be exposed to suits for infringement.

If the complainant had, during the term of the agreement, entered into a contract of sale for an apparatus which would infringe the patents of the defendant, were it not for the agreement, and for some reason or other delivery was not to be made for four months, and within ten days after the contract was made the defendant gave a notice of cancellation, the complainant or its customer would be subject to suit for infringement. I cannot conceive that such a result was contemplated by the parties.

In view of the avowed purpose of the agreement to terminate litigation and to protect the public, I think that such a construction ought not to be adopted unless it clearly appears from the instrument that the parties used the word "sell" in its narrow legal sense. That it was so used defendant insists is indicated by the fact that in the sixteenth paragraph, in providing for releases by the respective parties from claims for damages for alleged past infringements, the draftsman provided that the parties might continue the use of the apparatus which had at the date of the agreement "been delivered or contracted to be delivered to such vendees, lessees or customers." It is said that the distinction recognized between delivery and contract of delivery indicates that the draftsman must have had in mind the distinction between a sale and a contract of sale. In the sixteenth paragraph, however, the parties were dealing with an entirely different subject-matter. They had in mind the physical situation of the apparatus. Having used the word "deliver," it immediately occurred that to cover articles sold and not yet delivered it was necessary to include the phrase "contracted to be delivered." They could not use the word "sell," which might have included either, for they were dealing with lessees; and they had in mind also that apparatus may have been parted with other than by sale or lease, for they included not only "vendees and lessees," but also "customers." I can find no assistance from the sixteenth clause in construing the eighth.

By the twenty-eighth paragraph a special provision is made for the continuance of the payment of royalties or license fees upon apparatus leased prior to cancellation and determination, and it is argued that because it was assumed necessary to include this specific clause, in order to continue

liability as to leases made prior to the cancellation, it must be considered that the absence of such a clause with respect to apparatus contracted to be sold indicates that the parties did not intend a continuance of liability as to that. But here again the parties were dealing with a different subject-matter, and I can find nothing in this paragraph which assists me in defining what the parties meant by the word "sell."

By the fourteenth paragraph payment is to be made at certain intervals for apparatus for which the parties had received payments from its lessees, vendees or licensees, and it is intimated that the effect of this paragraph is that no royalty is to be paid except upon apparatus not only sold and delivered, but also paid for during the term of the agreement. Such a construction ought not to be put upon the contract unless no other construction is possible.

I think that the purpose of the thirteenth paragraph was merely to arrange a convenient method of settlement. Singer Sewing Machine Co. v. Brewer, 93 S. W., 755.

I find nothing in the written contract which requires me to hold that the word "sell" was used in the eighth paragraph in its technical sense. In common usage the word "sell" does not convey the idea that delivery has been made or title passed. It is used indiscriminately to convey the idea of a technical sale and a contract to sell. In business usage an article is said to be sold when an agreement has been made that it should be taken; and this, notwithstanding the fact that it may not at the time have been manufactured, and that when offered for delivery may be rejected for non-compliance with specifications.

To hold that the word "sell" was used by the parties in its ordinary sense would, I think, lead

to a result by which the manifest intentions of the parties would be accomplished, and which would be most fair and reasonable. Not only would the parties, but the public as well, be most adequately protected. It is conceded that at best the meaning of the contract is doubtful. Purchasers of apparatus during the period of ninety days would be uncertain, whether they could be sued for infringement or not. Those who had been advised that they might purchase without being subject to suits would find, if the construction sought by the defendant to be put upon the contract be adopted, themselves open to attack. After the expiration of the ninety days, or the termination of the contract, whoever dealt with the parties would do so with their eyes open.

It is next insisted for the defendant that because the two patents if the complainant, the only ones which the defendant says it is using, have been held invalid by the United States Circuit Court of Appeals for the Second Circuit, that there has been a complete failure of consideration, and they base their insistence upon a line of cases which hold that where a contract is entered into for the payment of royalties based upon the assumed validity of a patent, and the patent is afterwards declared invalid, there is no further liability under the contract. But in the case at bar that the patents might be invalid was a recognized factor which led to the making of the contract. The case is somewhat analogous to Strong v. The Carver Cotton Gin Company, Supreme Court of Massachusetts, 83 N. E., 328.

Nor do I think that the contract is so separable as to permit a finding that there was a total failure of consideration. The defendant acquired the right to use over a hundred patents. No attempt was made to apportion the royalties. Defendant was

obliged to pay a flat royalty upon each set of apparatus sold. The consideration of the contract was not merely the right to use patents, but the settlement of disputes, which had led to vexatious litigation.

No evidence of the invalidity of the patent was offered other than the record of the United States Circuit Court of Appeals in the case of Kintner v. Atlantic Communication Co., 240 Fed., 716. But that proceeding was not a proceeding *in rem,* and it does not prevent the same or a different plaintiff from prosecuting a suit against another defendant and establishing the validity of the patent upon the same or different evidence. The fact that the complainant here was a party to the New York litigation is without significance.

I have examined the cases cited by defendant and find none which lead me to conclude that this Court would be justified in holding that for the purposes of this suit the two patents were invalid merely because of the judgment in the Kintner case. See Pope v. Mfg. Co. v. Owsley, 27 Fed. Rep., 100; Consolidated Roller Mill Co. v. Geo. T. Smith Middlings Purifying Company, 40 Fed. Rep., 305.

I will advise a decree that the defendant is bound to account for apparatus sold, although not delivered within the ninety-day period.

Filed July 17, 1918.

Interlocutory Decree.

IN CHANCERY OF NEW JERSEY.

Between INTERNATIONAL RADIO TELEGRAPH COMPANY, Complainant, and MARCONI WIRELESS TELEGRAPH COMPANY OF AMERICA, Defendant.	On Bill. Interlocutory Decree.

This case coming on to be heard in the presence of Lindabury, Depue & Faulks, of counsel with the complainant, and Griggs & Harding, of counsel with the defendant, and the pleadings having been read, and the arguments of counsel having been heard and considered, and the court being of the opinion that the complainant is entitled to relief and an accounting in equity;

It is thereupon, on this 16th day of July, in the year of our Lord one thousand nine hundred and eighteen, ORDERED AND DECREED that the matter in controversy be referred to Charles M. Meyers, Esq., a Master in Chancery of the State of New Jersey, to take and state an accounting of all dealings and transactions between the complainant and defendant, under or in connection with the contract attached to complainant's bill of complaint and marked Exhibit "A," including all dealings, transactions and contracts for the sale, leasing, rental or other disposition of wireless telegraph and wireless telephone sets and parts thereof, to any per-

son or corporation whatsoever, and to the government of the United States and the government of any foreign country, during the period covered by said agreement prior to the termination thereof on May 30, 1917, whether such sale, leasing, rental or other disposition of such wireless telegraph or wireless telephone sets or parts thereof was consummated by delivery, passing of title or otherwise, prior to or after the termination of said agreement on May 30, 1917, and also an accounting of any licenses granted under Clause 15 of said agreement.

For the better clearing of said account, the parties are to produce before the said master, upon oath or affirmation if required, and leave with him, all books and writings in their custody or power relating thereto, and are to be examined upon interrogatories as the said master shall direct; and said master is also to have power to examine other witnesses in relation to said account; and in taking said account he is to make to both parties all just allowances, and is to report what, upon such accounting, appears to be due from each party to the other, and also the balance which, upon the said account, shall appear to be due from either party to the other.

And the said master is to make his report, touching the matters hereby referred to him, with all convenient speed. And if, in taking the said account, any special matter shall arise, he is at liberty to state the same to the court.

Respectfully advised,

MERRITT LANE,
V. C.

The Evening Post Job Printing Office, Inc., 156 Fulton St., N. Y.

New Jersey Court of Errors and Appeals.

Between

INTERNATIONAL RADIO TELEGRAPH CO.,
Appellee,

AND

MARCONI WIRELESS TELEGRAPH CO.,
Appellant.

On Appeal from the Court of Chancery.

BRIEF FOR APPELLEE.

Statement of Facts.

The appeal in this case is from an interlocutory decree of the Court of Chancery, requiring the appellant to account to the appellee for royalties due to the appellee under an agreement made between Samuel L. Kintner and Halsey M. Barrett, receivers of the National Electric Signaling Company, and the appellant, bearing date October 15, 1914. The appellee is the assignee of the interest of Samuel L. Kintner and Halsey M. Barrett, Receivers, etc., under this agreement.

At the time this agreement was made and for some time prior thereto, appellant and the National Electric Signaling Company, the predecessor of the appellee, were engaged in the manufacture, sale and leasing of wireless telegraph and wireless telephone apparatus. Each was the owner of various patents covering such apparatus. Each

had made claims that the other had infringed its patents, and numerous suits, based on such claims, were pending between them. These suits also involved their purchasers and lessees.

The purpose of the agreement, as appears from its recitals, was to end this litigation over patent rights and to permit each party to continue its business of manufacturing, selling and leasing wireless telegraph and wireless telephone apparatus, without interference from the other and to protect the purchasers, lessees and licensees of each party from further litigation (Case, p. 22 to 23).

By this agreement each of the parties granted to the other, during the term of the agreement and under the terms and conditions therein specified, the right and license, but not exclusive, to make or cause to be made, sell or cause to be sold, lease or cause to be leased, use or cause to be used, wireless telegraph and wireless telephone apparatus embodying the inventions listed in Schedules A and B attached to the agreement (Case, p. 23 to 24 & 24). The agreement also provided for the discontinuance of litigation pending between the parties, their purchasers, lessees and licensees.

Each party agreed to pay to the other as a license fee or royalty for the respective licenses granted, 20 per cent. of the gross selling price of each set of wireless telegraph or wireless telephone apparatus, which it should sell under the terms of the agreement, including sales to the United States Government (Case, p. 26). Each party also agreed that during the term of the agreement, it would on each and every wireless telegraph or wireless telephone main set which it should thereafter lease under the agreement, pay to the other party as a license fee or royalty for the license granted, one-half of the rental over sixty dollars per month, which each should receive from the lessees, it being agreed that

the royalty should be at least $20 per month on each set so leased (Case, p. 24 L 38 to 25

The agreement further provided that it should continue in force until April 13, 1926, unless previously cancelled or terminated in accordance with the provisions thereof, the only one of which provisions pertinent to the present case is the proviso that the appellant might terminate or cancel the agreement at any time after October 15, 1915, and prior to October 15, 1918, by giving written notice to the appellee that it had elected to cancel or terminate the same, and such cancellation or termination should become effective ninety days after giving such notice (Case, p. 33 L 30 to p 34 L 1-14

On March 1, 1917, the appellant served written notice upon the National Electric Signaling Company and Samuel L. Kintner and Halsey M. Barrett, its receivers, that the appellant had elected to cancel or terminate the said agreement and that such cancellation or termination should become effective ninety days after the giving of such notice. Both parties continued to operate under the agreement until the day fixed by the above mentioned notice of termination, viz: May 30, 1917.

The appellant has accounted to the appellee for royalties due on the apparatus leased, sold and delivered during the period covered by the contract, but has refused to account for royalties on contracts of sale and leases made prior to the termination of the contract, but upon which deliveries were not made until after the termination of the contract, claiming that under the provisions of the contract, it is only obliged to pay royalties upon contracts of sale and leases upon which deliveries were made prior to the termination of the contract.

The only issue involved in this case is, therefore, whether the appellant is obliged to account to the appellee for royalties on contracts of sale and leases made prior to the termination of the contract, but

upon which deliveries were not made until after the termination of the contract, or only upon the contracts of sale and leases upon which deliveries were made prior to the termination of the contract.

Prior to the hearing of the case before the Court of Chancery, counsel entered into a stipulation of facts (Case, p. 55). This stipulation admits the facts above stated and that the appellee has done all things necessary to entitle it to an account if the appellant is liable to account.

It appears from paragraph 5 of the stipulation that the appellant, prior to May 31, 1917, entered into 19 contracts with the United States Government and also received from its general customers 8 orders and from its affiliated companies 4 orders, and entered into leases as appears by Exhibit D-4. These contracts, orders and leases were similar in form and one of each class has been printed in the state of the case (Case, p. 74) 91

The contract covered 3 of the appellant's patents, 105 of the appellee's patents and 80 of the appellee's applications for patents. It appeared that two of the appellee's patents had been declared invalid by the Circuit Court of Appeals of the 2d Circuit and had been declared valid by the Circuit Court of Appeals of the 3d Circuit. The appellant claimed in the Court below that because of the decision in the 2d Circuit, the agreement was without consideration and it was relieved from further accounting for that reason. The Court below ordered the appellant to account in accordance with the prayer of the bill.

ARGUMENT.

I.

The parties contemplated executory contracts of sale.

It is true that the word "sale" may either mean an executory contract of sale or an executed sale including the transfer of title. It is, however, a matter of common knowledge that in ordinary every-day transactions, the distinction between a sale that passes title and an executory contract of sale, is not heeded or observed. If goods are sold to be delivered and paid for at a future time, business men describe the transaction, and properly describe it, as a sale. In the present case the contract was made between two manufacturing and selling companies, and, as among all business corporations, as soon as a liability to deliver on one part and a liability to receive on the other has been created, it is understood, and such corporations consider, that a sale has been made. It is, we submit, in this sense that the word "sale" or "sold" was used in the contract.

In *Barber Asphalt Paving Co.* v. *Standard Asphalt Co.*, 58 N. Y. Supp. 405, the plaintiff imported and sold lake asphalt and the defendant imported, refined and sold land asphalt, both from the Island of Trinidad. They were business competitors in the markets of the United States. In January, 1893, they entered into an agreement, the sixth clause of which was as follows:

> "The Standard Company also agrees not to sell or supply asphalt to any person, firm, or corporation that does not agree to deal, and deal exclusively, in asphalt obtained from the Barber Company, by or through Standard Company, without the consent of the Barber

> Company; and the said Barber Company consents and agrees that the Standard Company *may sell land asphalt for the purpose of laying sheet pavement for a period of one year from the date hereof,* such pavement to be laid only in the cities of Syracuse, Cincinnati, and Troy, and its suburbs; otherwise subject to all the other provisions of this agreement."

The plaintiff contended that the permission granted to the defendant was not a permission to "sell" land asphalt for a year following the date of the agreement, but only a permission to sell "for use" within the year, that is, "the use of the defendant's land asphalt for paving" was limited to pavements laid within one year from the date of the contract, to wit, during the calendar year 1893. The referee construing the language of the sixth clause, *supra,* said:

> "In the second place, the plaintiff claims that the land asphalt mentioned in the complaint was not 'sold' by the defendant within the limited time; that is, during the year 1893. The argument is that the words 'may sell' in the sixth clause of the agreement are used in their 'plain, ordinary, and popular sense' (which is probably so); that they mean 'may make sales'; that a sale is a transaction between two parties by which title to property passes from one to the other; that title does not pass by an executory contract of sale; that such contracts are not, therefore, intended or permitted by the 'may sell' of the agreement; and that the defendant made no sales, but only executory contracts of sale, of the land asphalt in question. My opinion is that this claim ought not to be sustained. The facts are that in January, March, and August, 1893, contracts were made between the defendant and the Syracuse Improvement Company for the sale and purchase of sufficient quantities of land asphalt to pave and keep in repair certain streets in the city of Syracuse, such asphalt to be delivered and accepted before dates

mentioned in said contracts (some before July 1, 1893; some before November 1, 1893; some before June 1, 1894; some before September 1, 1894; and the remainder during the years 1894 and 1895), and that the 2,861 tons of asphalt referred to in the complaint were delivered by the defendant under the said contracts, and were actually used in pavements in 1894 and 1895. The dates of the deliveries have not been shown. When a sale is defined as 'a transfer of the absolute title to property for an agreed price' (Story, Sales, sec. 1), or as a 'meeting of minds by which a title passes from one and vests in another' (Butler *v.* Thomson, 92 U. S. 415) the definition covers or includes the entire transaction, which, from being executory, has become executed by delivery, or payment, or performance of conditions, or separation or identification and appropriation of the thing sold, or other act or event on which the transfer of title is, by the agreement of the parties, made to depend. * * * It is, however, matter of common knowledge that in ordinary, everyday transactions the distinction between a sale that passes title, and an executory contract of sale, is not heeded or observed. If goods are sold, to be delivered and paid for at a future time, business men describe the transaction, and properly describe it, as a sale. In the Century Dictionary 'sale' is defined as follows: 'In law, a contract for the transfer of property from one person to another for a valuable consideration' * * * It is also often used as indicating a present transfer, as distinguished from a contract to transfer at a future time, which is sometimes termed an 'executory sale.' In Decker *v.* Furniss, 14 N. Y. 611, the contracts stated, 'Brown sells to Furniss', etc. Judge Comstock said that the language imported an executed sale, but that phrases of that sort are used in a very loose sense and are quite inconclusive, and that 'their literal signification is often overruled by the tenor and purpose of the whole instrument;' and Judge Wright added, 'An adherence to the literal purpose of the word 'sells'

> would overrule the intention which the provisions of the agreement, as a whole, plainly indicates'. It is plain to me that the words 'may sell' were not used by the plaintiff, in the sixth clause of the agreement, in any other than the ordinary sense, and that the plaintiff did not thereby intend to restrict the defendant to sales of land asphalt by which title would at once or presently pass to the purchasers."

The Supreme Court, Appellate Division, affirmed the judgment of the Court below on the opinion of the Referee as above quoted.

This case was later approved by the New York Court of Appeals in *Fries* v. *Merck,* 167 N. Y. 167, 60 N. E. 777, hereafter cited.

II.

That executory sales were in contemplation by the parties when they used the word "sold" is further evidenced by the agreement itself.

The parties to the agreement, as appears from the recitals, had been in the same business and were in the same business as was contemplated to be continued by them afterwards—the manufacture and sale of patented apparatus concerning wireless telegraph and telephone service. They had brought action for infringement of each other's patents. The object of the agreement, as stated therein, was to secure to the public and themselves relief from claims of infringement by each of the parties and to establish a market where each might furnish the most efficient apparatus to the public without rendering the public or the users of that apparatus subject to claims for infringement by

the other and to release the public and the parties to the agreement from damages for past alleged infringements (Case, p. 238 1-15

By Section 16 they agreed to release and discharge each other and the purchasers of each from liability on prior transactions and, in defining what they considered to be a transaction of the past, expressly provided that their vendees, lessees and customers should have the unmolested right "to continue the use of the apparatus which had, at the date of the agreement, been delivered or *contracted to be delivered* to such vendees, lessees or customers and without any claim for damages or profits or license fees by reason of such continued use". Had it been the intention that a sale or lease should not be considered to be a completed transaction until title had vested or possession been delivered thereunder, then in dividing the past from the future they would have included apparatus contracted to be delivered prior to the agreement as a sale during the term of the agreement and required royalties to be paid thereon.

The appellant desires by its construction to burn the appellee's candle at both ends. On the one hand, having been relieved on contracts made prior to the execution of the agreement but on which delivery should not be made until after the execution of the agreement, it now asks the Court to relieve it from liability on contracts of sale made during the terms of the agreement but on which the deliveries were not made until after the termination thereof. The 16th section expressly defines what was considered by the parties as a sale of the past, and indicates clearly what should be considered as a sale by them in the future. Neither in equity nor in reason can it be said that when a liability to deliver had been created by contract that the one party or the other could be deprieved of the benefit or relieved of the liability under the contract

because it should happen that for one reason or another delivery might not be completed within the term of the contract. Had the parties contemplated that delivery was necessary to complete a sale, they would undoubtedly, instead of using the words "sell" or "may sell", have used the phrase "sold and delivered" and "may sell and deliver".

It is a matter of simple equity that where an agreement deals with transactions of the same class, extending over a period, and excludes at the beginning, transactions in which contracts of sale exist, but on which no deliveries have been made, that at the termination of the agreement the same test as to what constitutes a sale during the term of the agreement should be applied.

In construing an agreement, the Court will place that construction upon the agreement that will render it reasonable rather than unreasonable, and just to both parties rather than unjust. Am. & Eng. Ency., Vol. 17, p. 18, para. VIII, and cases cited.

III.

The benefits and burdens of the contract were intended to be reciprocal.

As soon as a legal obligation to deliver was created by either party, it became entitled to the benefits and subject to the burdens of the contract. By paragraph 19 it was expressly provided that the term of the contract should extend to and include April 13, 1926, unless previously cancelled or terminated in accordance with the provisions thereof. It was provided that the appellant might terminate or cancel the agreement at any time after October 15th, 1915, and prior to October 15th, 1918, by giving a written notice to the appellee that it had

elected so to do, but that such termination should only become effective ninety days after giving such notice. If this means anything, it means that the contract should have the same force and effect during the ninety days after the notice had been given as it had prior thereto, and that either party should be entitled to exercise the same rights which it might have exercised under the contract prior to the giving of the ninety days' notice. It is not suggested in the contract that after the ninety days' notice had been given either party should be required to take into consideration the additional hazard in making a contract of sale on which they would be liable to deliver that such delivery might for one cause or another be delayed until after the expiration of the ninety days and that in case of such delay that if they completed their contract obligation they would not be entitled to the protection of the contract upon payment of the royalty but would, if they chose to perform their obligation, be liable to the other as an infringer. Yet if appellant's construction is correct, no contracts could have been safely made on which deliveries could not be completed within the ninety days without becoming liable as infringers. This construction would deprive the parties of the full benefit of the contract for a part of the term it was expressly stated the contract should continue in force. In other words, the appellant's construction of the contract would limit the appellee's sales to apparatus which could be completed and delivered within ninety days of appellee's contract to sell, and appellee would thereby be deprived of the benefit of the contract for a portion of the term it was expressly agreed it should continue in force. This certainly could not have been contemplated by the parties to the contract at the time of the making thereof.

The appellant's construction creates even a worse situation. Assume a contract had been made by

appellee prior to the time any notice of termination had been given calling for deliveries four months after the date thereof. Within the next month the appellant could give a notice of termination effective in ninety days. Can it be said that the parties contemplated that although the appellee was under a legal obligation to deliver the apparatus thus contracted for in good faith before any notice of termination was given, that the appellant might by giving a notice of termination effective in ninety days place the appellee in the position where it either would have to refuse to carry out its contract obligation and be liable to damages to its purchaser or elect to carry out its obligation and make itself and its purchaser liable to the appellant for infringement?

The agreement itself expressly recites that it was entered into in the interest of the public. Can it be said that any construction of the agreement which would not permit the parties to perform their legal obligations entered into during the term of the agreement would be in the interest of either the public or the contracting parties? Surely it was intended that on such sales by paying the royalties the appellee could protect itself and its purchasers from the charge of infringement. Each party being entitled to the benefit of the agreement on contracts made by them during the term of the agreement, which includes the full ninety days after notice of termination was given, each party likewise is subject to its burdens on contracts of sale made by it during that period. We submit that it was clearly intended that when a liability to deliver had once been created during the term of the contract then the parties might make deliveries on that obligation, whether before or after the termination of the contract, and receive the protection of the contract and relieve its purchasers from all liability as infringers.

Dibble v. *Dimick*, 38 N. E. 724 (N. Y.), was an action by Dibble against Dimick to recover for agent's services rendered. The plaintiff was a salesman in the employ of the defendant. The complaint alleged that the plaintiff had performed services for the defendant as a salesman from November 15, 1889, to January 20, 1891, and that the services were worth $4,100., of which a balance remained unpaid of $1,669.59. The answer admitted the rendering of the services; that the payment referred to in the complaint had been made, but denied that the above balance was due.

The Court said:

> "The referee allowed the plaintiff commissions on goods ordered before, but not delivered until after, his discharge. There was no error in this ruling. The services were rendered when the plaintiff solicited and obtained the orders for the sale of the goods, though the commissions might not be due or payable until the goods were actually delivered; but it was not necessary that the delivery should be made during the plaintiff's employment. The discharge of the plaintiff could not affect his right to compensation for services rendered up to that time."

In *Fries* v. *Merck*, 60 N. Y. Supp. 1085 (Sup. Ct. App. Division, 1899), plaintiffs and defendants, competitors in the business of selling saccharine, entered into a contract on May 1, 1896, whereby plaintiffs became sales agent for the defendants' article, upon which the latter held letters patent; and defendants agreed to pay plaintiffs 50 cents a pound for each pound of saccharine which might be sold and delivered by the defendants either to the plaintiffs or to any other person "until said letters patent shall expire or as long as this contract

remains in force as hereinafter provided". The contract contained this provision:

> "Should said letters patent, however, in the meantime be infringed upon by any person or firm, or should the market of the United States for any other reason be no longer under the exclusive control and in the absolute possession of the parties of the first part (the defendants) without their fault, connivance, act of commission or omission, then the parties of the first part shall have the right to terminate this agreement on five days' written notice, but the same in all respects shall be again enforced upon the parties of the first part being reinstated in their rights and restored to such exclusive control during the legally unexpired term of said letters patent."

Because of an infringement and consequent cessation of the defendants' absolute control of the market the contract was suspended from August 1 to September 26, 1897. During this period the defendant sold over 3,500 pounds of saccharine, the greater part of which, however, was not delivered to the purchasers until after September 26. The Court, holding that plaintiffs were not entitled to recover, said:

> "The defendants bound themselves to pay the plaintiffs 50 cents upon each pound of saccharine 'sold and delivered' while the contract was in force. The plaintiffs contend that a 'sale' is not complete until title passes by delivery; and hence that, in the eye of the law, the 'sale' in the present case, as well as the delivery took place after the contract was resumed. But this argument completely ignores the original transaction, which resulted in the subsequent delivery of the goods. It assumes that the word 'sold' as used in the contract, referred exclusively to an executed, and not to an executory, sale. This construction is neither within the letter nor the spirit of the

> contract. * * * *With what grace could the defendants have refused to pay the plaintiffs upon goods contracted to be sold prior to August 1st (when they had complete control of the market, and higher prices were consequently obtainable) merely because such goods were not delivered under the contract until the period of suspension? The defendants, under such circumstances, would not have been heard to say that the sale was only executed upon delivery, nor would they have been heard to say that because of the use of the words 'sold and delivered' the contract and delivery must both be within the period when the bargain was in force. The essential bargain was that, when the defendants made an agreement to sell during the running life of the contract, they were, upon delivery and payment (at any period) to give the plaintiffs the agreed bonus. But they were not bound to do so when the agreement of sale was made during the suspension of the contract, although delivery and payment might be made after the resumption of the arrangement."*

This decision was affirmed on appeal by the Court of Appeals. *Fries* v. *Merck*, 60 N. E. 777.

The Court, affirming the decision of the Court below, said in part:

> *"The only issue between the parties, and the only question to be determined upon this appeal, is whether the agreement fixing the commission to be paid the plaintiffs by the defendants applies to executory sales made by the latter to their customers during the time of such suspension, where the goods were delivered after the plaintiffs were reinstated under the agreement. * * * The question presented by this appeal involves the construction of the agreement between the parties.* The defendants bound themselves to pay 50 cents upon each pound of saccharine 'sold and delivered' while the contract was in force. If literally construed, both a sale and delivery must be made while the contract was in opera-

tion, before any liability for the royalty or commission would be incurred. The plaintiffs, however, contend that a sale is not complete until the title passes by delivery, and hence legally the 'sale and delivery' took place after the contract was reinstated as to the goods delivered after September 27th, although a valid contract of sale was made during the suspension of the agreement. This contention entirely omits the original agreement or contract of sale, which ultimately resulted in the delivery of the goods. In other words, it assumes that the word 'sale' referred only to an executed sale, and not to an executory one. We think this construction is too narrow and does not carry into effect the intention of the parties or the spirit of the contract. The contract discloses that its essential and fundamental purpose was to confer upon the defendants exclusive control of the market for the goods to which it relates, that they were to pay the royalty or commission only while they had such control, and that while it was lost they were to pay nothing whatever. * * * The contention that the requirements of the contract, that the defendants should pay 50 cents for each and every pound of saccharine sold and delivered by them during its continuance, included goods sold during its suspension, but not delivered until afterwards, cannot, we think, be sustained. Literally the right to the royalty or commission was dependent upon both a 'sale and delivery' during the existence of the contract, and would not include a sale during its suspension, although the goods were delivered afterwards. *Moreover, when we contemplate the purpose of the contract and the evident intention of the parties, it becomes manifest that it was not their intent that the defendants should pay a royalty or commission upon sales during the suspension of the contract, whether they were executory or executed.*"

Jacquin v. *Boutard,* 35 N. Y. Supp. 496 (affd. without opinion, 51 N. E. 1091), was a suit on a

contract by which defendants employed plaintiff as their agent to sell goods and upon which defendant agreed to pay plaintiff certain commissions for sales so made. The Court holding that plaintiff was entitled to commissions under the contract, for goods sold before, but delivered after the expiration of his agency, said:

> "The first question which suggests itself is whether the plaintiff would be entitled to commissions upon goods sold during the life of the contract, but deliverable afterwards; for it is the fact that the character of the business done under the contract was such that a large part of the sales made in the fall of 1892 would, in the ordinary course of business, not have been delivered until after January 1, 1893. While this question relates to the measure of damages, it is, nevertheless, a substantial one; for, unless the plaintiff is entitled to recover compensation for goods sold prior, but delivered subsequently, to the expiration of the contract, the judgment must be reversed, because of the refusal of the Court to charge a request upon that subject, preferred by the counsel for the defendants.
>
> "The compensation to be paid to the plaintiff for keeping an office, putting defendant's name upon the door, supervising credits, underwriting his commissions, directing the salesmen and superintending delivery, was a commission on the net sums paid in currency. It is evident that under the contract the plaintiff's commissions were intended to be calculated according to the year's business, and payment thereafter to be made when the net sum should be paid in currency. If this be not the proper construction, then it is apparent that, no matter how long the contract may have continued, plaintiff would have had six months' work without pay, during which time he would necessarily be under a substantial expense, and, in addition, be liable over to the defendants to the extent of his commissions

upon any orders taken for which payment should not be made by the purchasers. For it will be remembered that it was the duty of the plaintiff, under the contract, to supervise credits, and to reject orders if not satisfied with the purchasers' responsibility; the effect of mistake upon him being not only the loss of commissions, but a liability to the defendants, in addition, in a sum equal to his commissions on such orders. As this duty of supervision continued under the contract until its termination, it is clear that the liability which guaranteed its faithful performance likewise remained, and this liability, as we have observed, was in each case equivalent to the stipulated commissions. It would seem to follow that, if plaintiff had taken any orders, or defendants had sold goods deliverable in the United States, during that period, the plaintiff would have been entitled to compensation."

IV.

The appellee's construction of the agreement is in accord with its expressed purpose.

The agreement itself contains a statement of the motives which actuated the parties at the time it was made. It recites the ownership of patents covering the same kind of apparatus by both parties; the claims of infringement made by each party against the other; the litigation based upon these claims pending between the parties; that each of the parties desired to make lawful use of some or all of the inventions covered by the letters patent of the other party.

It thus appears that prior to this contract both parties and their customers were threatened with

infringement suits on every sale made by each and it was this confusion and uncertainty that prompted the parties to enter into the agreement. The purpose of the agreement is expressed in one of the recitals as follows:

> "WHEREAS, it is desired, in the interests of the public, that said conflicting claims of each of the parties hereto against the other should be adjusted, and the right of each party to manufacture, sell, use, and lease to others to be used, the patented apparatus, so that users of wireless telegraph and wireless telephone apparatus may obtain the most efficient apparatus and will not be subjected to claims under the patents of one party by reason of the purchase, lease or use of such apparatus from the other party;"

It is fundamental that that construction of the agreement should be adopted that is best calculated to advance the objects of the parties by suppressing the mischief and securing to each and the public the benefits intended. The appellee's construction accomplishes this purpose, while the construction contended for by the appellant absolutely nullifies it.

On all sales made by appellee, even though made long prior to any notice of cancellation, but on which deliveries had been made since, the appellant claims that by the exercise of its right to cancel, the appellee must refuse to deliver or subject both itself and its purchasers to suits for infringement. The same is true of sales of the same class made by the appellant, and by reference to the statements presented by the appellant, it appears that many of the sales made by it, upon which deliveries were not made until after the agreement had been ended by cancellation, were made long prior to the time when the notice of cancellation was given. One was made as early as August 17, 1916, another on August 24, 1916, another on January 24, 1917, an-

other on January 27, 1917, two on February 3, 1917, another on February 16, 1917 (see Statement No. 95, Case, p. 92); another in December, 1916, another on January 27, 1917 (see Statement No. 96, Case, p. 93); another on September 21, 1916, another on September 30, 1916, another on November 3, 1916, and another on January 24, 1917 (see Statement No. 97, Case, p. 94). The notice of cancellation was not given until March 1, 1917, and did not become effective until May 31, 1917.

These sales were made long before the appellant had any thought of cancelling the agreement and by its cancellation it now comes in and claims that the appellee's only relief in connection with these sales is to bring a multiplicity of suits for infringement. It attempts to create the very condition that was intended to be avoided by the agreement and at the same time relieve itself from liability justly incurred under the agreement and during the period it was in force. Assume that at the time of the termination of the agreement in question each of the parties had outstanding contracts for the sale of apparatus involving the patents of both. The situation would then be, upon the appellant's construction of the contract, that neither party could perform its contractual obligation without subjecting both itself and its purchaser to infringement suits, which result cannot be said in anywise to be for the benefit and protection of the parties or the public.

On the other hand, the appellee's construction gives to both parties and the public the protection intended and which, as expressed in the agreement itself, was the object of the parties. Both parties contemplated that for the full term of the contract each of the parties should have the privilege of exercising its right thereunder,—to negotiate sales involving the patents of the other party to the con-

tract and to do this without incurring any liability to the other party except that specified in the agreement, and it surely must have been intended that the purchasing public, after having relied for months on one of the parties to fill an order for its needs, should not, by an arbitrary act of the other party to the agreement in question, be placed in the position of an infringer.

It certainly was not intended by the contract to work a forfeiture of any rights either of the other party to the contract or the purchasing public, acquired prior to the termination, or, as the appellant contends, even prior to the time notice of termination was given. Forfeitures are not favored in the law. We submit that it is the duty of the Court, when the contract is fairly susceptible to more than one construction, to adopt that which will not work a forfeiture of the acquired rights of either party or the public. Am. & Eng. Ency., Vol. 17, p. 18, para. 4, and cases cited. See also 43 N. J. L. 300.

The construction contended for by the appellant would absolutely frustrate the purpose which the agreement was intended to accomplish and would work a forfeiture of rights which had been acquired under it prior to its cancellation, while the construction placed upon the agreement by the appellee would protect all rights acquired under it during the period that it continued in force and would accomplish the purpose which was in the minds of the parties at the time the agreement was made.

V.

Any other construction would open the door to fraud.

For instance, it would put it in the power of the appellant, as soon as the appellee got a particularly large and profitable contract on which deliveries could not be made within ninety days, to give the appellee notice of a termination of the contract and thereby deprive the appellee of the protection contemplated by the contract on an obligation which it had honestly made before any notice of termination had been given. On the other hand, if the appellant received a particularly large and profitable contract on which deliveries might be made within the ninety days, it could by giving notice and fraudulently deferring deliveries until after the ninety days, defraud the appellee of the benefit of its compensation under the contract. Furthermore, the appellant could go out in competition with appellee on a prospective contract of large proportion for apparatus involving its own patents, and underbid them by excluding from their price royalties payable under the contract. The appellee in its bid would have to provide for the royalties it was required to pay under the contract, and necessarily would be required to bid a higher price on the contract than the appellant. The appellant by giving a ninety days' notice could terminate the contract, and profit by its fraudulent conduct and deprive the appellee of its just compensation under the agreement.

In each of these cases the appellant would have the whole matter in its own hands and the appellee would be entirely subject to its caprice in the matter. The evidence of the fraud would be entirely within the control of the appellant and the appellee

would be placed in a position where it would be deprived of its just compensation under the contract without any opportunity whatever of being able to successfully show evidence of this fraud, whereas, upon the appellee's interpretation of the contract, a contract when made immediately produces evidence of liability on the part of the appellant for royalties and gives to the appellee a source of proof to establish that liability in the control of parties other than the appellant. The appellee's construction of the contract obviates this unfairness and makes it possible for it to protect itself against such frauds by showing contracts of sale within the period of the contract. It gives to each party the benefit of the contract for the full term thereof, and deprives the other party of the opportunity of avoiding its honest obligations under the contract by the practice of such frauds.

VI.

As to the fourteenth, sixteenth and twenty-eighth clauses.

Appellant sought to sustain its construction of the contract in the court below by reference to the fourteenth, sixteenth and twenty-eighth clauses of the contract.

As to the fourteenth clause.

The appellant intimated in its brief in the Court of Chancery that under this clause it was the intention of the parties that no matter how many sets of apparatus either of the parties sold, if by any chance or connivance the purchaser delayed payment until after the termination of the agreement

by reason of such delay the parties to the agreement were relieved from any payment of royalties on account of such sale. The mere statement of this seems sufficient to indicate its unsoundness. It is perfectly apparent that the provision that the parties should only pay license fees and royalties on sales or leases "for which it had received payment" was inserted solely for the purpose of relieving the collector from paying to the other party royalties before they had been received by it,—a perfectly sane and reasonable provision that needs no other justification than common sense and furnishes no basis whatever for the contention that either party should for any period receive the benefits without being subject to the burdens.

As previously stated, the benefits and burdens were undoubtedly intended to be reciprocal, and to say that either party should have the right to make use of the patents of the other during the term of the agreement, without paying the amount specified by the agreement for that use, seems to us absurd. Under the construction contended for by the appellant, even assuming a sale to mean an executed transaction, neither party would have to account to the other for the sales made prior to the date of cancellation of the contract and subsequent to the last accounting. In other words, if a three months' notice of termination were given on the last day of January, April, July or October, the party giving the notice would be relieved from an accounting for sales subsequent to the first days of February, May, August and November, or, in other words, for all the sales during the last three months, less one day, of the contract.

In *Singer Sewing Machine Co.* v. *Brewer,* 93 S. W. 755, plaintiff and defendant entered into a contract by which defendant employed plaintiff as a managing salesman. Later defendant discharged plaintiff and paid the amount of all commissions

collected up to that time on sales. Among other things, the contract provided: "Fourth. It is expressly understood and agreed between the parties hereto that the foregoing compensation shall be full payment and satisfaction for all services of every kind and nature rendered by said party of the second part, and that all his claims therefor shall cease immediately upon the termination of this agreement." The commissions sued for were on sales made on the instalment plan prior to the plaintiff's discharge, but the amounts were not collected until after his discharge. The Court, holding that plaintiff was entitled to commissions on the amounts collected after his discharge, said:

> "The sole question presented by the appeal is whether, under the contract, appellee was entitled to commission on sales made during his period of service where the collections were made after his discharge. It is the contention of appellant that appellee was entitled only to commission on collections made while he was in service, and that he was precluded from recovering commissions on collections made after his discharge by the fourth clause of the contract, which provides that 'all his claims therefor shall cease immediately upon the termination of this agreement'. We do not think that the proper interpretation of the contract supports that contention. It will be observed that the contract provides three methods of compensation for the services of the agent, viz: (1) A fixed salary of $12. per week, which included pay for use of his horse and wagon; (2) a commission of 15 per cent. on all sales or leases of machines, the same to be payable as payment on the sales or leases was made; and (3) a remitting commission of 5 per cent. on the net amounts collected and remitted to the company. It is evident that the commission of 15 per cent. was intended as compensation for the sales and leases and was earned when the sales or leases were consummated, though payment of

the commission was to be postponed until the collections were made. * * * The selling commission having been earned by the agent while in service, he could not by discharge be deprived of it, even though the payment was, under the contract, postponed until the money should be collected. His right to it depended upon the prices or rentals of the machines which he had sold or leased being finally collected, but it was not essential that the collections should be made during his period of service. We do not think that the language of the contract quoted above was meant to work a forfeiture, upon termination of the period of service, of compensation already earned. Forfeitures are not favored in the law, and in order to be enforced they must be plainly and unambiguously provided in the contract. It is the duty of courts, when contracts are fairly susceptible of more than one construction, to adopt such as will not work a forfeiture of the acquired rights of either party. Arkansas Fire Ins. Co. *v.* Wilson, 67 Ark. 553, 55 S. W. 933; Letchworth *v.* Vaughan (Ark.) 90 S. W. 1001; Little Rock Granite Co. *v.* Shall, 59 Ark. 408, 27 S. W. 562. The language referred to must be construed to mean, not that compensation already earned should be forfeited, but that either party should have the right to terminate the contract at any time and stop the earning of further compensation, and that upon such termination no further compensation should be claimed except that stipulated in the contract and already earned at that time. The construction contended for by appellant would cut off the right of appellee, upon discharge, to claim unpaid salary which he had earned while in service, but this is too unreasonable to find support in any fair rule of interpretation. While the cardinal rule for construction of contracts is to arrive at the real intention of the parties, if possible, yet, where that intention is doubtful or obscure, a construction should be adopted by the courts which is most fair and reasonable and which will impose the least hardship upon

> either of the contracting parties. 1 Beach Mod. Law of Contracts, Sec. 708; Little *v.* Banks, 77 Hun 511, 29 N. Y. Supp. 87; Wright *v.* Reusens, 133 N. Y. 298, 31 N. E. 215. Applying this salutary rule of construction we think the trial court properly interpreted the contract and allowed a recovery for commissions."

As to the sixteenth clause.

The effect of this clause upon the construction of the agreement has been considered under Point II of this Brief and need not be repeated here.

As to the twenty-eighth clause.

The appellant argues that the provision of clause 28 of the agreement (Case, p. 37 [illegible]), that in case of cancellation of the agreement the licenses granted shall not be cancelled with respect to the apparatus which either party may have leased prior to such cancellation for which the licensee shall continue to pay the royalties provided for by the agreement, implies that the parties deemed it necessary to use this express provision with reference to leases or that otherwise the liability as to leases made prior to the cancellation would end with such cancellation, and that the parties considered that the apparatus leased before cancellation would not be subject to payment of royalties for rentals which either party received after the cancellation without an express provision to that effect.

This argument is based upon a failure to appreciate the essential difference between a lease and a sale under a license of this character. It is fundamental that a grantor cannot grant any greater estate than he possesses. The parties in the present case granted to each other the right to lease apparatus involving the patents of the other "during the term of this agreement" (Clauses 1

and 2). By paragraph 4 they recognized this limitation upon the grant and provided that royalties should be paid on such leases "during the term of this agreement".

At the time of the making of the agreement the Marconi Company had equipped some five or six hundred ships with new equipment which admittedly infringed the patents of the appellee. Equipment of this kind would cost in the neighborhood of $2,000.00 per set and represented an investment on the part of the Marconi Company, of $1,000,000.00 or more. The Marconi Company was in need of assurance that the appellee would not cancel the agreement after having made such an expenditure and that they be given some means of protecting such investment and similar investments after the contract was executed, in the event that appellee exercised its right to terminate the agreement.

Since under the law and under these provisions of the agreement neither party was authorized to make leases, which would continue in force after the termination of the agreement, it became necessary in order to protect the lessees of each party to provide for the continuation of the leases after the agreement had been terminated. This provision was made by the insertion of clause 28 which gave the necessary protection upon the condition that the royalties should be paid after the termination of the agreement.

Clause 28 has no bearing whatever upon the proper construction to be placed upon the word "sell". The license gave the parties the unconditional right to make sales during the full term the license was in effect, and it is well settled that the sale of a patented article takes it out of the monopoly, and the right of the purchaser and subsequent owners to use it continues until the article is worn out. 22 Am. & Eng. Ency. of Law, p. 437 (2); Walker on Patents, 5th Ed., Sec. 361.

In *Chaffee* v. *The Boston Belting Co.*, 22 How. (U. S.), 217, page 223, the Court said:

> "When the patented machine rightfully passes to the hands of the purchaser from the patentee, or from any other person by him authorized to convey it, the machine is no longer within the limits of the monopoly. According to the decision of this court in the cases before mentioned, it then passes outside of the monopoly, and is no longer under the peculiar protection granted to patented rights. By a valid sale and purchase, the patented machine becomes the private individual property of the purchaser and is no longer protected by the laws of the United States, but by the laws of the State in which it is situated. Hence it is obvious, that if a person legally acquires a title to that which is the subject of letters patent, he may continue to use it until it is worn out or he may repair it or improve upon it as he pleases, in the same manner as if dealing with property of any other kind."

This fundamental distinction between the rights acquired under a lease made pursuant to a license which might be terminated before the expiration of the term fixed in the lease and those acquired under an unconditional sale made pursuant to the same kind of a license, was undoubtedly the basis for the distinction between the leases and sales made by the provisions of the contract. The eighth clause of the contract provides that royalties shall be paid on all sales made "under the terms of this agreement". In view of the essential distinction above named, between the rights acquired by lessees and purchasers, this language furnished the same degree of protection to the parties to the contract and to their vendees, that the twenty-eighth clause in connection with the fourth clause furnished to the parties and their lessees. This twenty-eighth provision is but another indication of the fact that the purpose of the parties to this

agreement was to provide against a forfeiture upon the termination of the agreement. Certainly there is nothing in the contract that would indicate that any construction should be given to it that would result in a forfeiture.

VII.

Appellant's promises are supported by good consideration which has not failed.

Appellant contends that because two of the patents of the appellee, namely Nos. 918,306 and 918,-307, were declared invalid by the Circuit Court of Appeals for the Southern District of New York (*Kintner* vs. *Atlantic Communication Company,* 240 Fed. 716), there was a failure of consideration for the agreement which operates to relieve it from the duty of accounting, even though under the terms of the agreement it obligated itself to account.

Under the agreement in question appellee received the license to use, lease and sell apparatus involving three of appellant's patents, and the appellant received the right to use, lease and sell apparatus involving 105 of the appellee's patents and in addition 80 features pertaining to wireless telegraphy and telephony on which applications for patents had been made. Of these patents several have been involved in litigation in suits between other parties. Two of the appellee's patents, Nos. 1,050,728 and 1,050,441, have been adjudged valid (241 Fed. 956). Two patents mentioned in appellant's brief, namely, Nos. 918,306 and 918,307, were declared valid by the Circuit Court of Appeals of the Third Circuit (*National Electric Signaling Co., et al.* vs. *Telefunken Wireless Tel. Co.,* 208 Fed. 679). They were declared invalid as above stated

by the Circuit Court of Appeals for the Southern District of New York (*Kintner* vs. *Atlantic Communication Co.*, 240 Fed. 716). None other of the appellee's 105 patents have been declared to be invalid.

The appellant argues that because the Circuit Court of Appeals of the Southern District of New York in a suit between different parties has declared two of the appellee's patents to be invalid, this constitutes a complete failure of consideration, and as a matter of law terminated its liability under the agreement in question. This contention is based upon assumptions both of law and of fact, which we submit are clearly erroneous.

FIRST: It assumes that in this suit there is evidence upon which the Court should have found that the two patents declared by the Circuit Court of Appeals of the Southern District of New York to be invalid are, in fact, invalid, whereas, as a matter of fact there was no evidence before the Court in this suit as to the invalidity of the two patents, which have been held to be both valid and invalid by courts of other jurisdictions. Neither of the suits in which these patents were litigated estopped either of the parties to this suit in maintaining or opposing the validity of the patents. The decision of either of the courts that considered the patents is not *res adjudicata* in any sense of the word. The parties are not the same. If a stranger to any prior suit has the right to produce additional evidence for the purpose of showing the invalidity of the patent, it is equally clear that the owner of a patent would likewise have the right to produce evidence additional to that produced in the preceding suit to show its validity. A judgment or a decree entered in any suit must conclude both parties or it will conclude neither. The estoppel must be mutual. No person can take advantage of a judgment or decree if he would not have been prejudiced by it if it had been

otherwise. A person who was not a party to a former action cannot by accepting the result of the judgment therein make such judgment *res adjudicata* in his favor and preclude the parties to the action from objecting that the judgment was not binding upon him. *Ingersoll* v. *Jewett,* 16 Blatch. 378. A decree declaring the invalidity of a patent is not a proceeding *in rem,* and does not prevent the same or a different plaintiff from prosecuting a suit against another defendant and establishing its validity upon the same or different evidence. *Consol. Roller Mill Co.* v. *Geo. T. Smith Middlings Purifying Co.,* 40 Fed. 305.

The decision of the Circuit Court of Appeals for the Southern District of New York not being binding on the parties in this suit and there being no evidence as to the invalidity of the patents here involved, we submit that the Court must assume all the patents to be valid.

Pope Mfg. Co. v. *Owsley,* 27 Fed. Rep. 100, was a suit to recover royalties under a license agreement by the terms of which the plaintiff licensed the defendants to make bicycles, velocipedes and baby carriages under plaintiff's patents. The agreement covered eleven patents. The bill charges that defendants, acting under the said licenses, made monthly reports and paid royalties as called for by the respective agreements up to the 1st of March, 1883, when they refused to pay any more royalties and refused to make any more reports. The prayer of the bill was for the discovery of the number of bicycles and the number of baby carriages made by defendants in accordance with and under the provisions of the several licenses mentioned since they had failed to make their monthly reports as called for by the agreement.

One of the defenses set up by the answer alleged that two of the patents covered by these agreements had been declared void by the Circuit Court of the

Southern District of Ohio, and therefore this adjudication amounted to an eviction of the defendants and invalidated all of the agreements for licenses in which these two patents were included.

The Court, holding that this allegation of the answer constituted no defense, said:

> "It is urged, however, that the decision of the circuit court of the Southern district of Ohio that these two patents are void, amounts to an eviction, and, as I understand the argument of the learned counsel for defendants, invalidates all the agreements for licenses in which this patent was included with the others. I cannot agree with the learned counsel as to this conclusion. In the first place, that adjudication is binding only on the parties to that suit, and does not affect the relation between the parties to this contract; and secondly the licenses in question included a large number of patents, and provided that defendants should pay a stipulated royalty on all machines made by them 'embodying in their construction or mode of operation the inventions and improvements shown and described in each, all, or either of said "Letters Patent" '. * * * But these patents are not, in my opinion 'dead', as between these parties, merely because the judge in another circuit has held them void in some suit before him between different parties. By taking the licenses, these defendants waived and abandoned their right to contest the validity of these patents, or any of them, and agreed to pay the stipulated license fees; and merely because some one else has successfully contested the validity of one or more of these patents the defendants are not relieved from their obligations. The alternative to settle or litigate seems to have been fairly tendered them, and they chose to settle, and cannot now retreat from the settlement they made."

SECOND: Appellant assumes that it has used no feature covered by or constituting an infringement of any of the appellee's patents other than Nos.

918,306 and 918,307. It produced Mr. Saranoff, its general selling agent, to testify to this effect. Mr. Saranoff admitted that he was not a patent expert and had no special qualification to testify upon such a specialized subject, and therefore his testimony on this point cannot properly be considered by the Court. The complainant reserved the right if it became important to introduce evidence to show that the defendant in the apparatus sold had infringed other of appellee's patents (Stipulation, p. 5916. The appellee has made a study of their patents with reference to the deliveries of apparatus made by the Marconi Company under the agreement, including the period subsequent to the date of the decision of the New York Circuit Court of Appeals and thus far finds that in making the sales and deliveries of the apparatus in question the Marconi Company has also used appellee's patents Nos. 706,735, 706,742, 742,779, 1,014,002, 1,050,441, 1,050,728 and 1,141,717. Of these patents Nos. 1,050,728 and 1,050,441 have expressly been held to be valid by the District Court for the Southern District of New York (241 Fed. 956). The appellant admits that if appellee's patents Nos. 918,306 and 918,307 are valid, they have also used these patents, but submit no evidence upon which the Court could base a decision that such patents were invalid.

THIRD: Appellant assumes that it elected to stand upon the alleged invalidity of the patents from the date of the decision of the Circuit Court of Appeals for the Southern District of New York and thereafter refused to recognize any binding force to the agreement in question. This decision was rendered February 20, 1917. Subsequently the appellant has continued to receive from the appellee royalties due it under the agreement. It has paid to the appellees royalties due the appellee under appellant's

construction of the agreement. The contract is a complete contract and the right to the payment of royalties by either party to the other is as much a part of the consideration of the whole contract as the right of either to use the patents of the other. On March 1st, 1917, it served the notice of cancellation called for by the agreement, which act cannot be explained except upon the theory that it considered at that time the agreement was still in force and required ninety days' notice to effect its termination.

This attitude assumed by the appellant by which it has led the appellee to make further sales and leases during the ninety days the agreement had to run subsequent to March 1st, 1917, surely estops it from taking the position it now asserts. At no time has the appellant offered to return the consideration which was received by it under the agreement. In fact, it cannot place the appellee in *status quo.*

Even upon appellant's assumption of fact, its conclusions of law are equally erroneous.

In this connection it will be remembered that the appellant received a license to use one hundred and five of appellee's patents and also to operate under the protection of eighty applications for patents made by the appellee. It contends that because two of these patents have been declared by another court in an action between other parties to be invalid there is an entire failure of consideration for the agreement in question. In support of this contention the appellant is obliged to rely upon the further assumption of fact, not proved, that it used none other of appellee's patents except the two alleged to be invalid. The question of failure of consideration, however, depends not upon *the use* which the appellant may have made of its rights

acquired under the contract, but upon the rights which the contract gave it.

By the second clause of the agreement the appellee granted to the appellant the right to sell and lease wireless telegraph and telephone apparatus embodying the inventions of *each and all* of the appellee's patents enumerated and set forth in Schedule B (Case, p. 23 l. 39

By the third clause the appellee granted to the appellant the right to sell and lease apparatus embodying *each and all* of the inventions covered by any letters patent of the United States which might be granted on any of appellee's applications for letters patent included in Schedule B (Case, p. 24).

By the fourth clause of the agreement the appellant agreed to pay a royalty on *each and every* wireless telegraph or wireless telephone main set which it "shall hereafter lease under this agreement" (Case, p. 24 l. 38

By the eighth clause the appellant agreed to pay a royalty on *each set* of wireless telegraph or wireless telephone apparatus which it might sell "under the terms of this agreement" (Case, p. 26 l. 24

It will be noted that under these sections the royalties to be paid must be paid *on each wireless telegraph and telephone set sold or leased* by appellant whether such set embodied any features covered by appellee's patent or not. The amount of royalty to be paid was measured, not by the use made of the patents, but by the number of wireless telegraph and telephone sets sold and leased.

There is no attempt to apportion the royalties paid among the several patents. There can be no question but that under this agreement the appellant would have been liable to pay the royalties if it had seen fit not to use any of the patents of the appellee. This being so, even if two of the patents

were invalid the appellant is in no position to claim that there was a total failure of consideration. All of the cases cited by appellant's counsel are cases in which there was a total failure of consideration, and, we submit, have no application to the situation before the Court.

In *Sommers* v. *Myers,* 69 N. J. Law, 24, plaintiffs contracted to build for defendants an observation wheel, and in consideration of the sum of $200. per annum agreed to give to defendants the exclusive privilege of running and operating the wheel at a seaside resort during the continuation of letters patent under which the wheel was made. The wheel was completed and paid for by the defendants and operated for a period of one year, and the royalties for that were paid. The plaintiff brought this action to recover the accrued royalties for the succeeding four years, which remained unpaid. The defendants alleged that for two years of the time for which royalties were demanded they neither owned nor ran the wheel.

The Court held that the mere fact that defendants had failed to exercise the privilege conferred by the license constituted no defense.

McGill v. *Holmes, Booth & Haydens* (Supreme Court, App. Div.) 64 N. Y. Supp. 787, was an action brought to recover royalties under a license agreement. By a stipulation between the parties to the action the only question involved and to be decided was whether the defendant was bound to pay the plaintiff royalties on sales made by the defendant for the months of April, May and June. It was contended by the defendant that it was not liable under said agreements because the original patent on the fasteners licensed to be manufactured expired in 1883, and the defendant did not, during the term for which the royalties were sought to be recovered in this action, use any patented invention of the plaintiff applicable to said fasteners, but

that if it used any of the inventions described and claimed in the plaintiff's patents which had not expired on the 1st of July, 1897, the subsequent patents were void on their face for want of invention.

The Court, holding that the mere fact that the original patent had expired in 1883 constituted no defense to this action for royalties on the ground that there was not a total failure of consideration, said:

> "There is no express provision in the contract that, upon the expiration of a patent upon particular goods embraced within the contract, the royalty as to such goods shall cease, or that in case of the invalidity of a patent claimed to cover said goods, the defendant is excused from paying the royalty. If the foregoing view of the agreement is correct, then the case is not a case of a simple license to use a patent, the entire consideration of which fails if the patent fails, and the license does not secure the exclusive use which it purports to give. The entire share of the profits or royalty payable as well on patented and unpatented goods is the consideration to be paid by the defendant for all the concessions made by the plaintiff."

Sproull v. *Pratt & Whitney Co.* (Circuit Court So. Dist. of N. Y.) 97 Fed. 807, was an action for an accounting for royalties under a license agreement by the terms of which the plaintiff licensed the defendants "to manufacture in the U. S. the machines, punches, etc., under the aforesaid letters patent during the unexpired term thereof; also such other improvements therein as he may make or require during the continuance of this agreement". This agreement covered five letters patent, which expired at different times. The defendant contended "that it obtained as to each of the four patents named the exclusive right to make and sell *during the unexpired term of that patent and no longer* the invention covered by that patent, and

any improvement which the plaintiff might make or acquire on that invention", and that it was *only* bound to account for and pay royalties on sales made on each patent or improvement thereon *during the life of said patent and no longer.*

The Court held that the license agreement was an entire indivisible contract, by the terms of which the defendants were to pay royalties *as long as they continued to manufacture and sell the machines and tools which the agreement licensed them to manufacture and sell,* and until the youngest of the patents covered by the agreement had expired. It said:

> "In the absence of any stated apportionment of time or royalty, the contract is, in its nature, entire and it is doubtful whether the court would have the right to make it divisible, at least without proof by defendant of a substantial amount of separate use of said patented articles. The advertisements of said machines and tools showing conjoint use; defendant's admission that the machine, coupling and punch are ordinarily operated together; the fact that while the rights conferred were of unequal value, the defendant did not apportion the royalties in the payments under the agreement, but actually accounted for and paid the same in a lump sum, and continued so to pay for a considerable time after two of the patents had expired; the fact that the youngest patent, in a certain sense, controlled the punch and machine, because it coupled them together and that the grant of the right to manufacture all improvements which Kennedy might make or acquire, not during the unexpired term of any single patent, but 'during the continuance of this agreement', gave a contingent right of great possible value,—all support the construction of the agreement as an entire agreement for a single license for several patents, expected to be ordinarily used conjointly; and this construction gives effect to all the clauses of said agreement, and is supported by the doc-

trine of *contra proferentem*. In view of these conclusions I am inclined to think that defendant should pay the agreed royalty, based on the whole price of all of said articles, and of any combination of said articles containing any part of the patented inventions during the life of any of said patents."

VIII.

The agreement was a compromise agreement.

It is also perfectly apparent that the agreement is a compromise agreement. The recitals which appear at the beginning of the agreement show the pendency of suits brought by the parties against each other and their customers, and concludes with the recital:

> "Whereas the parties to this agreement are mutually desirous of settling and adjusting the controversy regarding the aforesaid patent rights which they respectively own, and of compromising the claims of the parties hereto against each other for past damages or profits arising out of any infringement of said letters patent of one party by the other, and of acquiring a license to transact its business under one or all of said patents owned by the other, as well as of protecting their said respective patent rights or the monopoly thereof."

It cannot be doubted but that a substantial part of the real consideration of the agreement was the discontinuance of the pending suits, and the release and discharge of each party by the other from all claims for damages and profits for alleged past infringements, which release included the rights of action which each might have against the vendees,

lessees and customers of the other. It also included the acquisition of the right by each party to continue the manufacture, use, sale and leasing of wireless telegraph and telephone apparatus without interference by the other party because of any claim by the other party that the apparatus involved an infringement of these patents.

Neither party conceded the validity of the patents of the other. Both, in fact, not only contemplated but claimed that the patents of the other were invalid, and by clause 17 of the agreement expressly declared their right to contest the validity of the patents of each other after the termination of the agreement. By this clause they provided for the use of evidence and exhibits taken in prior suits, discontinued under the terms of the agreement, in subsequent suits which might be commenced after the termination of the agreement.

Whether the patents of either party were valid or not, the parties to the agreement secured what they bargained for, namely, relief from litigation concerning infringement of patents during the term of the agreement. There is nothing in common between an agreement of this kind and a simple agreement between a patentee and his licensee granting to the licensee the right to manufacture, sell or use a patented invention, and the cases cited by the appellant, which construed agreements of the latter class, are in no way in point.

Strong v. *Carver Cotton Gin Co.* (Sup. Court of Mass.) 88 N. E. 328, was an action to recover royalties under a license agreement by which the plaintiff licensed to the defendant "the exclusive right to make, use and sell, and to vend to others to be sold or used with cotton seed linters, the said automatic feed attachments for the entire unexpired term for which said letters patent were issued". The principal issue raised on the argument was whether the agreement covered "automatic feed at-

tachments" which were not within the terms of the patent and not protected by it.

The Court, holding that the defendant was liable for royalties on "automatic feed attachments" which were not expressly covered by the patent, said:

> "Still further, it is competent for one to agree to pay a patentee a royalty for a license to manufacture a particular machine when he is uncertain whether it is covered by a patent or not. His payment in such a case is for exemption from disturbances by the patentee. Buss *v.* Putney, 38 N. H. 44; Heaton Peninsular Co. *v.* Eureka Co., 77 Fed. 290, 25 C. C. A. 267, 35 L. R. A. 728. If he makes an agreement of that kind, it is no defense to a suit for royalties that the patent is invalid, or that his machine is not covered by it. White *v.* Lee (C. C.) 14 Fed. 789; Marston *v.* Swett, 82 N. Y. 528; McKay *v.* Smith (C. C.) 39 Fed. 556; National Rubber Co. *v.* Boston Rubber Shoe Co. (C. C.) 41 Fed. 48; Pope Mfg. Co. *v.* Owsley (C. C.) 27 Fed. 108. See also Eureka Co. *v.* Bailey Co., 11 Wall (U. S.) 488, 20 L. Ed. 209. He has and enjoys that which he pays for, namely, immunity from any claim under the patent. The patentee gives up that which might be valuable, namely the right to prosecute for an infringement. So, under a contract like that between these parties, if the manufacturer says, I will manufacture this machine and treat it as covered by the patent, and the other party assents, he is bound by his agreement so long as he acts under it. It has been said in some cases that such an arrangement is covered by the license. Andrews *v.* Landers (C. C.) 72 Fed. 666; Sproull *v.* Pratt & Whitney Company (C. C.) 97 Fed. 807. The same principle has also been applied to hold the defendants liable as licensees in the following cases: Covell *v.* Bostwick (C. C.) 39 Fed. 421; Pope Manufacturing Company *v.* Owsley (C. C.) 27 Fed. 100-108; Milligan *v.* Lalance, etc., Company (C. C.) 21 Fed. 570; Kirk-

patrick *v.* Pope Manufacturing Company (C. C.) 64 Fed. 369. See also Eureka Company *v.* Bailey Company, 11 Wall. (U. S.) 488, 20 L. Ed. 209; Jones *v.* Van Kirk, 2 Fish. Pat. Cas. 586, Fed. Cas. No. 7500."

IX.

The agreement itself provided the only way in which it could be terminated.

Paragraph 19 of the agreement provided that the agreement shall extend until the 13th day of April, 1926, unless previously cancelled or terminated in accordance with the provisions thereof. Then follow two provisions providing for a termination of the agreement prior to that date. One provision gave each party the option to terminate or cancel the agreement at any time after October 15th, 1918, by giving at least one year's notice to the other party. The second provision permitted the appellant to cancel the agreement at any time after October 15th, 1915, and prior to October 15th, 1918, by giving at least ninety days' notice to the other party.

The 20th paragraph provided that if either of the parties failed to perform any covenant contained in the agreement, and should continue such failure for thirty days after service upon it of a written notice, then the other party might cancel and terminate the agreement by serving upon the defaulting party a written notice of such termination. No claim is made that anything was done under this paragraph.

Under the provisions of the 19th paragraph, if either party found the agreement unprofitable, it could terminate it at the time and in the manner therein provided. It was undoubtedly the inten-

tion of the parties that the agreement should not be forthwith terminated for any cause except those mentioned in the 20th and 21st (bankruptcy of parties) paragraphs. The defendant in making its claim of failure of consideration is seeking to do what it agreed not to do, namely, to terminate the agreement forthwith without notice, because, assuming the facts claimed by it, circumstances had arisen which made the continuance of the agreement unprofitable for it.

As already stated, the agreement shows that the parties contemplated that some of the patents involved might be invalid, and with this in mind they defined the particular circumstances and conditions under which the agreement might be terminated. They did not provide that it should be terminated in case any one or more of the patents should be held invalid. This being so, they were bound by their agreement irrespective of what might subsequently happen, and necessarily confined themselves to the limitations of the provisions of the agreement providing for cancellation and termination.

We respectfully submit that the decree of the Court below should be affirmed, with costs.

Respectfully submitted,

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The Evening Post Job Printing Office, Inc., 156 Fulton St., N. Y.

New Jersey Court of Errors and Appeals.

Between

INTERNATIONAL RADIO TELEGRAPH COMPANY,
Complainant-Appellee,

and

MARCONI WIRELESS TELEGRAPH COMPANY OF AMERICA,
Defendant-Appellant.

On Appeal.

REPLY BRIEF OF APPELLEE.

The reply brief of appellant was given to counsel of appellee just before the argument in the above case, and inasmuch as no opportunity was afforded for reading the brief prior to the argument, the appellee herewith submits the following:

It is argued in this reply brief that by the agreement in question the appellant did not promise to pay any royalties to the appellee for wireless telephone or wireless telegraph apparatus which it might sell or lease during the term of the agreement, which did not, in fact, embody any of appellee's inventions covered by the patents or applications enumerated in Schedule B. It is claimed that Clauses 4 and 8 of the agreement which provide for payment of royalties on such apparatus as the appellant might sell or lease under the terms of this agreement, support this view.

It is further argued that since Clauses 2 and 3

merely grant the right to sell and lease apparatus which embody the inventions covered by the appellee's patents, therefore, no apparatus was sold or leased "under the terms of the agreement", unless it in fact embodied the appellee's inventions.

Such a construction of the agreement would entirely frustrate its purpose.

As is shown in appellee's brief, the agreement was a compromise agreement, one of the main purposes of which was the discontinuance of litigation over patents pending between the parties and the securing of the right by each party to continue its manufacture of wireless telegraph and telephone apparatus without interference from the other. Each party claimed that the apparatus manufactured, sold and leased by the other infringed its patents, but neither party conceded the claim of the other. If the construction of the agreement now advanced by appellant were adopted, each party to the agreement could resist the payment of any royalties whatever under the agreement, basing such resistance upon the claim that its apparatus and appliances did not involve the patents of the other. It would thus become necessary, in order to collect royalties under the agreement, to litigate the very questions which the agreement was designed to set at rest. Under these circumstances, the discontinuance of the pending litigation as provided by the agreement would have been worse than useless, for it would necessarily have been immediately followed by fresh litigation involving substantially the same questions.

By the use of the phrase "under the terms of the agreement" the parties merely expressed their intention to secure for both parties the full protection and benefit of the agreement for the entire term thereof. The only rational construction of the contract is that each party agreed that the apparatus which it sold or leased during the period covered by the agreement should be licensed under the patents of the other in order to avoid any issue as to whether such apparatus actually involved such

patents and that consequently the royalties should be based upon the number of apparatus sold or leased during such period, whether or not the patents of the other were in fact involved. Only by the adoption of this construction can the purpose of the parties become effective.

Appellant calls the attention of the Court to the fact that pages 30 and 84 of appellee's brief contain the assertion that the appellant had used patents of the appellee other than the so-called high frequency patents and states that there was no proof to support these assertions. It will be noted in the stipulation that appellee reserved the right to submit such proof. This statement was incorporated in appellee's brief merely for the purpose of communicating to the Court the facts which appellee will be able to prove under this reservation should such proof be considered material.

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Solicitors of Complainant-Appellee.

JOSIAH STRYKER, Esq.,
J. EDWARD ASHMEAD, Esq.,
Of Counsel.

New Jersey Court of Errors and Appeals

Between INTERNATIONAL RADIO TELEGRAPH COMPANY, Complainant-Respondent, and MARCONI WIRELESS TELEGRAPH COMPANY OF AMERICA, Defendant-Appellant.	On Appeal from Chancery.

BRIEF FOR APPELLANT.

Statement.

This appeal brings up for review an interlocutory decree of the Court of Chancery referring the matter in controversy to a master to take and state an accounting of all dealings and transactions between the parties in connection with a contract attached to the bill of complaint, including all dealings, transactions and contracts for the sale, leasing, rental or other disposition of wireless telegraph and wireless telephone sets and parts thereof to any person or corporation whatsoever during the period covered by said agreement prior to the termination thereof on May 30, 1917, whether such sale, leasing, rental or other disposition of such sets or parts

thereof was consummated by delivery, passing title or otherwise prior to or after the termination of said agreement of May 30, 1917, and also an accounting of any license granted under clause 15 of said agreement. Said decree also provided for production of books, taking of testimony and making report as to what is due from each party to the other.

The bill prayed for such accounting under the agreement annexed thereto between the defendant and National Electric Signaling Company and its receivers, whose rights were subsequently assigned to the complainant-respondent. By the agreement dated October 15, 1914, the parties granted to each other during the term of the agreement the right and license (but not exclusive) to make, sell, lease, use and license wireless telegraph and wireless telephone sets embodying certain inventions and patents of each other enumerated in the schedules annexed to the agreement.

In consideration of the grant made by each party to the other each party agreed during the term of the agreement that it would on each and every wireless telegraph or wireless telephone main set which it should thereafter lease under the agreement pay to the other party as a license fee or royalty for the license granted one-half of the rental over $60 per month which each party should receive from the lessees, it being agreed that the royalty should be at least $20 per month on each set so leased (Printed Agreement, Clauses 4 and 5; Case, pp. 24, 25).

Under the agreement each party agreed to pay to the other as a license fee or royalty for the respective licenses granted 20 per cent. of the gross selling price of each set of wireless telegraph or wireless telephone apparatus which it should, under the terms of the agreement, sell, including sales to the United States Government (Printed Agreement, Clause 8; Case, pp. 26, 27).

And it was provided that the term of the agreement should be to and including April 13, 1926, unless previously cancelled or terminated in accordance with the provisions thereof, and it was provided that the party of the first part might terminate or cancel the agreement at any time after October 15, 1915, and prior to October 15, 1918, by giving written notice to the party of the second part that it had elected to cancel or terminate the same, and such cancellation or termination should become effective ninety days after giving such notice (Printed Agreement, Clause 19; Case, pp. 33, 34).

On March 1, 1917, the defendant served written notice upon the National Electric Signaling Company and Samuel M. Kintner and Halsey M. Barrett, its receivers, that it had elected to cancel or terminate the said agreement, and that such cancellation or termination should become effective ninety days after the giving of such notice.

The bill alleges that the defendant refused to account for sets that defendant had sold, leased or otherwise disposed of under the agreement, the delivery of which was made subsequent to May 31st, 1917, and the bill charged that defendant claimed that it was under no obligation to account or pay for such apparatus, the delivery of which was made subsequent to May 31, 1917.

The answer alleged that it had rendered to the complainant all the reports stating therein fully and accurately the number and kinds of all apparatus that the defendant had sold, leased or otherwise disposed of under said agreement, and that the defendant had fully paid to the complainant all license fees or royalties provided for in said agreement for all such sets as defendant had sold, leased or otherwise disposed of under said agreement which the defendant was liable to pay, pursuant to the terms and within the meaning of said agree-

ment, and that defendant owed nothing to complainant, and that complainant was not entitled to any accounting from defendant under or in respect to said agreement or otherwise.

The answer admitted that defendant had refused to account for contracts for the sale of apparatus for which defendant had made contracts to sell prior to May 31, 1917, the delivery of which was made subsequent to May 31, 1917, and alleged that defendant claimed that under the terms of said agreement it was under no obligation to account or pay for such apparatus where the contracts for the sale thereof had been made prior to May 31, 1917, the delivery of which was made subsequent to May 31, 1917.

It was also alleged in the answer that the only patents of the complainant which defendant had made any use of had been adjudged to be invalid by the United States District Court for the Southern District of New York, and that such decision had been affirmed by the United States Circuit Court of Appeals for the Second Circuit.

Upon the hearing the settled practice in suits for accounting, that the only material evidence upon the original hearing was such only as related to the complainant's right to account, was observed. For that purpose the evidence taken upon the hearing showed that defendant had made certain contracts for the sale of sets prior to May 31, 1917, the delivery of which was made after that date.

On behalf of the defendant the records of the decisions of the Federal Courts were admitted in evidence adjudging certain of complainant's patents void, and on behalf of the complainant the record of a decision made in the Circuit Court of Appeals for the Third Circuit was admitted, which adjudged the same patents valid, but the case adjudging the patents invalid was decided after the case holding

them valid had been decided, and the later case was decided upon additional evidence, which was not presented in the former case. The defendant also offered evidence, which was not denied, that no sales for which defendant had not paid royalties had been made by defendant prior to May 31, 1917, but only contracts for sales, the delivery on which was made after that date, and also offered evidence, which was not denied, that the only patents which defendant had made any use of were the patents so adjudged to be void. There was no evidence showing that defendant had not accounted and paid for, or was liable to account for, any apparatus leased or licensed by the defendant; the only question argued upon the hearing and considered in the opinion of the Vice-Chancellor was whether the defendant was bound to account for contracts to sell sets which it had made prior to May 31, 1917, the deliveries of which had not been made until after that date. The defendant's counsel contended that it was not liable to so account, for two reasons: *First,* that by the true construction of the agreement defendant agreed to account for and pay royalties on strict sales only made prior to May 31, 1917, and not for mere contracts for sales made before that date where the deliveries were not made till after that date, and, *secondly,* that even if the agreement were otherwise construed, nevertheless, under the undisputed evidence, the only patents which defendant had used were invalid, and had been so adjudged, and, therefore, there was no consideration for the defendant's agreement to pay any royalties for sales, leases or licenses after such adjudication of their invalidity.

Specification of the Grounds of Appeal.

The grounds of appeal are that the said decree is erroneous in that said matter is referred to said Master to take said accounting, whereas it should have been decreed that under said evidence said defendant was not liable to make any account whatever to said complainant, and that complainant's bill should have been dismissed (Case. pp. 2-4).

Moreover, the decree erroneously adjudged that the defendant shall account and pay not only for royalties on sets for which defendant made contracts for sale as aforesaid, but also for sets for which defendant made contracts of leasing, rental or other disposition as aforesaid, although there was no evidence in the case showing that the defendant had made any contracts of leasing, rental or other disposition for which it was liable to account.

ARGUMENT.

I.

The sole basis for this suit is the agreement annexed to the bill.

By the true construction of the agreement the defendant was liable to account and pay for such goods as were "sold" prior to the cancellation of the agreement within the strict legal meaning of the sale, where the goods had been delivered and title passed, but not where there had been a mere contract to sell.

There were, in fact, no *sales* made prior to May 31, 1917, for which the defendant has not paid all royalties that it was required to pay under the agree-

ment. Any orders received or contracts made by the defendant prior to May 31, 1917, for which the defendant has not paid such royalties were mere contracts to *manufacture and sell* where the title did not pass until after the goods were delivered to and accepted by the defendant's customers (Case, pp. 64 to 73).

The term "sale" in the agreement has a definite legal meaning as distinguished from a contract to sell, and upon general principles of construction the parties must be deemed to have used it with such meaning.

Legal terms are construed as technical terms, and when used by the parties to a contract, are to be given their legal meaning.

> 17 *Am. & Eng. Enc. Law*, p. 13, 2d Ed., and cases cited in footnote.

In a statute providing that a patent is invalid in case of sale for more than two years prior to the application, the word sale was held to mean not a contract of sale where no title passed.

> *Campbell* v. *Mayor of N. Y.*, 36 *Fed.*, 260, 263.

The word "sale" in a contract, whereby a manufacturer of railroad and bar iron appointed a person a selling agent for the sale of railroad iron on a commission, means actual sale in a commercial sense, and not a mere contract to sell.

> *Creveling* v. *Wood*, 95 *Pa.*, 152, 158.

> "A sale is not constituted by a mere agreement to sell, but there must be a delivery, though payment need not actually be made. On the trial of an indictment for illicit

> traffic in liquors, proof of an agreement to sell is therefore insufficient; but there must be proof of an actual delivery of liquors, though there need not be proof of payment, as a sale on credit is as much of a violation of the law as a sale for cash."
>
> *Riley* v. *State*, 43 *Misc.*, 397, 414, quoted from Seven Words and Phrases Judicially Defined, p. 6295.

There is no other language in the agreement qualifying the accepted meaning of the word, and we contend that there are no circumstances that should lead us to infer that the parties used the word in a sense different from its accepted sense.

The parties were providing by their written agreement for a time during which each party was to have the right to make use of each other's patents, for which certain royalties were to be paid only during the term of the agreement. Prior to this agreemnt the parties had used each other's patents, and each was subject to infringement suits brought by the other. The agreement shows that they contemplated that the agreement which they were making should end before the life of the patents should expire, and that they might each resume the use of each other's patents after the end of the agreement, and again become subject to infringement suits, just as they had been subject before the agreement was made.

Therefore, in making their agreement, it became necessary for the parties to provide in the agreement as to what transactions made before the end of the agreement should be subject to royalties under the agreement, or should be left subject to infringement suits, just as they had been before the agreement was made.

The parties, as a matter of course, when they were making their agreement, naturally supposed that at the end of the agreement there would be both sales which were completed transactions and uncompleted contracts to sell, made before the end of the agreement, where the goods might not be delivered and the price be paid, until long afterwards.

The simple question presented to them was whether it would be more desirable and convenient at the end of the agreement, for the purpose of accounting and settling their rights, to make the liabilities for contracts to sell, which were uncompleted transactions, come under the agreement at its termination or leave them as they were before the agreement was made. This question did not affect the main purpose of their agreement, which fixed a definite time for the use of the patents and settled existing suits and released existing claims, but was merely incidental to such main purpose and related merely to the form of the liability which should attach to certain transactions, which should be necessarily left incomplete at the end of the contract, and in nowise affected the substantial right of the parties to recover for the illegal use of the patents.

The parties thus finding it necessary to describe in their written agreement what kind of transactions, made before its termination, should be subject to royalties under the agreement rather than subject to infringement suits, used the apt and proper term to express sale in its strict sense; no satisfactory reason appears showing that they intended to use the term in a different sense, and no other language is used in the agreement showing that the term was used in any sense different from its accepted legal meaning.

Under clause 1, the complainant grants to the defendant, "during term of this agreement," the right and license to make, *sell,* lease and use the apparatus in question.

Under clause 8, the defendant shall pay to the complainant as a license fee or royalty for the respective licenses granted, as provided for in clause 1, "20 per cent. of the gross selling price of each set of apparatus which it may, under the terms of this agreement, *sell.*"

By clause 8, therefore, the defendant is to pay only for goods which he may *"sell,"* as provided for in clause 1, which in turn provides that defendant has the right to sell, "during term of this agreement."

Therefore, by reading clause 8 with clause 1, to which clause 8 refers, it is plainly provided that the defendant's liability with reference to sales is strictly limited, and is merely to pay for apparatus *sold during the term of the agreement.*

Again, clause 14 provides that defendant shall within fifteen days after the first days of February, May, August and November of each and every year, *during the term of the agreement,* pay to the complainant the license fees or royalties for such sets as it has *sold,* leased or otherwise disposed of under this agreement during the preceding three months, and for which it has received payment from its lessees, vendees and licensees.

By this language, the defendant's liability with reference to sales is limited *under the agreement* to transactions of strict sales, where title had passed *"during the term of the agreement,"* that is to say, before it terminated on May 31, 1917, under the notice of cancellation, and that any liability of the defendant to complainant for contracts to sell, where no title had passed and where no delivery or

payment had been made during the term of the agreement, *was not within the terms of the agreement, and remained a subject for infringement suit to the same extent as it would if the agreement had not been made.*

It is well settled that such contracts as were made by the defendant prior to May 31, 1917, where there was no delivery, acceptance or payment until after that date, were not sales, but mere contracts to sell.

Any question or doubt that may have existed concerning the character of such transactions has been settled by our Sales Act (P. L. 1907, p. 311) Comp. Sts., 4647. This act clearly distinguishes between sales and contracts to sell, and defines them as follows:

> "1. Contracts to sell and sale: Contracts to sell defined.—(1) A contract to sell goods is a contract whereby the seller agrees to transfer the property in goods to the buyer for a consideration called the price.—'Sale' defined.—(2) A sale of goods is an agreement whereby the seller transfers the property in the goods to the buyer for a consideration called the price."

The Sales Act also provides (P. L. 1907, p. 313), Comp. Sts., 4648, as follows:

> "5. Existing or future goods.—(1) The goods which form the subject of a contract to sell may be either existing goods owned or possessed by the seller, or goods to be manufactured or acquired by the seller after the making of the contract to sell, in this act called 'future goods.'

> Present sale of future goods; effect as contract to sell.—(3) Where the parties purport to effect a present sale of future goods, the agreement operates as a contract to sell the goods (P. L. 1907, p. 313)."

By the above sections (1) *goods to be manufactured* are defined as "future goods," and (2) where the parties purport to effect a present sale of "future goods" above defined, that is, goods to be manufactured, the agreements operate as a contract to sell goods.

Aside from the Act, the rule was that in case of the sale of an article not in existence, but to be manufactured, and even where the contract price is paid in advance, no title passes until the thing is completely finished, and is either delivered to the orderer, or is appropriated to his benefit, or set apart for him or is accepted by him.

The West Jersey Railroad Company v. *Trenton Car Works Co.*, 3 *Vr.*, 517.

2. It is not denied that the term "sale" has such definite legal meaning as distinguished from a contract to sell, nor is it claimed that there is any other language in any part of the agreement that qualifies the accepted meaning of the term, nor is the general rule of construction disputed, that where parties have used a term of such accepted meaning, the parties will be deemed to have used it with such meaning. The objection made against the taking of the term in its accepted sense is, that in that case certain results under certain contingencies might follow, which may be supposed to be different from what the parties would be likely to intend. We contend that the accepted meaning of such a term clearly expressed by the parties in their

written agreement should not be overcome merely because such results may be supposed to follow, and we also contend that upon complainant's construction of the term, other results would follow, which may be supposed to be more opposed to the parties' contentions than those following under our construction.

The objectionable results urged against taking the word sale, according to its accepted legal meaning is, that, if contracts to sell, existing at the termination of the agreement, were not subject to royalties under the term of the agreement, such contracts might be made before the termination of the agreement, which could not be performed without the possibility of an infringement suit, or a breach of contract made between the parties and their customers.

In such a complicated agreement, as the present one, it is unlikely that all contingencies and results flowing from its expressed terms should occur to the parties, and it is probable that when the parties described in this agreement the transactions for which royalties should be paid, as sales, the possible results that might follow respecting contracts to sell made before the termination of the agreement did not occur to them. In that case the fixed meaning of the term "sale" clearly expressed by the parties in their written agreement should not on account of such unconsidered results be expanded, so as to embrace a different transaction, whose legal meaning is established by different terms. In the case of wills and other documents, where terms of established meaning are used by the persons making such instruments and where such terms are not qualified by other language of the instrument, they are not overcome by the fact that results might follow which may not have occurred to or been con-

sidered by the parties, which we may suppose would have induced them to make different terms. By supposing that parties do not intend what their terms express on account of such results, is making rather than interpreting their contract.

But, if it is to be supposed that the parties to the present agreement did consider all the possible consequences which are now urged as an objection to our construction, nevertheless, we claim that they meant to use the term in its accepted sense.

These possible results are urged as if they would defeat the main purpose of the agreement. The fact is that such results could not affect the main purpose of the agreement, but apply only to matters merely incidental to its principal purpose.

Manifestly, the main purposes of the agreement were to settle existing suits and claims and to *fix a definite minimum time* during which the parties should have the right to use each other's patents, for which they were to pay royalties under the agreement.

The settlement of the claims and suits on behalf of the parties and their customers and fixing the definite time within which the parties and their customers had the right to use the patents accomplished all the purposes which the agreement recited that it was desired to accomplish.

By the 19th clause the agreement was to endure for at least fifteen months under any circumstances and, unless cancelled by the defendant, it was to continue for many years. Thus, the main purposes of the agreement would be accomplished even if the payment of royalties for contracts to sell made prior to its termination was not provided for, and the possibility that there could be contracts to sell made before the end of the contract, which, if carried out without some adjustment, might subject

the parties or their customers to infringement suits, was a mere incident to the ending of the agreement, and, so far as such contracts of sale were concerned, would merely replace the parties in the same position with reference to their liability as they were in before the contract was made. It is not improbable that the parties should intend that contracts of sale should have just such effect, particularly in view of the fact that the agreement on its face shows that it was intended to settle rights merely during its limited term, and that the parties contemplated a resumption of the use of the patents after its termination, which would again subject them and their customers to infringement suits, just as they had been subjected before the agreement was made. But if the parties considered such results when they made the agreement, they probably considered that they could make such contracts with their customers with practical safety, either by relying upon a reasonable adjustment of the matter with the owner of the patent if the emergency should arise, or by providing for such contingency in their contracts with their customers.

3. We contend, on the other hand, that the consequences that would ensue from providing for the payment of royalties for contracts to sell made before the termination of the agreement, where the purchase price was to be paid thereafter, would conflict with the apparent purpose of the parties in other provisions of the agreement providing for the payments of royalties. According to complainant's construction, any contract to sell made at any time prior to the termination of the agreement, in which, by the terms of such contract to sell, the purchase price would not be paid until after the termination, is subject to the payment of royalties. Un-

der the 14th clause of the agreement royalties are to be paid within fifteen days after the first days of February, May, August and November of each year for such sets as had been sold during the preceding three months, and for which *payment had been received from the vendee.*

It evidently was the custom of the parties in their trade, as appears from the contracts of the complainant admitted in evidence, to make contracts to sell wherein deliveries, and hence payment, were made a long time after the contract was made.

Taking, for example, the first contract in Exhibit D-5, the date of the contract is August 17, 1916, and the date of delivery was March 2, 1918. The other contracts show that there was frequently a year, more or less, from their dates to the time of delivery.

It is apparent that by the clause providing for payment of royalties the royalties for such contracts would not be payable until three months after the purchase price should be received from the vendee. If, therefore, a contract to sell should be made providing for delivery, for instance, eighteen months after the contract to sell should be made, or providing for a still later time for payment, and if the notice of cancellation should be given immediately after such contract to sell should be made, the royalties would not be accounted or paid for until more than a year after the agreement should be terminated.

On the other hand, if sales, in the strict sense, where there is delivery and early payment were the transactions for which the royalties were to be paid under the 14th clause, such payments would be adjustable and payable within a short time after the termination of the agreement by cancellation or otherwise.

A provision that would effect the prompt payment and settlement of all royalties due from each party to the other, rather than a provision which would leave transactions unsettled and unpaid for an indefinite time after the termination of the agreement, was apparently desirable to the parties and a strong inducement for them to restrict the payment of royalties under the contract to strict sales.

4. The 16th clause of the agreement shows that the parties used the word sale in its strict sense as distinguished from a contract to sell. This clause gives to the *vendees,* lessees and customers of both parties the right to continue the use of the apparatus which has at the date of this agreement "been *delivered, or contracted to be delivered* to such *vendees,* lessees or customers."

Taking that part of this provision which relates to sales, the expression is "delivered *or contracted* to be delivered to *vendees.*" Since the *vendee* can only mean the one to whom goods are sold, a *delivery* to a vendee can mean only a sale in its strict sense. The phrase is the exact equivalent to the word "sale."

The parties here sharply distinguish between a contract to perform a transaction amounting to a sale and the transaction itself, and, although the parties made this distinction while applying the terms to sales made before the agreement, nevertheless it shows that the distinction between a contract to sell and sale in its strict sense was in their minds when the contract was drawn, and indicates an intention to use the word "sell" in the other clauses, according to the distinction which they recognized in the 16th clause.

The Vice-Chancellor holds that the provision of the 16th clause does not assist in the construction, because the phrase "contracted to be delivered" ap-

plies to "lessees and customers" as well as to "vendees," so that the parties could not have used the word "sell" alone in that phrase so as to include lessees and customers. Obviously the word "customers" here applies to licensees only, since licenses are the only transactions other than sales and leases for which royalties are to be paid under the agreement. Our contention is that by the language of this clause the parties clearly distinguished not only between goods sold and contracted to be sold, but also between goods leased and contracted to be leased and between goods licensed and contracted to be licensed.

If the parties had supposed that the term sale would include contract to sell, they would likewise have supposed that the terms lease and license would include contract to lease and license where the same distinctions exist, and under that supposition the parties could, and naturally would, have expressed the legal transaction described as "goods contracted to be delivered to vendees, lessees and customers" (meaning licensees) by simply saying "goods sold, leased or licensed," and thus have employed the same kind of terms to express what they supposed would include a contract to sell as they had already employed in the other clauses. It is not reasonable to suppose that the parties intended to use these different terms in different clauses of the agreement to express the same kind of transactions.

5. The undisputed evidence is that all of the wireless sets in question sold by the defendant were sold upon orders to make the goods upon specifications and upon contracts requiring delivery by the defendant and inspection, approval and acceptance by its customers, and in no case did any title to the goods pass until such delivery, inspection, approval and acceptance of the goods, and no payment was

made until after such delivery, approval and acceptance (Case, pp. 70 to 73, 76, 83, 84).

Most of the contracts were with the United States Government, and provided as follows:

> "It is hereby mutually and expressly covenanted and agreed by and between the parties hereto that the article or articles to be furnished or services to be performed under this contract shall conform in all respects to the requirements of the specifications hereunto annexed, which specifications, the 'Instructions, Deliveries, and Conditions', printed on the proposal of the said party of the first part, shall be deemed and taken as forming a part of this contract with like operation and effect as if the same were incorporated herein; and, in any case where the specifications do not explicitly provide to the contrary, all workmanship and materials entering into the manufacture or construction of any article or articles under this contract, shall be of the very best commercial quality and manufacture; and said article, articles, or services shall upon delivery or completion, be subject to inspection and examination by the officer or officers authorized by the said party of the second part to inspect and examine the same; and no article furnished or services performed under this contract shall be accepted until it or they shall have been inspected and approved by such officer or officers; and any of said articles not so approved shall be removed by the said party of the first part at own expense, and within ten days after notification.
>
> AND THIS CONTRACT FURTHER WITNESSETH, That the United States, party of the second

part, in consideration of the foregoing stipulations, do hereby covenant and agree, to and with the party of the first part, as follows, viz:

That upon the presentation of the customary bills, and the proper evidence of the delivery, inspection, and acceptance of the said article, articles, or services, and within ten days after such evidence shall have been filed in the Bureau of Supplies and Accounts, there shall be paid to the said contractor, or to his order, by the Navy Pay Officer at Washington, D. C. (Disbursing Office), the sum found due for the articles delivered or services performed under this contract; Provided, however, That no payments shall be made on any one of said classes until all the articles or services embraced in such class shall have been delivered or performed and accepted, except at the option of the party of the second part" (Case, p. 76).

6. It may be conceded that in certain contexts and under certain circumstances surrounding a transaction it may appear that the parties intended to use the word sale in a loose sense so as to include contract to sell.

In case of contracts between a broker and his principal for commissions, such as were cited by the complainant's counsel, it is evident that where the principal agrees to pay commissions to the broker for effecting a sale of property the parties intend that the liability to pay the commissions is complete when the broker has brought the vendor and vendee together in making the contract to sell.

In such case the *broker* does not make the sale. He can only bring the parties together, and from the very nature of the transaction the parties must

be supposed to intend that commissions will be paid when the broker's services have been completed, and they are completed when, after he brings the parties together, they make a "contract to sell," since that is all that he was expected to do to earn his commissions.

The case of *Fries* v. *Merck*, 167 *New York*, 445, also cited by complainant's counsel, has no pertinency to this case.

In that case the plaintiffs were entitled to the royalties in question only in case of both "sale and delivery" during the existence of the contract. This would not include a sale during its suspension, although the goods were delivered afterwards.

Yet the plaintiff there contended that a sale was not complete until the title passed by delivery, and hence, legally, the "sale and delivery" took place after the contract was reinstated, although a valid contract of sale was made during the suspension of the agreement.

This contention ignored that the right to the royalty depended upon both the "sale and delivery" during the existence of the contract and would not include a sale during the suspension for goods afterwards delivered.

The Judge, in his opinion, at page 450, says:

> "Literally the right to the royalty or commission was dependent upon both a 'sale and delivery' during the existence of the contract, and would not include a sale during its suspension, although the goods were delivered afterwards. Moreover, when we contemplate the purpose of the contract, and the evident intention of the parties, it becomes manifest that it was not their intent that the defend-

> ants should pay a royalty or commission upon sales during the suspension of the contract, whether they were executory or executed."

Thus in that case both the *literal meaning* of the words employed and the purpose of the contract and evident intent of the parties was against the plaintiff's contention, whereas in our case we contend that the literal meaning of the word employed and the purpose of the agreement accord with our contention.

In the case of *Barber Asphalt Paving Co.* v. *Standard Asphalt Co.,* 58 *N. Y. Supp.,* 405, also cited by complainant's counsel, the context and circumstances surrounding the transaction showed that the word "sale" was not used in its strict sense, but included agreements to sell. There was a restriction upon the defendant's right to sell certain kind of asphalt within a year.

The plaintiff claimed that the defendant's right was limited to sell and use the asphalt within a year only, and that it should be used within the year for use in street pavement only.

The Referee to whom the case was referred shows that the contract was made in January, 1893, and that the defendant in that month and later made contracts with the Syracuse Improvement Company for the sale and purchase of sufficient quantities of land asphalt to pave and keep in repair streets in Syracuse, some of which asphalt was to be delivered within the year and some after the year, thus indicating that it would be unlikely that the defendant would agree with the plaintiff not to make the sale within the year unless it were then delivered, which would prevent defendant from fulfilling its contracts then made.

The Referee also laid stress upon the point that in the 5th clause of the contract between plaintiff and defendant the parties had used the term "sell" as applied to asphalt purchased from the plaintiff by the defendant, which certainly would not restrict defendant's right to sell and deliver after the year, and the Court held that the word "sell" in the 6th clause must be taken as used in the same sense as in the 5th clause.

Upon this point the Referee says:

> "It is plain to me that the words 'may sell' were not used by the plaintiff, in the sixth clause of the agreement, in any other than the ordinary sense, and that the plaintiff did not thereby intend to restrict the defendant to sales of land asphalt by which title would at once or presently pass to the purchasers. They intended 'sell' in the sixth clause, to have the same meaning as the same word in the fifth clause, and it would certainly be absurd to say that by the fifth clause the defendant is prohibited from contracting to sell for future delivery asphalt purchased by it from the plaintiff."

The context and circumstances in that case show that the word was used loosely, whereas, as we have shown in our case, the context and circumstances show it was used in its strict legal sense.

II.

The only patents or inventions involved in the agreement between the complainant and the defendant which were in any wise made use of by the defendant were invalid and adjudged to be invalid, whereby the agreement was without consideration as to any contracts of sale, leases or licenses of apparatus embodying such invalid patents, and, therefore, the defendant is not liable to pay or account for any royalties thereon, even if the defendant would be so liable in case the patents had been valid.

FIRST: *Where a patent is void and has been declared void by competent authority, this is a complete defense to an action for further royalties.*

In *Ross* v. *Fuller & Warren Co.*, 105 *Fed.*, 510 (Circuit Court, N. D., N. Y.), plaintiff, a patentee, brought an action at law to recover royalties from a licensee.

The parties had made an agreement, by which the plaintiff, who was the owner of the letters patent, granted to the defendant an exclusive license to make, use and sell the supposed invention throughout certain territory during the life of the patent. The defendant agreed to pay plaintiff a royalty for each article sold, and defendant agreed to make up and return to the plaintiff at the end of each sixty days a correct report of the sales of all articles used and sold, and at such times to pay the amounts due for royalties. The defendant continued to pay royalties under the agreement for several years, when in a suit by the defendant, as plaintiff, against

a third party, the Town of Arlington, a decree was entered in the Circuit Court of the United States for the District of Massachusetts, adjudging the patent void for lack of invention, which decree was affirmed. *Fuller & Warren Co.* v. *Town of Arlington,* 54 *Fed.,* 166; affirmed 71 *Fed.,* 965. The amount of royalty, including interests which had accrued since the last payment by the defendant, was $9,155.49. The defense was sustained, that since the decision in the *Arlington* case invalidating the patent there was no consideration for the royalties, and, therefore, that no obligation rested upon the defendant pay them.

Coxe, D. J., in his opinion at pages 511 and 512, says:

> "There can be little doubt that if the Massachusetts decree had in terms declared each and all of the claims of the patent void it would have been a complete defense to the cause of action founded upon the written agreements to pay royalty. This proposition is amply sustained by authority and was not controverted at the trial. *Herzog* v. *Heyman,* 151 *N. Y.,* 587; 45 *N. E.,* 1127; *Marston* v. *Sweet,* 82 *N. Y.,* 526; *White* v. *Lee* (*C. C.*), 14 *Fed.,* 789, 791; *McKay* v. *Smith* (*C. C.*), 39 *Fed.,* 556; Walk. Pat., section 307.
>
> It is perfectly plain that in the Massachusetts case the court regarded the patent as utterly void of merit and the patented combination without a vestige of invention. The infringing structure was so similar to the patented apparatus that, after the dismissal of the bill, the attempt to hold anyone as an infringer, no matter what structure he used,

was hopeless. The practical result of the decision was to destroy the exclusive right of the Fuller & Warren Company and place it on a par with all other persons who chose to make and sell the apparatus. The field which previously had been the exclusive preserve of the Fuller & Warren Company was now wide open and the company had no greater right therein than the most irresponsible poacher. In these circumstances the proposition to compel the defendant to pay $9,000 without a dollar's actual consideration is, indeed, a startling one.

The proposition that the Massachusetts decree was not final until affirmed on appeal cannot be maintained.

Upon the entire case the court is convinced that there was a failure of consideration the moment the patent was declared invalid. The defendant agreed to pay the stipulated royalty in consideration of the monopoly. When deprived of this exclusive privilege by law the defendant occupied no vantage ground over any other manufacturer. The defendant took nothing from the plaintiff, for he had nothing to give. The estate which the parties supposed belonged to the plaintiff was judicially determined to belong to the public. The defendant should not be compelled to pay a large sum of money for exercising a right, which, after the patent was destroyed, was no longer exclusive, but was free and common to all. The complaint is dismissed."

In *Marston* v. *Sweet et al.*, 82 *N. Y.*, 526, the syllabus is as follows:

> "It seems, that where a patent is apparently valid and in force, the party using it and receiving the benefit of its supposed validity, is liable for royalties agreed to be paid, and cannot set up as a defense the actual invalidity of the patent, for he has got what he bargained for and cannot at the same time affirm and disaffirm the patent, and cannot compel the patentee to try his right in a collateral action. While the manufacturer goes on under the apparent validity of the patent, he is presumed to do so in accordance with the agreement to pay royalties; if he does not so intend, he must notify the patentee.
>
> *But if the patent is annulled or destroyed by proper legal proceedings and prior invention, and a patent is awarded to another, no notice is necessary.*
>
> Parties interested in a patent that they believed valid entered into an agreement concerning it, in which agreement royalties were stipulated to be paid to one of the parties. A decision was afterwards made in the Patent Office in an interference suit, declaring another to be the inventor, and directing the issue of the patent to him. Held, that no royalties could be recovered under the agreement after the date of the decision."

On the first trial of that case the defendant proved that a decree of the United States Circuit Court for the Northern District of New York had declared void the patent in question.

The decree, however, was rendered after the plaintiff's demand for royalties had accrued, and it was held on the first trial that in the case of an invalid patent the defendant under his contract *before an adjudication of invalidity* might have acted in hostility to the patent and given notice thereof, so as not to be bound by the contract, but that not having so acted he was bound *until the patent was actually adjudicated void;* and inasmuch as that adjudication was made after the plaintiff's demand for royalties had accrued, there was not a failure of consideration, but on the second trial of that case a decision of the Patent Office was proved declaring the patent invalid before the demand for royalties had accrued, and on that trial it was held that there was a failure of consideration and the defendant was not liable on the contract.

In the opinion, *Finch, J.,* at pages 533 and 534, says:

> "We think the true rule to be deduced from the authorities is this: Where the patent is apparently valid and in force the party using it, receiving the benefit of its supposed validity, is liable for royalties agreed to be paid and cannot set up as a defense the actual invalidity of the patent. The reasons for the rule are that the party has got what he bargained for; that he cannot be allowed at the same time to affirm and disaffirm the patent; and that he cannot in this way force the patentee into a defense of his right and compel him to try it in a collateral action. While the manufacture goes on under such an apparently valid patent it is presumed to be under and in accordance with the agree-

ment to pay royalties. If the manufacturer does not so intend, and chooses to make the patented article, not under the patent, but in hostility to it, he must give notice of that intention, in order that the presumption may not attach or the patentee be misled. But if the patent is annulled or destroyed by due and effective legal proceedings and priority of invention and a patent is awarded to another, no notice is necessary, for there is no presumption or inference of manufacture under a patent judicially avoided and annulled. It ceases to exist. The manufacture is either absolutely free, or an infringement upon the rights of the prior inventor, or in submission to his claims. The English cases cited in 66 *N. Y.* in this case by Judge Earl are all in harmony with this view."

Where a patent is invalid a licensee may renounce the license and place himself in the attitude of an infringer, and defend on the ground that the patent is invalid (otherwise he is estopped).

22 *Am. & Eng. Enc. of L.*, 441.

But where the patent has been annulled or declared void, no royalty can thereafter be recovered and no notice of renunciation is necessary. And where the patent has been annulled or declared void by competent authority, this is a complete defense to an action for further royalties.

Ibid., p. 442.

"The only grounds upon which royalties paid upon a patent, afterwards surrendered,

can be retained by the patentee, is that of voluntary payments."

Moffatt v. *Garr*, 1 *Black.*, 273.

See also:

Peck v. *Collins*, 70 *N. Y.*, 376.
Walk. Pat., section 307.

To the same effect is *Herzog* v. *Heyman*, 151 *N. Y.*, 587.

SECOND: *From the evidence adduced at the hearing the Vice-Chancellor should have held that the only patents made use of by the defendant were void and had been so adjudged by competent courts, and that the defendant was not liable to account or pay for royalties which accrued after such adjudication for their sale, lease or license.*

(1) Since the suit was for an accounting, according to the settled practice, the only material evidence upon the original hearing was that which related to the complainant's right to account, and evidence relating to the particular items of account were irrelevant at that stage of the case.

Hudson v. *Trenton Locomotive and Machine Co.*, 1 *C. E. Green*, 475.

One of the two defenses denying complainant's right to an accounting set up by the defendant and urged on the hearing was that the only patents of the complainant involved in the agreement in question which the defendant had ever made any use of were claims 1 and 3 of Letters Patent No. 918,307, and claims 1, 2, 3 and 4 of Letters Patent No. 918,308, granted to R. A. Fessenden on April 13, 1909, and that these patents were invalid

and had been declared to be invalid by the decisions of the Federal Courts hereinafter referred to before the right to the royalties sued for accrued, and that by reason thereof there was no consideration for the payment of such royalties.

(2) Upon this defense that the patents in question were invalid, the Vice-Chancellor was required to determine the question of their validity from the evidence adduced. His jurisdiction to try and decide that question is well settled, as appears from the following authorities.

In 3 *Robinson on Patents,* pages 21 and 22, section 865, the author says:

> "The State Courts have sole cognizance of all actions based on contracts between the parties, whether to compel their performance, to rescind them, or to award damages for their violation. Actions for * * * royalties * * * are within their exclusive jurisdiction. In such actions, the validity of the patent, and consequently the existence of the monopoly may be disputed and incidentally decided as preliminary to some point in issue, and thus the Court may pass upon the same matters as are involved in cases arising under the Patent Laws * * *. An action for the purchase money of a patent right, for instance, may be defeated by proving that the patent was invalid and the contract therefore without consideration."

Many cases are cited by the author in footnotes in support of this proposition, some of which are the following:

Green v. *Wilson,* 6 *C. E. Green,* 211, was a suit to restrain the defendant from the violation of an agreement between him and the complainant for the use of a patent and for an accounting for royalties.

The defendant denied the jurisdiction of the State Court on the ground that the validity of the patent might be involved. *Chancellor Zabriskie* held that the State Court had such jurisdiction, at pages 219-220 of the opinion, using the following language:

> "The validity of the patent may come in question, if the defendant seeks to avoid the agreement for fraud or want of consideration. But in such cases it is held that the jurisdiction is in the State Courts."

In *Hyatt* v. *Ingalls,* 49 *Sup. Ct., N. Y.,* 375, *Freeman, J.,* referring to such suits, says:

> "In them the question concerning the validity of the patent is merely a question collateral to the main issue, and goes only to the question whether there is a consideration to support the promise to pay. A case arising on a contract to pay royalties, or, in other words, a case between patentee and licensee, falls generally within the class last referred to."

In *Meserole* v. *Union Paper Collar Co* (1869), 3 *Fisher,* 483, *Blatchford, J.,* at page 487, says:

> "A state court has jurisdiction to decree the license and agreement to be void and inoperative for fraud, or any other adequate reason, and the fact that in the investigation the State Court will be obliged to inquire whether there was anything new in the

> patents which could operate as a consideration for the license and agreement, cannot deprive the State Court of jurisdiction or confer it on this court. It is true that a State Court cannot take cognizance of a suit brought for the infringement of a patent, nor of a direct suit brought to decree a patent to be void. But, as is well said by *Chief Justice Williams,* in *Rich* v. *Atwater,* 16 *Conn.,* 409, 414, 'that the validity of patent rights is a subject peculiarly within the jurisdiction of the Courts of the United States' is true; but it is equally true that when they come in question collaterally, their validity must become a subject of inquiry in the State Courts. Thus, in a suit upon a note, if it is claimed that the note was given for a patent right and the patent is invalid, and so there was no consideration for the note, the State Courts constantly exercise jurisdiction."

To the same effect are many cases, some of which are as follows:

Cross v. *Huntley,* 13 *Wend.,* 385.
Head v. *Stevens,* 19 *Wend.,* 411.
Continental Store Service Co. v. *Clark,* 100 *N. Y.,* 365.
Keith v. *Hobbs,* 69 *Mo.,* 84.
Stemmer's Appeal, 58 *Pa. St.,* 155.
Billings v. *Ames,* 32 *Mo.,* 265.
Lindsay v. *Rerabock,* 4 *Jones Eq.* (*N. C.*), 124.
Vanini v. *Paine,* 1 *Harr.* (*Del.*), 65.
Rice v. *Garnhart,* 34 *Wis.,* 453.

(3) The only evidence bearing upon the defense of failure of consideration due to the invalidity of the patents is as follows:

(a) The undisputed testimony of David Sarnoff is that the defendant during the period of the agreement in question did not manufacture, sell, lease, license or use any apparatus that involved the use of any of the patents of the complainant other than those called the high frequency patents. (Testimony of David Sarnoff; Case, pp. 64 to 70.)

These patents called the high frequency patents are claims 1 and 3 of Letters Patent No. 918,306 and claims 1, 2, 3 and 4 of Letters Patent No. 918,307, granted to R. A. Fessenden on April 13, 1909, referred to in Schedule B annexed to the complaint, and are the identical patents held to be invalid in the case of *Kintner et al.* v. *Atlantic Communication Co. in the United States District Court for the Southern District of New York and affirmed by the Circuit Court of Appeals of the Second Circuit,* as hereinafter set forth. (See Stipulation, Case, p. 58.)

(b) On the hearing it was admitted by stipulation that said claims 1 and 3 of Letters Patent No. 918,306 and claims 1, 2, 3 and 4 of Letters Patent No. 918,307 were held to be invalid in the case of *Kintner et al.* v. *Atlantic Communication Company et al., reported in* 230 *Federal Reporter,* 829, *in the United States District Court for the Southern District of New York,* and that the decree of said Court was affirmed by the *Circuit Court of Appeals of the Second Circuit, reported in* 240 *Fed. Rep.,* 716, and that a petition for a writ of *certiorari* to review said decision and decree of said *Circuit Court of Appeals* was presented to and denied by *the United States Supreme Court, reported in* 244 *U. S.,* 661. (Case, pp. 58, 59.)

It was also admitted that said claims of said Letters Patent were held to be valid in the case of *National Electric Signaling Co. et al.* v. *Tel-*

funken Wireless Telegraph Company of the United States, reported in 208 *Fed. Rep.*, 679; and it was agreed by said parties that said reports of said decisions might be made use of by either party on the argument of said hearing as showing and setting forth said decisions and the decrees thereon. (Stipulation, Case, p. 59.)

In accordance with said stipulation, at the hearing the defendant offered in evidence the said records of the case of *Kintner et al.* v. *Atlantic Communication Company* as evidence of the invalidity of the said Letters Patent and the complainant likewise offered in evidence the said record of the case of *National Electric Signaling Company et al.* v. *Telfunken Wireless Telegraph Company of the United States* as evidence of the validity of said Letters Patent. No evidence was offered by either side as to the validity of said patents other than the records above referred to.

(4) From the foregoing it is apparent that the invalidity of the patents in question was one of the defenses raised by the defendant against complainant's alleged right to an accounting, and that it was incumbent on the Vice-Chancellor to decide such question of invalidity upon the evidence which was admitted, if he could reasonably decide the question from such evidence. Although the records of the Federal cases above referred to were admitted in evidence by agreement of both parties as relevant and the only evidence from which the validity of the patents could be determined, and the case was argued and submitted on the assumption that such evidence was the only evidence which either party wished to offer for the purpose of determining the validity of the patents, the Vice-Chancellor iguored such evidence and made no decision or determination whatever as to the validity of the patents in question, but decided that defendant was

liable to account for royalties for the sale, lease and license of said patents and so the defense of invalidity was denied as if there were no evidence whatever from which the fact of invalidity could be determined.

We submit that the Vice-Chancellor in so ignoring the evidence relating to the invalidity of the patents arising from the records of the decisions of the Federal Courts, and denying the defense of invalidity, fell into error.

The error lies in his holding that the records of the decisions of the Federal Courts holding these identical patents invalid constituted no evidence from which he could infer such invalidity, unless the parties in both suits were identical. In other words, the Vice-Chancellor decided that the records of such decisions holding that the identical patents now involved were invalid, were *not sufficient evidence* of such invalidity, where there was not such identity of parties as would make the records strictly *res adjudicata.* That such was the Vice-Chancellor's decision appears from his opinion as follows:

> "No evidence of the invalidity of the patent was offered other than the record of the United States Circuit Court of Appeals in the case of *Kintner* v. *Atlantic Communication Co.,* 240 *Fed.,* 716. But that proceeding was not a proceeding *in rem,* and it does not prevent the same or a different plaintiff from prosecuting a suit against another defendant and establishing the validity of the patent upon the same or different evidence. The fact that the complainant here was a party to the New York litigation is without significance.

I have examined the cases cited by defendant and find none which lead me to conclude that this Court would be justified in holding that for the purposes of this suit the two patents were invalid merely because of the judgment in the *Kintner* case. See *Pope Mfg. Co.* v. *Owsley,* 27 *Fed. Rep.,* 100; *Consolidated Roller Mill Co.* v. *Geo. T. Smith Middlings Purifying Company,* 40 *Fed. Rep.,* 305."

(5) It is our contention that the records of these decisions of the Federal Courts holding the patents invalid, even if the parties were not identical so as to make them *res adjudicata,* were strong presumptive evidence of their invalidity; that the defendant offered against such presumptive evidence nothing but the decision of the Federal Court in the Third Circuit holding the patents valid; that this decision holding the patents valid was made prior to the decisions holding them invalid, and that the prior decision upholding their validity was made where the evidence against their validity was not presented which was presented in the later cases holding them invalid; from which we contend that the Vice-Chancellor, from the evidence of the records of these decisions, should have determined that the patents were invalid.

The presumptive or *prima facie* effect of decisions of other courts as to the validity of patents in suits between different parties where the validity of the same patents is involved, according to principles of comity, is well settled, as appears from the following cases:

A former judgment or decree sustaining the patent, though between other parties, raises a *strong presumption* that the patent is valid, *American Nicholson Pavement Co.* v. *City of Elizabeth*

(1870), 4 *Fisher,* 189; *Potter* v. *Fuller* (1862), 2 *Fisher,* 251.

In *Potter* v. *Whitney* (1866), 3 *Fisher,* 77, *Lowell, J.,* at page 80, says:

> "Although it is the duty of the judge, in every case of this nature, where the defendant has not been a party to any former suits, to examine the case anew and exercise his discretion upon the questions presented, yet when questions are in fact the same as in former cases, he cannot but admit those decisions as having great weight, as much as in any other case arising for instance in admiralty or at common law, in which the point in controversy has been passed upon and decided." *L. Lowell,* 87 (89).

All previously adjudicated matters are *prima facie* established against the defendant, *American Nicholson Pavement Co.* v. *City of Elizabeth* (1870), 4 *Fisher,* 189; *Goodyear Dental Vulcanite Co.* v. *Evans* (1868), 3 *Fisher,* 390; 6 *Blatch.,* 121.

In *Searls* v. *Worden* (1882), 21 *O. G.,* 1955, *Brown, J.,* at page 1956, says:

> "Upon general questions of law we listen to the opinions of our brother judges with deference and with a desire to conform to them if we can conscientiously do so; but we do not treat them as conclusive. In patent cases, however, where the same issue has been passed upon by the Circuit Court sitting in another district, it is only in case of a clear mistake of law or fact of newly discovered testimony, or upon some question not considered by such court, that we feel

at liberty to review its findings." 11 *Fed. Rep.*, 501 (502).

In *American Middlings Purifier Co.* v. *Christian* (1877), 4 *Dillon*, 448, *Miller, J.*, at page 451, says:

> "I think that the uniform course of decisions in the courts of the United States, where a previous decision has been had by a Circuit court with regard to the validity of a patent, has been to treat it as of the very highest nature, and as almost conclusive in an application for injunction in another case founded on the same patent. No one pretends, no one argues, that such a decision, even by a Circuit Court, is absolutely conclusive on a final hearing on the merits of the case; but since patents are of such extensive and general operation all over the country, and since the litigation in regard to patents has been found so expensive and so wearisome to the courts, it has become almost a matter of necessity, after the validity of a patent, as distinguished from the question of infringement, has been passed upon by a competent tribunal upon a fair hearing, to treat that decision, in any future application in other courts and against other parties, as strongly persuasive of the validity of the patent; and this is especially so on the question of a preliminary injunction, and there is reason for it. The decision of the Circuit Court (I am saying nothing about the Supreme Court of the United States) in such cases is generally—I may add always, except where there are cases of collusion—the result of careful and deliberate consideration, either of a protracted trial

> before a jury, or of a careful and full hearing upon depositions before a court. The presumption, therefore, that the title to the patent itself, and its validity (if that were brought in question in one of these suits), was more critically and more thoroughly looked into, and decided upon better hearing and more mature consideration, than it can be in a preliminary injunction, is very strong. Therefore I think I may state it, fairly and correctly, that wherever a patent has been established, even by the decision of the Circuit Court, under a careful consideration, in a subsequent application, either before the same court or any other, for a preliminary injunction or for any preliminary relief, that decision is of very great weight." 3 *Bann. & A.*, 42 (43).

In *Ross* v. *Fuller & Warren Co., supra,* the Circuit Court in the Northern District of New York, in a suit to recover royalties, accepted and followed the record of the decision of the Circuit Court for the District of Massachusetts adjudging the patent invalid, as evidence of such invalidity, although the suits were between different parties. It should be observed that the Massachusetts suit was brought by Fuller and Warren against the Town of Arlington, a third party, so that the plaintiff in the New York suit was not a party to the prior litigation, and it should be further observed that the Massachusetts case held that the patent was invalid as lacking *novelty,* so that the failure of consideration was held to be based upon the fact that the patent was worthless because of lack of novelty and not upon the fact that the patent infringed some valid patent. Likewise in the present case the patents in the New York cases were adjudged

void as lacking novelty, while the complainant in the two cases is identical.

In *Marston* v. *Sweet et al., supra,* and *Herzog* v. *Heyman, supra,* the evidence of records of other courts holding the patents invalid in suits between different parties were accepted and followed. In these cases, above cited, inasmuch as the former decrees were between different parties, they were not accepted as *res adjudicata* so as to be conclusive, and notwithstanding the former decree, it was open to the party in the later suit who was not a party to the former suit, to contest the question of validity, but in these later cases apparently no evidence was offered overcoming the presumption of invalidity established by the former decree, and the former decrees were followed as affording sufficeint evidence of the invalidity.

(6) While the decision of the Vice-Chancellor in disregarding the presumptive effect of the former decisions adjudging the identical patents invalid because all of the parties to the suits were not identical, is contrary to the general rule established by the cases above referred to, the only authorities upon which the Vice-Chancellor rests his decision on this question are *Pope Mfg. Co.* v. *Owsley,* 27 *Fed. Rep.,* 100, and *Consolidated Roller Mill Co.* v. *Geo. T. Smith Co.,* 40 *Fed. Rep.,* 305.

We submit that these cases are not authority against the proposition for which we contend, but are rather in accord with it.

Thus, in *Consolidated Roller Mill Co.* v. *George T. Smith Co., supra,* on a bill in equity to recover damages for infringement of a patent, in the Circuit Court of Michigan, *Judge Brown,* at page 305, says that, "a preliminary objection in the nature of a plea of *res adjudicata* is taken."

The objection was that the patent had previously been declared invalid in the District Court of Wisconsin. The Michigan Court, however, after the decision of the Wisconsin case, *without any knowledge of the decision of the Wisconsin case,* which was made prior to the last Michigan case, had adjudged the patents valid.

The Michigan Court, therefore, simply stood by its own decision which it had made contrary to the Wisconsin case and in ignorance of that decision.

Of course, in such case that Wisconsin decision which was between different parties could not be regarded as *res adjudicata* as the defendant therein argued, and since it conflicted with the former decision of the Michigan Court, that court could not follow it by comity because it was against its own decision.

We call attention, however, particularly to the statement of the judge, which is in entire accord with our contention, that if the Michigan Court in the first case had known of the Wisconsin decision, although it was between different parties, in accordance with the principle of comity, it probably would have deferred to the Wisconsin decision.

The language of *Brown, J.,* bearing upon this question, at page 306, is as follows:

> "Had the decision of the court in that case been called to our attention at the time the Coombs Case was argued, it is quite probable that, out of the usual comity obtaining among courts of co-ordinate jurisdiction in this class of cases, we should have waived our own views, and deferred to it; so far, at least, as it covered the issues involved in that case. It seems, however, that the reason for dismissing the bill in the Wisconsin case was not then known, and no stress was

> laid upon it in the argument of the Coombs Case. Having expressed our own opinion of the patent in that case, it is now too late to claim that, as matter of comity, we ought to follow the Wisconsin case. It is equally clear that it does not create a case of estoppel. Not only is no record produced showing upon what ground the bill was dismissed, but neither the plaintiff nor defendant in this suit were parties to that. A decree declaring the invalidity of the patent is in no sense a proceeding *in rem,* and does not prevent the same or a different plaintiff from prosecuting a suit against another defendant, and establishing its validity upon different, or even upon the same, evidence."

In *Pope Mfg. Co.* v. *Owsley, supra,* original bills were filed praying, among other things, for payment of license fees upon a contract licensing patents, an answer and a cross bill were filed alleging, among other things, that two of the several patents involved had been declared invalid. The case was argued on final hearing upon pleadings and proofs. The counsel for the defendant argued that because two of the several patents had been declared invalid in another suit between different parties, all the patents and agreements for license were void.

The Court merely held generally that such former suit between different parties did not bind the parties as *res adjudicata* and *conclusive* as against all the evidence submitted in the latter suit, and that the other patents were not affected by such former suit; but there is nothing in that case against our contention, based upon the cases hereinbefore referred to, that the records of decisions of other courts adjudging patents invalid, are by comity

taken as strong presumptive evidence of the invalidity of the same patents involved in a subsequent suit in another court, and that such presumptive evidence is controlling unless overcome.

That the effect of *Pope Mfg. Co.* v. *Owsley* was so limited appears from the opinion of *Blodgett, J.*, at pages 107 and 108, as follows:

> "It is urged, however, that the decision of the circuit court of the Southern district of Ohio that these two patents are void, amounts to an eviction, and, as I understand the argument of the learned counsel for defendants, invalidates all the agreements for licenses in which this patent was included with the others. I cannot agree with the learned counsel as to this conclusion. In the first place, that adjudication is binding only on the parties to that suit, and does not affect the relation between the parties to this contract; and, secondly, the licenses in question included a large number of patents, and provided that defendants should pay a stipulated royalty on all machines made by them 'embodying in their construction or mode of operation the inventions and improvements shown and described in each, all, or either of said letters patent.' My construction of this clause of the agreement is that so long as the defendants used all or either of these patents, while the patents remained in force, they were liable to pay royalty according to their contract; but when the patents expired by lapse of time, so that the machines described in one or more of the licenses could not be made without embodying the construction or mode of operation shown in any of the patents covered by the licenses, the obli-

gation to pay royalty under such licenses ceased, on the well-accepted principle that the license terminates with the patent. But these patents are not, in my opinion, 'dead,' as between these parties, merely because the judge in another circuit has held them void in some suit before him between different parties. By taking the licenses, these defendants waived and abandoned their right to contest the validity of these patents, or any of them, and agreed to pay the stipulated license fees; and merely because someone else has successfully contested the validity of one or more of these patents the defendants are not relieved from their obligations. The alternative to settle or litigate seems to have been fairly tendered them, and they chose to settle, and cannot now retreat from the settlement they made."

(7) Since the only evidence submitted concerning the question of the validity of the patents were the records of the case of *Kintner, et al.* v. *Atlantic Communication Co., et al.,* 230 *Fed. Rep.,* 829, which was affirmed in the Circuit Court of Appeals, Second Circuit (Feb. 20th, 1917), 240 *Fed. Rep.,* 716, and for the review of which a certiorari was refused by the Supreme Court of the U. S., 244 *U. S.,* 661, and the earlier case of *National Signaling Co. et al.* v. *Telefunken Wireless Telegraph Co. of U. S.,* 208 *Fed.,* 679, decided in the Circuit Court of Appeals, Third Circuit (October 20, 1913), the former cases holding the patents invalid and the latter holding them valid, the Court should have decided the question upon the evidence of these cases, and in so doing should have followed the cases last decided, which held the patents invalid.

This Court is in no wise embarrassed from accepting the later case holding the patents *invalid,* because the earlier case refused to so hold on the

evidence presented in that case. The earlier case merely held that *the evidence presented in that case* was not sufficient to establish the invalidity on that particular evidence, while the latter case with additional evidence established the invalidity.

In *Kinter et al.* v. *Atlantic Communication Co. et al.*, 230 *Fed. Rep.*, 829, the Court shows that there was no conflict between that case and the case of *National Electrical Signaling Co. et al.* v. *Telefunken Wireless Telegraph Co. of U. S., supra,* as appears from the opinion of *Mayer, District Judge,* referring to the opinion in that case at page 832, as follows:

> "That opinion is of great value as an introduction to this case, and I should have no hesitation in concurring with its conclusion, had the court in that case had before it certain material testimony, there omitted and here included, which vitally changes the whole aspect of the controversy, both in regard to validity and infringement.
>
> It is plain that the court there was led to believe that Fessenden was the first to realize the value of high frequency in combination with a resonantly unresponsive receiver, and, indeed, the court said:
>
> > 'For as we have seen, and in the then state of aural knowledge, it would have been regarded as destructive to have coupled such high spark frequency with non-resonant receiving.'
>
> In the case at bar, it is and must be conceded that the combination of high frequency and a telephone receiver was well known and had been used extensively in practice, and this fact is now uncontroverted because of

overwhelming evidence which was not presented in the suit in the Third circuit.

I fully agree with Judge Buffington that that combination involved invention; but the difficulty is that Fessenden was not the inventor of this notable contribution to the art, and therefore this case turns on the meaning and value of Fessenden's 'definite' group frequency. It is now said that Fessenden was the first to realize and disclose that the group or spark frequency must not only be high, but regular; that this regularity of high frequency sparks produces a musical note, which enables the operator to concentrate his attention on that note, so that he can distinguish the signals from the queer, irregular noises of static.

A reading of the opinion of Judge Buffington clearly shows that either the court did not attach any importance to the regularity of spark frequency or took it for granted, and this is readily understood when, on an examination of the briefs of counsel in that case, it will be seen that while references are made to that subject they were either (a) to 'definite,' as meaning 'predetermined,' or (b) as if the element were old and well known, or (c) as incidental and wholly subordinate to the major proposition that the discovery consisted in using high frequency sparks with a telephone receiver."

Moreover, *Hough, Circuit Judge,* in the Circuit Court of Appeals, Second Circuit, in affirming the decision below and holding the patents invalid, at page 721 says:

"This patent was sustained in the Third circuit because, as was declared by Buffing-

> ton, Circuit Judge, it disclosed, from date of application filed, high frequency, an untuned receiver, and physiological selectivity. 208 Fed., 685, 693. The union of these ideas or elements produced the method. This reading of the claims is now totally abandoned; it was wrong, because, as is now admitted, the physiological phenomenon of the specification was well known before the application, if not before radio communication itself, while high frequencies in radio work also antedated Fessenden, and ordinary receivers were used before 1905."

If the two courts had made contrary decisions *upon the same evidence,* this Court might be embarrassed in determining which court to follow. In such a contingency, for the purpose of deciding the main issue, the Court had full power to determine the question of validity from the evidence of the records of the cases submitted or by requiring other evidence to be submitted in this suit bearing directly upon the question of validity, which according to the cases hereinbefore referred to, this Court had full power to determine as collateral to the main issue.

But in the later Federal case holding the patents invalid, new evidence was submitted which was not submitted in the former case, showing *a lack of novelty* from which the patents were declared invalid.

It is probable, therefore, that all the evidence that exists or is available to show their validity was submitted in the later Federal case, so that the complainant in this case could not have offered on the hearing herein any evidence to show validity other than that offered in the later Federal case.

At any rate the complainant did not offer to submit any evidence other than the record of the earlier case holding the patents valid as against that of the later case holding them invalid, whereby the Vice-Chancellor should have followed the later case.

The earlier case merely held, in effect, that the presumption of the validity of the patents which arises from the fact that they were issued had not been overcome *by the evidence in that case,* but that decision under that evidence does not affect the force of the later case which upon other and additional evidence showing invalidity of the patents held that the patents were invalid. The later case decided upon the new evidence stands in the present suit with the same force as it would have had if the earlier case decided on different evidence had never been decided, and the Vice-Chancllor should have accepted the later case as evidence of the invalidity of the patents just as if the former case had not been decided. Patents are *prima facie* valid after they are issued, so that the burden is upon one disputing it to show the contrary, but their validity, as to patentability, invention, utility and novelty may be litigated and decided, *de nova* in the courts, 22 *Am. & Eng. Enc. L.* (2d Ed.), 373, 374. It follows, therefore, that a suit may attack the validity of a patent and by insufficient evidence fail to overcome the presumption of validity, and that the only effect of the first suit was to hold that *under the evidence* submitted in that suit the presumption of the validity arising from the issuance of the patent had not been overcome, but it did not affect the later decision adjudging them invalid on other evidence.

(8) Since the question of the invalidity was material, and since the only evidence submitted by either side on that question was the records of the Federal

decisions, the case was argued and submitted upon the assumption that the question of invalidity could be and would be determined from such evidence. If, however, it should be held that other evidence may be necessary to determine that question, the defendant should not be precluded from offering the same, but the case should be opened for that purpose.

(9) The Vice-Chancellor suggests in his opinion (Case, p. 102) that because the invalidity of the patents was a recognized factor in the making of the contract, the consideration may not fail on account of their invalidity, and the Vice-Chancellor states that the case in this respect is somewhat analogous to *Strong* v. *The Carver Gin Company,* 83 *N. E.,* 328; 197 *Mass.,* 53.

In *Strong* v. *The Carver Gin Co., supra,* the effect of the *validity* of a patent was not involved. The action was to recover royalties under a contract granting to the defendant a license to make and sell a specified article under a certain patent. The defendant had sold such article for several years and paid royalties thereon, and then refused to pay upon the ground that the articles *were not covered by the patents.* The Court held that the contract when it was executed related only to manufacture and sale under the patent, and did not take away from the defendant the right that everybody had to make and sell any machine not covered by the patent, and that while the contract was in its executory stage, *i. e.,* before defendant took action under it, he might have notified the plaintiff that patents did not cover the article, but *Knowlton, C. J.,* in his opinion, says, that after the contract was acted upon it was competent for the defendant

to agree to pay the royalty for a license to make a particular article when he was uncertain whether it is covered by a patent or not. While the validity of patents were in no wise involved in that case, the judge cited as merely analogous to that case a line of cases holding that where one makes a contract to pay royalties for licenses under a patent, so long as he acts under the contract and treats the patent as valid, without repudiating it, he is estopped from *directly providing as a defense in a suit for royalties that the patent is invalid.*

Such cases in no wise conflict with the rule established in such cases as *Marston* v. *Sweet, et al., supra,* already referred to, and upon which we rely. In *Marston* v. *Sweet,* the rule in these cases, above referred to *by Chief Justice Knowlton,* is fully recognized, that the licensee cannot use the patent and without renouncing it *directly contest the validity of such patent in a suit to recover royalties where the patent has not been adjudged to be invalid.* But where the patent has been adjudged invalid, such validity and adjudication is a defense.

The real reason for the distinction is found in the language of *Finch, J.,* in the opinion, at pages 533, 534, as follows:

> "We think the true rule to be deduced from the authorities is this: Where the patent is apparently valid and in force the party using it, receiving the benefit of its supposed validity, is liable for royalties agreed to be paid and cannot set up as a defense the actual invalidity of the patent. The reasons for the rule are that the party has got what he bargained for; that he cannot be allowed at the same time to affirm and disaffirm the patent; and that he cannot in this way force the pat-

> entee into a defense of his right and compel him to try it in a collateral action. *While the manufacture goes on under such an apparently valid patent it is presumed to be under and in accordance with the agreement to pay royalties. If the manufacturer does not so intend, and chooses to make the patented article, not under the patent, but in hostility to it, he must give notice of that intention, in order that the presumption may not attach or the patentee be misled. But if the patent is annulled or destroyed by due and effective legal proceedings and priority of invention and a patent is awarded to another, no notice is necessary, for there is no presumption or inference of manufacture under a patent judicially avoided and annulled. It ceases to exist.*"

We submit that this lack of *presumption or inference of an intention to manufacture under a patent judicially avoided,* referred to by *Judge Finch* as the reason for the distinction, exists under the present agreement, notwithstanding the recitals therein of disputes concerning the validity of the several patents.

The existence of such disputes so recited, merely indicates a reason why the parties made the agreement whether they thought the patents would be held valid or not, and shows their intention merely to pay royalties *as long as the agreement should exist and as long as the patents should not be declared invalid,* but the mere fact that the disputes existed does not justify the inference which *Judge Finch* says is lacking in such case, that the parties intended to agree that during the term of this agreement for several years, they would pay large sums for royalties for goods made under patents which

should be adjudged void and for which they would not have to pay if the agreement had not been made. On the contrary, the fact that the validity of the patents were questioned shows that the parties had in mind that they might be declared void and indicated in itself a reason why they would not intend with that possibility in view, to be bound by their agreement to pay large royalties after such invalidity had been adjudged, which they would not otherwise be required to pay.

Moreover, even if the agreement in question had not recited the disputes, or if there had in fact been no disputes, nevertheless, the parties must be presumed to know that the patents might be disputed and declared invalid during the term of the agreement, even if no disputes had yet arisen; and the inference that the parties intended to pay royalties as to patents that might thereafter be adjudged void is no more warranted from the mere fact that *disputes* as to their validity had arisen and been recited in the agreement, than such inference would be warranted where there were no such disputes when the contract was made, but where the parties must be presumed to make their contract in view of the possibility of such disputes and of the patents being adjudged void.

In *Herzog* v. *Heyman*, 151 *N. Y.*, 587, syllabus:

> "Very clear evidence is requisite to permit a contract for the sale of letters patent to be construed, not as calling for a valid patent, but as contemplating a transfer of the letters merely irrespective of whether they are valid or not, with an assumption by the vendee of the risk of their liability."

In *White and others* v. *Lee*, 14 *Fed. Rep.*, 789, Circuit Court of Massachusetts, *Lowell, C. J.*, at

page 791, cites *Marston* v. *Sweet* and other similar cases as pointing out the true distinction, and holds that where the patent has been adjudged invalid the right of all persons to use it corresponds to an eviction of the licensee.

In *McKay* v. *Smith, et al.*, 39 *Fed. Rep.*, 556, *Colt, J.*, reviews the authorities showing that such adjudication of invalidity amounts to an eviction at pages 557 and 558 as follows:

> "It has been held that where a patent has been repealed, or where a licensee is enjoined from acting under a license at the suit of the owner of a senior patent, there is an eviction. *Walk. Pat.*, Sec. 307; *Marston* v. *Sweet*, 66 *N. Y.*, 206; 82 *N. Y.*, 526; *Iron Works* v. *Newhall*, 34 *Conn.*, 67. It was admitted by counsel for the plaintiff in *Lawes* v. *Purser*, 6 *El. & Bl.*, 930, 932, that if everyone had publicly used the patented invention, that might amount to an eviction, and Walker, in the section cited, says that an eviction will probably be held to occur wherever the patentee is defied by unlicensed persons so extensively and so successfully as to deprive the licensees of the benefit of his share in the exclusive right which it was supposed to secure. * * * The rule, however, is now well established that the mere invalidity of the patent is not a sufficient defense to the payment of royalties under a license, because the licensee may still continue to enjoy all the benefits of a valid patent. *Birdsall* v. *Perego*, 5 *Blatchf.*, 251; *Marsh* v. *Dodge*, 4 *Hun*, 278; *Bartlett* v. *Holbrook*, 1 *Gray*, 114; *Marston* v. *Sweet*, 66 *N. Y.*, 206; 82 *N. Y.*, 526. In *White* v. *Lee*, 14 *Fed. Rep.*, 789, the defendant sought to resist an action for

> license fees on the ground that the patent was void. In his opinion in that case Judge Lowell carefully reviews the authorities. His conclusion is that the mere invalidity of the patent is not a sufficient defense, but 'that something corresponding to eviction must be proved if a licensee would defend against an action for royalties.' In other words, it is not enough for a licensee to prove that the patent is void, but he must also show that he has been deprived of the benefits secured to him under his license. It would seem, therefore, from the cases, that eviction may be shown *where the patent has been repealed,* or where the licensee has been enjoined from acting under the license at the suit of the owner of a senior patent, or where he can show that he has been deprived of the benefits of his license under a patent which is void. In these instances it may be said that the subject-matter of the contract has been in substance destroyed, and therefore the payment of royalties should cease."

(10) The Vice-Chancellor also suggests that there is not a total failure of consideration due to the fact that defendant acquired the right to use other patents than those adjudged to be invalid; that no attempt was made to apportion the royalties and that a consideration of the contract was not merely the right to use patents, but the settlement of disputes which had led to vexatious litigation.

To this suggestion we reply:

The undisputed evidence is that the defendant used none of the complainant's patents other than the ones adjudged void.

Under the agreement the defendant was given the right to use any or all of the complainant's patents, but defendant was not required to use any of them, and defendant agreed to pay royalties on such apparatus only as embodied complainant's patents. The defendant thus agreed to pay royalties not for the mere *privilege to use,* but only for the *actual use,* and hence the consideration for defendant's promise to pay royalties for the use of any particular patent was not the mere privilege to use any other patent, but the actual use of that patent. The consideration for each particular patent was the use of that patent and was distinct from that of the other patents.

The situation with respect to this subject is the same as if the parties had made at the same time separate contracts for each patent of the same import as the present contract, instead of making one contract embodying all the patents. In such case, if this suit had been brought to recover royalties for the use of each patent under each of such contracts, the defendant clearly could set up as a defense that it had not used such patents as it did not use, and, therefore, that it was not liable on each of such contracts to pay any royalties as to such patents not used; and if defendant could also show in the case of each contract where any particular patent had been used, that such particular patent had been adjudged void, so that there was no consideration for the promise to pay royalties with respect to such patent, the privilege to use patents under the other contracts would afford no consideration to support a recovery for royalties on such void patent. The fact that the several licenses for the use of each patent and the promise to pay royalties for the actual use of each happens for convenience to be embodied in one contract instead of being made the subject of separate agree-

ments, cannot operate so that there would be an entire failure of consideration for the promise to pay any royalties in the one case and not such failure in the other where the liability in each case is essentially the same and where the two cases differ only in the form in which the agreements are made.

Nor can the provisions for the settlement of disputes referred to in the agreement be taken as a consideration for the payment of royalties on void patents, since by the terms of the agreement the only consideration provided therein for the payment of royalties for the use of any patent was the actual use of such patent.

By the agreement the settlement of the disputes were distinct considerations for each other and related exclusively to each other and did not affect the terms respecting payment of royalties.

Upon the adjudication of the invalidity of the only patents that defendant used the consideration failed according to the cases which we have cited, because there is no *presumption or inference that the parties intended that the defendant should pay royalties for patents judicially annulled,* and it cannot be reasonably inferred that the settlement of the disputes which afforded mutual considerations for each other shows an intention of the defendant to pay royalties for patents which should be judicially annulled, which it would not otherwise be required to pay.

III.

The defense that there was no consideration on account of the invalidity and adjudication of invalidity of the patents applies to any royalties for leases and licenses which otherwise would accrue thereafter as well as for sales.

According to the 28th clause of the agreement, leases made after the termination of the agreement would remain subject to the royalties, so that the defendant would be bound to pay royalties for rent of leases under the agreement unless the consideration failed on account of the invalidity of the patents.

We contend that the failure of consideration applies to the royalties for rent from leases made by the defendant, so that the defendant is not liable to account or pay for such royalties, and the same rule would apply to royalties for licenses made by the defendant if there were any such.

There is no evidence, however, that any such licenses were made, and although there is evidence of leases made before the end of the agreement for which deliveries were made subsequently thereto, there is no evidence that the defendant has not paid and accounted for all such leases, and since the defendant in its answer denies the allegation of the bill that the defendant has not paid and accounted for all sums that it was liable to account for on all sales, leases and licenses, it was incumbent on the complainant to prove that royalties for such leases and licenses had not been accounted for and paid, and in the absence of such proof and in the absence of any proof that any licenses had been made, and since the Vice-Chancellor appears in his opinion to

have considered the liability to account for royalties on sales only, the decree improperly provides that the defendant shall account for royalties on leases and licenses as well as on sales. Even if it should be determined that defendant is liable to account for royalties on sales, and the decree should be held proper in that respect, nevertheless, the provision as to leases and licenses should not have been made unless there was evidence to support it, according to the established rule in cases for an accounting that upon the original hearing the only question to be decided and provided for in the interlocutory decree, is whether the complainant is entitled to an accounting upon evidence relating solely to the right to account.

Hudson v. *Trenton Locomotive & Machine Co., supra.*

The decree should be reversed.

Respectfully submitted,

GRIGGS & HARDING,
Counsel for Defendant-Appellant.

MacCrellish & Quigley Co., Printers, Trenton, N. J.

NEW JERSEY
Court of Errors and Appeals.

BETWEEN
INTERNATIONAL RADIO TELEGRAPH COMPANY,
Complainant-Respondent,
AND
MARCONI WIRELESS TELEGRAPH COMPANY OF AMERICA,
Defendant-Appellant.

Reply Brief of Appellant.

1. The appellee, on pages 36 and 37 of its brief, argues that under clauses 2, 3, 4 and 8 of the agreement the royalties to be paid must be paid on each wireless telegraph and telephone set sold or leased by appellant, whether such set embodied any features covered by the appellee's patent or not, and that under the agreement the appellant would have been liable to pay the royalties if it had seen fit not to use any of the patents of the appellee, so that there was not a total failure of consideration. In answer to this, we reply that the only promise of the appellant to pay any royalties is contained in clauses 4 and 8, which provide for payment of royalties on such apparatus only as the

appellant might lease or sell "*under the terms of this agreement.*" The only apparatus which appellant might sell *under the terms of the agreement* was such apparatus as were referred to in clauses 2 and 3, which granted the right to sell and lease such apparatus only as *embodied the invention of the appellee's patents.*

Under these clauses read together, the appellant did not agree to pay royalties for apparatus which appellant might sell or lease not embodying any of the inventions of appellee's patents.

If the design were that the parties should pay royalties on any apparatus that they might lease or sell which were not leased or sold, under the terms of the agreement, *i. e.,* apparatus embodying the other's inventions, they would simply have provided that for the mere privilege of using the other's patent each party agreed to pay royalties for every apparatus whatever that it might lease or sell, and would not have restricted the payment of such royalties to apparatus leased or sold "*under the terms of the agreement.*"

Under the construction of the appellee the limiting phrase in question would have no effect.

2. The appellee, at pages 30 and 84, alleges that the appellant has used certain of appellee's patents other than the so-called high frequency patents, some of which have been adjudged to be valid. The appellee does not say that there is any proof to support these allegations, but states that the *appellee* has made a "study" of the matter and "finds" these facts. We submit that there is no proof of these assertions. On the contrary, the only testimony bearing on that subject is that of David Sarnoff, who says that the only apparatus that the appellant made or sold that involved any of the patents of the appellee were the high frequency patents. (Case, pp. 64, 65, 66.)

Mr. Sarnoff also says that there had been contracts of leases made by the appellant to its customers not involving the high frequency patents, on which royalties

had been paid under some contract between the appellant and the appellee, but that the appellant has not made any such apparatus since the date of the contract now in question. (Case, p. 68.) He says that the appellant did not pay any royalty on account of any patents other than the high frequency patents, and had paid all royalties under the agreement in question. (Case, p. 69, 70.)

3.

The cases of *Sommers* v. *Myers*, 69 *N. J. L.* 24; *McGill* v. *Holmes, &c.*, 64 *N. Y. Supp.* 787, and *Sproull* v. *Platt, &c.*, 97 *Fed.* 807, cited by the appellant, were cases where by the terms of the agreement the licensee agreed to pay royalties on all articles which it might use, in consideration of the privilege granted by the licensor to use one or more patents. The defendants in these cases endeavored to set up the defense that, although defendant had by the terms of the agreement promised to pay royalties on all articles that defendant should use not restricted to those involving the patents, nevertheless if the defendant did not actually use the patents or all of them there was a total failure of consideration as to such patents not used. It is apparent that defendant's *privilege* to use the patents which was a detriment to the licensor, was a valuable consideration for the promise to pay the royalties on all articles, even if the defendant did not use them so as to make them valuable to the defendant, but in the present case, as we have shown, the payment of royalties is confined by the terms of the agreement, to apparatus only which embodies the appellee's inventions, so that the consideration for each royalty on each apparatus used by the appellant is by the terms of the agreement apportioned to the particular apparatus only used by the appellant which embodies the appellee's inventions.

Respectfully submitted,

GRIGGS & HARDING,

Counsel for Appellant.

2d

New Jersey Court of Errors and Appeals

Between, International Radio Telegraph Company, Complainant-Respondent, and Marconi Wireless Telegraph Company of America, Defendant-Appellant.	On Appeal

2d REPLY BRIEF OF APPELLANT.

The respondent informs us that it is sending a reply brief to be delivered since the argument, and appellant desires to submit the following which was inadvertently omitted in printing the appellant's brief at page 8, line 8.

That the word "customers" in the 16th clause means licensees to whom sets had been delivered by the parties is shown by the language of the 14th clause which provides that each of the parties shall pay the royalties provided for in the 4th, 5th, 6th, 7th, 8th and 15th clauses "for such sets as **it** has sold, leased, or otherwise disposed of under this agreement for which it has received payment from its lessees, vendees or **licensees.**"

The licensees here referred to in the 14th clause could not mean the licensees referred to in the 15th clause because the licensees re-

ferred to in the 15th clause were persons who were to be given the right to **manufacture and sell sets** to the government or others, so that the provision of the 14th clause referring to apparatus which **each party** disposed of and received payment from its licensees could not apply to licensees who simply were to have the right to manufacture and sell, to whom no **apparatus** would be disposed of by the **parties**.

The licensees in the 14th clause referred to persons to whom the parties were to deliver the sets for use upon contracts of bailment where on right to possession for any definite time was given so as to make the contract amount to a lease.

Where goods are so delivered for use and no right to possession for a definite term is given the contract is a license to use.

Healon v. Peninsular Button Factory Co. v. Eureka & c. Co. 47 47 U. S. App. 146, 35 L. R. A. 728.

Burr. v. Duryee, 2 Fish. Pat. Cas. 275, 280.

Cadwalleder v. Wagner (Pa.) 7 Kulp. 465, 466.

GRIGGS & HARDING.
Counsel of Defendant-Appellant.