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February 12, 1985

VIA SONIC AIR COURIER

Algy Tomashunas, Esq.
U.S. Phillips Corporation
580 White Plains Road
Tarrytown, NY 10591

Re: Magnavox v. Activision

Dear Al:

The following constitutes our understanding of the agreement reached over the past several days among Activision, Magnavox, and Sanders.

Definitions.

- A. "The Sanders Patents": Refers to all Sanders' patents which relate to video games. Includes both U.S. and foreign patents.
- B. "Magnavox": Refers to both Sanders and Magnavox.
- C. "Significant Claims": Refers to claims 1, 13, 40, and/or 50 of the '480 reissue. The parties will identify with particularity any other claims involved.
- D. "New Activision Game": Refers to any game introduced on the market for the first time after December 1, 1984. (Activision and Magnavox continue to dispute the issue of which television games made by Activision contain the essential elements of the relevant claims of the Rusch patent. For purposes of this settlement only, Activision has agreed to pay a running royalty on 13 games as set out in paragraph 2 and Magnavox has agreed that Activision has no past or future obligation to pay a royalty under the Rusch patent for any other game first sold by Activision prior to December 1, 1984.)

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*ADMITTED IN NEW YORK STATE

Algy Tomashunas, Esq.
February 12, 1985
Page Two

E. "Video Game System": Refers to the Atari 2600 and 5200, Mattel Intellivision, Colecovision, and other similar systems and/or components thereof.

F. "Home Computer System": Refers to Apple, IBM, Atari HC, Commodore 64 and other similar home computer systems and/or components thereof.

1. The following payments to Magnavox shall entitle Activision to a paid-up worldwide license for all claimed past infringement by Activision of the '507 patent, all future infringement by Activision of the '507 patent as it relates to home computer systems, and all past and future infringement by Activision of the Sanders patents (except as set forth below in paragraphs 2, 3, 5 and 6):

\$400,000 on April 1, 1985
\$200,000 on October 1, 1985
\$275,000 on April 1, 1986
\$275,000 on April 1, 1987

Activision will sign a non-interest bearing promissory note for the above payments. The first two payments shall be secured by a letter of credit or other equivalent security satisfactory to the parties.

2. Activision shall pay Magnavox, in consideration for a worldwide license, a running royalty, as set forth below, for Video Game System sales after January 1, 1985, of the 13 Activision games alleged to infringe the '507 patent:

<u>Gross Sales Price</u>	<u>Royalty Rate</u>
\$10.00 or greater	4-1/2% of gross
Under \$10.00	2-1/4% of gross
Under \$5.00	1% of gross

This royalty will be in effect until the expiration of the '507 patent.

3. Activision shall pay Magnavox in accordance with the royalty rates set forth in paragraph 2 for sales of any New Activision Game for a Video Game System which falls within the scope of the '507 patent.

Algy Tomashunas, Esq.
February 12, 1985
Page Three

4. Activision shall pay Magnavox \$2,000.00 in complete satisfaction of its first quarter 1985 royalty obligation set forth in paragraph 2. Activision also shall provide to Magnavox a letter from Activision confirming its estimate that the payment approximates the royalty which would be due if a detailed accounting were performed.

5. If Significant Claims of the '480 patent reissue from the United States Patent Office, Activision shall pay Magnavox a total of \$200,000 in two payments for a paid-up worldwide license under such reissue for all Home Computer System products sold by Activision. The two payments shall be made as follows:

\$100,000.00 due two months after reissue,
or April 1, 1987, whichever is later; and
\$100,000.00 one year thereafter.

6. If Significant Claims of the '480 patent reissue, the running royalty schedule set forth in paragraph 2 shall apply to those Activision Video Game System products sold by Activision beginning with the first day of the month after the date of reissue which fall within the scope of the '480 reissue, and for which Activision is not obligated to pay royalties under paragraphs 2 and 3 herein. However, Activision reserves the right to challenge the validity and alleged infringement of the '480 reissue patent as it applies to Video Game System products rather than paying the royalty provided in this paragraph.

Please advise us immediately of any inaccuracy or omission.

Very truly yours,



MARTIN R. GLICK

MRG/js