



DEL MAR AVIONICS

DYNAMIC INSTRUMENTATION

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August 1, 1977

DRAFT OF A PROPOSED LETTER OF UNDERSTANDING

Dr. William Thornton has indicated his desire to propose and devise some innovative components to the Del Mar Avionics medical instrumentation development program and to do so with his detailed disclosure of possible innovative work for which he would provide Del Mar Avionics the exclusive rights. He has asked for the company's consideration that this be done under an augmented understanding of the obligation of both parties under the consulting arrangement presently in action with our company. The present arrangement yields a monthly retainer which pays Dr. Thornton in full on a monthly basis in cash for services rendered in consulting work regarding the company's very specialized medical products. The amount of this monthly payment has varied during the years prior to 1975, and especially during the years 1975, 1976, and 1977 to suit the circumstances of his available time.

While Del Mar Avionics has a competent engineering staff in full time service, the company has a continuing need for consulting assistance associated with the company's proprietary medical product line in the field of ambulatory monitoring, stress testing and ultrasonic scan. Some of the company's product line includes items derived from original work by Dr. Thornton while a full time employee of the company. The company also employs other M.D. consultants to assist with work on medical instrumentation.

The augmented understanding would consist of an obligation of Dr. Thornton to provide:

1. An irrevocable letter of understanding from the National Aeronautics and Space Administration (NASA) that inventions made by Dr. Thornton, outside his work for the Manned Space Flight Center, can be assigned hereinafter to an industrial concern for whom he is doing consulting (such as Del Mar Avionics) and such assignment would grant a worldwide exclusive license. (NASA would retain no license thereto).
2. The obligation of Dr. Thornton to disclose to Del Mar Avionics those inventions conceived during his employment as a consultant hereinafter where those inventions concern product lines in which Del Mar Avionics is currently manufacturing, engineering or doing research. Each disclosure would necessarily be done in sufficient detail to permit a clear understanding of the invention and its operation. Each disclosure would contain a formal assignment of any patent rights to Del Mar Avionics.

The augmented understanding would also consist of an obligation of Del Mar Avionics:

1. To pay a royalty to Dr. Thornton on the sales of any inventions where he is the sole inventor of inventions disclosed to the company under the conditions noted above for a limited time during the pursuit of a patent or patents on the invention.
2. To obtain U.S. and other territorial patent coverage by a patent application or applications wherever features of novelty are believed by Del Mar Avionics to warrant such expenditure and where at the same time the company believes a sufficient market potential exists.
3. To pay a royalty on sales of the qualifying invention throughout the life of a patent once issued. Where the invention involves a component part of an instrument or instrumentation system, then the applicable sales price would be that portion of the overall price which the company associates with the system price.

Under the existing consulting arrangement, Dr. Thornton assists primarily as a critic and guide of certain new work of the Engineering Department at Del Mar Avionics. The only new understanding would be that a licensing and royalty arrangement is agreed to in accordance with the above conditions and the following:

1. The initial percentage of royalty relative to the selling price of the component item would be five (5%) percent and the royalty would be payable quarterly.
2. The above royalty would start only subsequent to August 1, 1977 with the first sale of any item claimed in a U. S. Patent application where Dr. Thornton is the inventor and has assigned the exclusive patent rights to Del Mar Avionics, and would continue until the start of the fifth year after the date of receipt of full disclosure of the invention to Del Mar Avionics, and thereafter would continue at the initial royalty rate followed by a reduced royalty rate for the term of any U. S. Patent that shall then have issued on the device so long as the device being produced continues to be covered by valid claims of the patent assigned to Del Mar Avionics.
3. The royalty rate would reduce to four (4%) percent at the start of the tenth year following the issue of a U. S. Patent on the device.
4. If a U. S. Patent application shall have been filed and yet no patent shall have issued at the start of the fifth year following receipt of full disclosure of the invention to Del Mar Avionics, then no further royalty on that device would be payable.

Draft of a Proposed Letter
of Understanding

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5. Del Mar Avionics would, for all patent applications it authorizes following disclosure by and in the name of Dr. William Thornton, be obligated to arrange for and pay the patent attorney's and government patent fees.

The above constitutes a draft of a proposed letter of understanding made for discussion purposes and cannot be construed as an offer by either party until so presented.