07/06/82 COLLINS & AIKMAN CORPORATION v. COMPO

1982 | Cited 0 times | Court of Chancery of Delaware | July 6, 1982

BROWN, Chancellor

UNREPORTED OPINION

This suit is one which, at its inception, had the potential to become exceedingly complicated. The manner in which it has been tried and presented has caused it to more than fulfill that potential. The issues and side issues conceived by counsel are numerous and any attempt to deal specifically with all of them is both unnecessary and ill-advised if one is expected to be able to complete a reading of this decision in one sitting. That will prove tough enough as it is. Consequently, and in the belief that at some point all legal entanglements must inevitably reduce themselves to a basic, fundamental premise on which a decision must be made, the focal point of this decision will be the true relationship that exists between the parties as I find it to be from the evidence. Also, I shall deal specifically with the main points of defense asserted by the defendant. To the extent that other contentions are not specifically mentioned, it does not mean that they were not considered.

At the outset, it is to be noted that the controversy deals with a written contract which, by its terms, is to be governed and interpreted by the laws of the State of New York. For this reason the case portends little precedential value for the Bar of this State and, more than likely, even less for that of New York. Accordingly, this decision will not be offered for official reporting. Correspondingly, this permits a more expeditious treatment of the subject matter since counsel are familiar with the facts and issues and do not require an overly sprawling recitation by the Court in order to put matters in proper perspective. With this in mind, I proceed as follows.

The Nature of the Controversy.

This suit involves a determination of common law rights arising out of a contractual relationship whereby certain commercial technology was licensed by one party to another for a specified number of years. The plaintiff, Collins & Aikman Corporation (hereafter "C & A"), seeks an injunction against the defendant, Compo Industries, Inc. (hereafter "Compo") to prevent Compo from using technology developed by Compo to produce products for anyone other than C & A for the balance of the term existing on a written contract entered into in 1967 between C & A and Compo's corporate predecessor, Pandel, Incorporated (hereafter "Pandel"). C & A also seeks to enforce the contract against Compo so as to compel Compo to disclose to C & A all information and technology possessed by Compo which is encompassed within the alleged subject matter of the agreement. A related action concerning patent rights covered by the same written agreement is pending in the federal courts in Georgia.

To put the matter in perspective, as I see it, I think it advisable to outline the core of the controversy in general terms. What we have is a situation wherein one party has expressly granted an exclusive license to another purporting to cover specified technology in a particular commercial area. However, the licensor, despite an apparent contractual obligation to do so, has refused to disclose certain of the technology to the licensee, choosing instead to use its resulting secret process to make a product exclusively for the licensee in return for the payment of the royalties called for by the license and, in addition, the payment of a separate manufacturing fee. The licensee, for its own commercial and economic reasons, chose initially not to attempt to enforce its apparent contractual right to the process against the licensor. Rather, it elected to acquiesce in the licensor's position while attempting to develop on its own a similar process to make the same product. Once the licensee developed its own technology and process, and was no longer dependent upon the licensor for either the technology or production, it brought this suit to compel disclosure to it of the licensor's secret process and to enjoin the licensor from using the process and technology for itself, or for competitors of the licensee, for the balance of the term remaining under the license agreement. Whether or not it is now legally entitled to do so forms the basic issue for decision.

The Applicable Facts.

The subject matter of the litigation is commercial carpet, or, to be more specific, commercial carpet tiles. The license agreement which has wrought this bitterlyfought litigation is a relatively simple, eight-page, doublespaced, typewritten instrument. Truly, this is an example of the proverbial situation in which the mouse has roared and brought forth a mountain. As much as I would prefer to do so, I cannot set forth the factual background with any true degree of conciseness. As best I can, however, it runs as follows.

C & A has been a national leader in the textile field for many years. Its involvement in the development and marketing of carpet and carpet backings dates back to the 1920's. In the 1960's C & A began manufacturing tufted carpets and, by 1967, had established a substantial market for tufted carpeting, primarily for residential and household use. By 1967, C & A, along with others, had perceived that there was also a substantial market potential for carpeting in the commercial and industrial areas. This market area was then being served principally by the traditional woven carpet, linoleum, vinyl tile and the like.

Tufted carpeting was viewed as having this market potential because it could be produced less expensively and on less complex machinery than woven carpet. With tufted carpet, rather than the fabric being woven together and applied to a backing, the fabric is punched directly through a backing material. The speed and simplicity of this procedure seems obvious. The difficulty, however, was in securing and fastening the loops punched through the backing. If not properly secured, one snag could pull out an entire row of fabric. This presented a particular problem if tufted carpet was to be offered for heavy duty industrial or commercial use.

C & A experimented with a rubber, or latex backed, tufted carpet. At the time, however, this proved unsatisfactory since the rubber backing lacked dimensional stability plus the fact that it tended to separate or disintegrate under heavy use. Thus C & A, through its representatives, turned its efforts toward developing a vinyl backing. In 1967 it was put in touch with Pandel, a small New England company.

Pandel was formed in 1964 to produce vinyl coated fabrics for use as a shoe leather substitute. Its principle founders and operators were Reuben Wisotzky and Stanley Charren. Wisotzky is a chemist who then, as well as now, possessed considerable experience and knowledge in the field of synthetic resins, including polyvinyl chloride, commonly referred to as vinyl. Charren was primarily responsible for business and financial matters. In 1967 Pandel was operating out of the second floor of an old plant building in Lowell, Massachusetts. Its employees, including Charren and Wisotzky, numbered a handful and its early operations were marginal at best. It had no previous experience or background in the carpet field.

Within a period of some six weeks, however, Pandel was able to develop and produce a commercially acceptable, vinyl foam backing which, through a type of lamination process, could be affixed to the tufted carpet produced by C & A. Pandel, on an industrial range devised by it, was able to produce a sheet of vinyl backing. Thereafter, this backing material and the tufted carpet provided by C & A could be run together over the same range and, through a controlled heating and cooling process, melded together so as to secure the loops of the carpet within a portion of the vinyl, thus producing a roll of commercially functional, vinyl backed, tufted carpet.

C & A desired to obtain an immediate, exclusive license to this process, and, after negotiations between the parties, and after several preliminary drafts, the license contract in issue was executed and came into being on December 27, 1967. The tufted carpet produced by this process was marketed by C & A under the name of "Powerbond." This product, which was produced and sold in the form of roll goods, was the only vinyl backed, tufted carpet that was in existence at the time that the license agreement was entered into, and I am satisfied that it was the product and process that the parties had in mind at the time that the agreement was drafted.

The term of the agreement was fixed at 18 years. The agreement provided for an initial payment to Pandel of $20,000 and the payment of an additional $30,000 upon the initiation of commercial production in C & A's plant. It also provided for an annual royalty to be paid by C & A to Pandel calculated on established percentages "of C & A's net selling price" of the "material processed under the Know-how and Patent Rights of this Agreement." The agreement further required C & A, commencing with the second year of the license, to pay Pandel a minimum royalty of $60,000 per year for the balance of the license term.

The language of the license agreement which is critical to this case is set forth hereafter (with emphasis being supplied where it is deemed appropriate.)

"WHEREAS, PANDEL has developed and is continuing to develop certain proprietary and confidential techniques and compositions including but not limited to equipment design, chemical compositions, specifications and operating conditions for use in the field of applying synthetic resin backings to carpet products, and particularly in the field of applying a vinyl backing to tufted carpet products; and

"WHEREAS, PANDEL is the owner of certain patent rights, including a pending U.S. Patent application entitled NOVEL CARPET AND METHOD OF MAKING SAME, relating to such techniques and compositions; and

"WHEREAS, C & A desires to be licensed under the know-how and patent rights of PANDEL relating to such techniques, compositions and such carpet products.

"NOW, THEREFORE, in consideration of the promises and the mutual covenants and conditions hereinafter set forth, the parties hereto agree as follows:

"1. As used in this Agreement, the following terms shall be defined as set forth below:

"(a) 'Know-how' shall mean all information possessed at any time by PANDEL during the term of this agreement relating to tufted carpet products having a synthetic resin backing or relating to the field of applying a synthetic resin backing to tufted carpet products.

"2. PANDEL hereby grants to C & A an exclusive, non-transferable, royalty-bearing license in the United States and Canada under the PANDEL Patent Rights and Know-how. The exclusive license granted hereunder to C & A includes the right to use in the United States and in Canada all processes and compositions coming within the licensed field, and also the right to make, use and sell in the United States and in Canada tufted carpet products coming under the Patent Rights or processed under the license of the Agreement, but does not include the right to sublicense others.

"3. PANDEL agrees to furnish to C & A all necessary information, such as engineering, technical and chemical specifications possessed by PANDEL relating to the licensed Know-how and Patent Rights, and PANDEL further agrees to supply all further information which may come into the possession of PANDEL during the term of this Agreement. PANDEL further agrees to train, for a reasonable period, C & A personnel at PANDEL's facilities so that such C & A personnel can carry out the licensed process in commercial production in C & A's plant. PANDEL further agrees, on request of C & A, to supervise and assume general responsibility for getting C & A into commercial production in C & A's plant."

Subsequent to the execution of the license, C & A, in 1968, established a line at its facility in Dalton, Georgia, for laminating vinyl backings to commercial tufted carpets sold as roll goods. Pandel assisted C & A in setting up this operation. In addition, in 1969, Pandel established a plant facility in Cartersville, Georgia, the principal purpose of which was to provide the foam sheeting for use in C & A's laminating process. In short, in addition to receiving royalties under the license, Pandel also made the foam vinyl backing for C & A's Powerbond product, for which it was paid a separate production cost by C & A. This vinyl backing was applied to the carpet by C & A at its facility, using the licensed Pandel process and knowhow.

As the Powerbond product prospered, C & A turned its attention to creating a carpet tile, that is to say, an industrial, tufted carpet, that could be sold in individual squares and installed in the same manner as vinyl tiles and the like. Pandel worked on this project for C & A. Initial efforts were unsuccessful. An attempt was made to cut the Powerbond roll goods into tile size, but the resulting product lacked the necessary dimensional stability and, in such reduced size, lost its shape and form under stress. Eventually, however, between 1969 and 1971, Pandel developed a process for making vinyl-backed carpet tile.

Without attempting to describe the tile process in detail, it is sufficient to note that it differed in theory from the Powerbond process. In the Powerbond process a previously made foam vinyl backing was run through the range in a manner so as to join with the roll of tufted carpet. In the process a thin coating of vinyl was spread on the back of the carpet in a heated liquid state. When this was joined with the pre-made sheet of vinyl foam, the heat was sufficient to partially liquify the connecting portions of the vinyl sheet, thus, when cooled, causing the thin coating of vinyl on the carpet to meld with the vinyl on the backing sheet, thus causing the two to lock solidly together so as to stabilize the carpet loops.

The tile process, however, even though run over a similar range, did not utilize a pre-made vinyl backing. This was because it was necessary to inject into the vinyl backing some form of stabilizing agent -- called here a "scrim" -- so as to assure the shape of the product once cut into tile form.

So as to do this, gelled or liquid vinyl was deposited on a slow-moving, teflon-coated belt. The carpet, again with a thin coating of heated liquid vinyl applied, was lowered onto this liquid coating at a point controlled by a large roller, called a nip roll. At precisely this same point the scrim -- being a woven, mesh-like fabric -- was injected between the carpet on the top and the liquid vinyl on the bottom. These three components were then gently squeezed together as they passed under the nip roll, thus causing the scrim to settle into the liquid vinyl on the belt while the liquid vinyl on the belt melded through the openings in the mesh of the scrim with the vinyl coat on the back of the carpet. The belt carrying the product thus composed continued on through an oven wherein the heat on the top of the carpet could be controlled so as not to damage the carpet fabric while at the same time the heat on the bottom could be controlled so as to properly treat the vinyl containing the scrim. The product then passed from the oven, was cooled, and the carpet sheet then cut up into tile size dimensions.

Many factors are critical to this process. They include the chemical composition of the liquid vinyl component, the degree of heat to be applied prior to the nip roll, the pressure or method used at the nip roll to assure the elimination of air pockets in the vinyl as the carpet and the liquid on the belt are brought together, the degrees and variation of heat in the oven, the rate and manner of cooling once the product leaves the oven, etc. It is this body of intangibles which Pandel figured out and which it has yet to disclose to C & A. It is what C & A would describe as the "know-how" for which it bargained in the license agreement. In essence, it is what the case is all about.

Pandel was able by this method to produce a commercially acceptable carpet tile by December 1970. C & A went on the market with the product in early 1971 with Pandel making it for them with tufted carpet supplied by C & A. Prior to that time C & A's management had directed its personnel to look into the possibility of developing an alternate way to back the Powerbond product so as not to infringe on Pandel's patent and know-how rights under the license but at the same time provide a means to avoid paying royalties to Pandel. In this regard, Francis J. McQuilkin, an executive vice president of C & A, was assigned in the fall of 1970 to look into the Pandel relationship.

McQuilkin attempted to find out precisely what C & A was getting and paying for under the 1967 license agreement. His Conclusion, from reading the agreement iself and from talking to everyone he could think of at C & A, was that it was impossible to know just exactly what C & A was entitled to or what it was paying for. He so reported to his superiors.

In March 1971, with the tufted carpet tile now being produced along with the Powerbond product, MCQuilkin, in the company of William D. Wiegand, the C & A official who had made the initial contacts with Pandel, visited Pandel's plant in Cartersville, Georgia, where the tile product was being made. They met with James Stevens, Pandel's plant manager. Their purpose was to obtain all information possible about the manufacture of products that C & A was buying from Pandel.

Stevens, however, refused to allow them in the plant and refused to give them any information concerning how the carpet tile was made. Stevens took the position that the Pandel carpet tile process was nothing more than an extension or development of a process that was common knowledge in the industry, accomplished on the type of range and oven equipment that was also well known. He thus took the position that the Pandel process was in the realm of public knowledge, that it was therefore something in which Pandel could have no proprietary rights, and that consequently it was something that did not fall under the terms of the 1967 license agreement. Stevens indicated that it was the intention of Pandel to go into the business of supplying vinyl-backed carpet tiles to others in addition to C & A.

As a result of this meeting, McQuilkin and C & A were faced with a slight dilemma. They had a license agreement with Pandel, under the terms of which it was not entirely clear at that point what

C & A was getting. Pandel, meanwhile, had developed a vinyl-backed carpet tile which had a substantial market potential. No one else had it, and at the time Pandel was making it for and selling it exclusively to C & A. If the 1967 license agreement covered the tile product, which arguably, by its language, it did, then C & A was entitled to have the title process disclosed to it by Pandel just as with the Powerbond process. Yet Pandel was refusing to disclose any information concerning its tile process, claiming it to be outside the 1967 license. If C & A brought suit to obtain the process, then the likelihood existed that Pandel would refuse to supply tile to C & A during the course of the litigation, and C & A's the potentially exclusive market for the product would be lost, at least during that period and possibly forever.

As a result, as of July 1, 1971, C & A began paying Pandel royalties on the carpet tile as well as on the Powerbond, just as though the tile was covered by the license. However, C & A did not disclose this to Pandel until September 1971, the royalty payments themselves being paid in such a manner as not to disclose a separate royalty for the tile. In addition, C & A continued to pay Pandel a separate charge for the manufacture of the tile product.

From Pandel's side of the matter, Charren and Wisotzky, overriding the views of Stevens, decided to go along with this relationship. In other words, as long as Pandel was receiving royalties from C & A on the tile processed and sold by it, and as long as C & A, which was then Pandel's largest customer, continued to pay Pandel for making and affixing the tile backing, it was their feeling that it was in the best interests of Pandel to go along with the situation and to not rock the boat, so to speak, by attempting to make carpet tile for others. I have no doubt that the prospect of litigation by C & A had Pandel attempted to do so formed at least a partial consideration for this decision.

Thus, without any formal modification of the 1967 license agreement, the parties settled into a business relationship concerning the carpet tile that endured for the next eight years. During this period Pandel, which in 1977 merged into and became part of the defendant Compo, did not disclose the "know-how" of its carpet tile process to C & A, nor did C & A push the matter. during this period Pandel took the tufted carpet from C & A, made the carpet tile, and returned it to C & A in exchange for the separate manufacturing fee (the amount of which, over the years, was substantial). As the carpet tile was processed and sold by C & A, it paid royalties to Pandel -- and then Compo -- as called for by the 1967 license agreement. Pandel -- and then Compo -- accepted the royalties. During this same period C & A paid, and Compo accepted, royalties on the Powerbond product.

The foregoing situation persisted until the fall of 1979. At this point Compo got wind of a rumor that C & A was planning to back carpet tile at its own facility. Wisotzky called for a meeting with Wiegand of C & A, at which the rumor was confirmed. In effect, Wiegand advised that Compo would be phased out as a supplier of the carpet tile in view of the fact that C & A had formulated its own tile-backing process and thereafter would be taking care of its own manufacturing needs. On October 3, 1979 Wiegand wrote Compo confirming that C & A's purchase of tiles from Compo would be phased out by a specified date.

Compo reacted to this in the following manner. Commencing in 1976 it had been in contact with a Scottish firm, Sidlaw Industries, Ltd. ("Sidlaw"), which had also developed a patented process for making carpet tile. Upon learning of C & A's change in position, Compo entered into a one-month option to take a license under the Sidlaw process. Wisotzky then sought another meeting with Wiegand, in which he advised Wiegand that it would be Compo's intention either to make carpet tiles for others using its own process or to take a license from Sidlaw so as to make carpet tiles for others under the Sidlaw process. Wiegand took this under advisement so as to obtain the advice of counsel.

On December 1, 1979 Compo entered into a license agreement with Sidlaw, the form of the agreement, surprisingly enough, being patterned after the 1967 agreement between C & A and Pandel. Thereafter, on December 20, 1979, Wiegand wrote to Wisotzky and advised that it was the position of C & A that under the exclusivity provisions of the 1967 license agreement Compo was prohibited from using its process to make carpet tiles for others and that it was likewise prohibited from taking a license from Sidlaw to make carpet tiles for others. (This latter position apparently derives from C & A's argument that under the 1967 license agreement it has the exclusive right to all know-how "possessed" by Compo, which would thus include any knowledge or process obtained by Compo from another.)

As a result of this Compo ceased in its manufacture of the carpet tiles for C & A. It thereafter made a small amount of carpet tiles for companies who are competitors of C & A in the carpet market. C & A then brought this suit seeking to enjoin Compo from making carpet tiles for anyone else for the balance of the 18-year term remaining under the 1967 license agreement and to compel Compo to disclose to C & A all know-how possessed by Compo with regard to making tufted carpet tiles, including that disclosed to Compo under the Sidlaw license. In this regard it must be noted that C & A has also taken the position that it is still obligated to pay Compo royalties on the vinyl-backed tufted carpet products covered by the license agreement for the balance of the license term even though Compo is no longer making and supplying any of the products to it. Royalty payments were made and accepted by Compo through the trial of the matter.

The Contentions of the Parties.

It is the position of C & A that the Pandel method for making tufted carpet tile is clearly covered by the license agreement since it involves the application of a synthetic resin backing to a tufted carpet product. As such, C & A contends that Compo's tile process falls within the definition of "know-how" as set forth in the agreement and under the agreement C & A was granted an exclusive license to such know-how for a period of 18 years. In addition, the license agreement required Pandel to furnish C & A with all necessary information, such as engineering, technical and chemical specifications "possessed by Pandel relating to the licensed know-how" as well as to supply C & A with "all further information which may come into the possession to Pandel during the term of this Agreement." C & A contends that the exclusivity of the license means that Pandel cannot use the carpet tile technology for itself or for others during the remainder of the term of the license and that, in addition, Pandel must be compelled to disclose its still secret process to C & A.

Compo relies on a host of defenses in an effort to avoid any obligation under the license agreement with regard to the carpet tile. It argues that the license has been terminated by the failure of C & A to pay the full amount of royalties required under the license. It contends that the license agreement is ambiguous as written and that the true intent of the parties was to limit the license solely to the Powerbond process. It contends that C & A's suit, at least to the extent that it seeks to enjoin Compo from now making carpet tile for others, should be barred by laches and estoppel. It argues that the carpet tile process does not fall under the 1967 license, but rather that the carpet tile "arrangement" between C & A and Pandel was the product of a separate agreement apart from the 1967 license.

In addition, Compo relies heavily on the argument first put forth in 1971 by Stevens, Pandel's then plant manager, namely, that the carpet tile method developed by Pandel was in the public domain and thus could not be covered by the license, the argument being that the term "know-how" as used in the license agreement necessarily refers to proprietary and confidential information and that there can be no proprietary or trade secret right to anything existing in the public domain. In other words, that which is revealed by public information cannot constitute proprietary matter since it represents the prior art in the field which is thus available to all.

Finally, Compo argues that even if all of the foregoing defenses are overcome the license agreement is nevertheless unenforceable against it since it violates public policy by fostering a monopoly in C & A by means of imposing an unreasonable restraint on competition.

On the evidence presented I am satisfied that only the last two defenses mentioned warrant serious consideration. In my view, the breadth of the language used in the license, as well as the intent of the parties, is sufficient to include the carpet tile process under the license. In my view, Compo effectively waived any right to terminate the license under the facts of the matter. Further, there is no convincing proof of any separate agreement as to the carpet tile such as claimed by Compo. And there is no factual basis for applying the defense of laches or estoppel.

The Scope of the License Agreement.

As noted earlier, the license agreement provides that it is to be interpreted and enforced under the laws of New York. Compo argues that the license itself is an ambiguous document and that the evidence of the events and negotiations leading up to its execution make it clear that the license was meant to cover only the Powerbond process (as that term is used in this decision). During the trial, and over the objection of C & A, I permitted evidence and testimony concerning the negotiations preceding and leading up to the consummation of the license agreement. This was on the basis that the contract was arguably ambiguous in several respects. Indeed, C & A's own witnesses confessed their uncertainty as to its meaning and scope as far back as 1970. Given the complexity, the obvious expense and prospective length of the litigation, I deemed it best to admit such parol evidence rather than to risk the possibility of a retrial by adopting a rigid rule of exclusion.

Having done so, I am convinced even on that evidence that it was not the intent of the parties to limit the license to the Powerbond process which brought it about. C & A bargained for and Pandel licensed its know-how as well as its patent rights. Both categories of technology were specifically defined in the license. Know-how was defined in the license. Know-how was denied as all information possessed by Pandel during the 18-year term of the license which either (1) related to tufted carpet products having a synthetic resin backing or (2) related to the field of applying a synthetic resin backing to fufted carpet products. The conduct of the parties as well as the language used in the license makes it clear that while the Powerbond process is what everyone had in mind at the time, the license was meant to cover all information and technology that Pandel might thereafter devise, by way of improvement on the Powerbond process or otherwise, concerning the development of commercially acceptable tufted carpet products having a vinyl backing.

It was C & A's desire to enter this potential new market area that brought the parties together in the first place. It was Pandel's knowledge of synthetic resins, primarily through wisotzky, and its quick solution to C & A's need, that caused C & A to want to get Pandel quickly and exclusively under its wing. As its representatives indicated at the time, C & A wanted to "buy Wisotzky's brains." Pandel, on the other hand, was a marginal business with no experience or connection with the carpet industry. A prospective long term business relationship with a company of statute such as C & A was an obvious opportunity. It is unreasonable to think that the parties were anxious to enter into a long term relationship which dealt only with the first commercial product that their efforts had produced, and nothing more.

As a prelude to its defense that the license only applied to information that could constitute a trade secret of Pandel and not to that which was already in the public domain, Pandel points to the first recital, or "whereas" clause of the license in which it is recited that Pandel had developed "certain proprietary and confidential techniques and compositions." It then points out that the license actually granted in the operative language of the agreement goes to "know-how" and that the definition of "know-how" in the agreement makes no reference to confidential or proprietary information. From this Pandel argues that the license is ambiguous as to precisely what was being licensed, thus providing a way for it to offer evidence that the license could only have been intended to cover proprietary and confidential information raising to the level of trade secrets and thus not all information and technology of every kind acquired by Pandel during the term of the agreement.

Under New York law, where a recital clause and an operative clause are inconsistent, the operative clause, if unambiguous, should prevail. Where the recital clause is clear, but the operative clause is ambiguous, the recital clause should prevail. Where the two are so intertwined that the ambiguity of the operative clause permeates the basic aspects of the agreement and the intent of the parties cannot be gleaned from the instrument, a question of fact is presented which must be determined from evidence outside the agreement itself. Mussman v. Modern Deb, Inc., N.Y. Supr., App. Div., 392 N.Y.S. 2d 24 (1977).

Here, neither the recital clause nor the pertinent operative language, standing alone, is truly ambiguous. Arguably, the latter can consume the subject matter of the former without being itself rendered ambiguous. That is to say, know-how can be used by the parties to include confidential and proprietary matters as well as other information. I think that this was done here, and that it was the intent of the parties to do so. But even assuming that the relationship between the two clauses can be said to create an ambiguity, there is no convincing proof that it was the intent of the parties to limit the license only to patent rights and to such know-how information as would fall within the protected category of trade secrets.

I find that the license agreement was intended to cover all information possessed by Pandel falling under the definition of know-how as defined in the agreement.

The Defense of Termination.

As to Compo's claim that it has terminated the license because of its breach by C & A, I find the contention without merit. Compo claims to have terminated the agreement on June 12, 1981, while this suit was in progress and shortly after matters had been held in abeyance for a period of several months pending possible settlement negotiations. The justification for compo's delay is its claim that it was not until it received the production of certain documents on May 20, 1981 that it became aware of the fact that C & A had unilaterally changed the basis for computing royalties on the carpet tile in 1975, thus resulting in a deficiency in royalty payments due Compo over that period in excess of $65,000.

The evidence indicates that the documents in question, or at least a part of them, were made known and available to Compo many months earlier during the course of a deposition being taken in this case. Also, under the terms of the license agreement, Compo was free to have access to C & A's royalty computation records at any time upon written request to C & A, a right which admittedly it never exercised. In this respect, there is no indication that the means to discover the deficiency was ever denied to Compo. In addition, subsequent to its giving of its termination notice, Compo accepted royalty payments from C & A which included the amount of the alleged deficiency. Finally, on May 20, 1981, the same date on which the revealing documents were allegedly first produced to it. Compo filed an amended counterclaim in which it sought to recover all past due royalties, thus arguably, making an election of remedies.

Authority indicates that in New York, as here, the courts look with disfavor on forfeitures and tend to find a waiver where to conduct of the party claiming a forfeiture or default warrants such a finding. This equitable principle has been applied to a situation involving a default in royalty payments during the course of a dispute between the parties. Oleg Cassini, Inc. v. couture

Coordinates, Inc., 297 F. Supp 821 (S.D.N.Y. 1969)

The effort being made by Compo in this situation is to seize upon something unearthed during discovery, something about which it had not concerned itself for more than five years, so as to declare a default, terminate the license, end the litigation and free itself from any obligation to C & A without having to risk a decision on the merits of the matter -- while at the same time accepting payment of the amount in default shortly before the commencement of trial. I find its overall conduct to constitute a waiver of any contractual right to terminate the license agreement based on the alleged default by C & A in failing to pay the proper amount of royalties from 1975 onward.

The Defense of the Separate Agreement.

As to the alleged separate agreement concerning the carpet tile, I find that there was none, at least not on the basis advocated by Compo. It is the claim of Compo that this separate "arrangement" was worked out between Charren (then of Pandel) and Wiegand of C & A at a 1971 meeting in New York. The alleged oral agreement -- there is nothing whatsoever in writing -- was that even though the carpet tiles which had just been developed by Pandel were not covered by the 1967 license agreement, Pandel would nonetheless consider them to be covered by the 1967 license, and the royalty provisions thereof, provided that C & A would purchase all of its carpet tile requirements from Pandel. In return, Pandel would not manufacture the tiles for anyone other than C & A for the balance of the term remaining on the license agreement. Also, under the so-called verbal arrangement, there would be no obligation on Pandel to disclose its process to C & A, and in return Pandel would not disclose or license it to others.

The major drawbacks in this argument are several. Wiegand denies any such agreement or any meeting in New York at which such an "arrangement" was discussed. His records indicate that his New York meeting with Charren was in March 1971. Charren says the meeting was in late September 1971, although no substantiation of a September meeting was produced. Memos of Charren and Mcquilkin of C & A make it clear that no separate agreement or arrangement concerning the tile had been made as of September 13, 1971. Thus, balancing the personal recollections of Charren and Wiegand, the evidence leans toward a March meeting between the two in New York which would have predated the conceded fact that there was no such separate understanding as of September 13, 1971.

In addition, there was no indication of any such separate agreement provided in the vast discovery conducted in this case. It did not come to light until the trial itself. Moreover, Charren gave no indication of any such separate agreement during his pre-trial deposition and, during his deposition, he referred to his New York meeting with Wiegand without mentioning it.

Finally, when C & A in 1979 revealed its intention to cease its purchase of the carpet tile from Compo, Wisotzky met with C & A representatives and sepecifically sought to have Compo freed from the license agreement with regard to the carpet tile. In October 1979 Compo also wrote to C & A in an effort to persuade it to modify the "12 year old" agreement since the "original reasons for negotiating that agreement no longer exists." There would have been no reason to do either if Compo truly believed that a separate agreement concerning the carpet tile had been negotiated with Wiegand in 1971, and that the carpet tile it was producing was not governed by the 1967 license agreement. On the evidence, I find that no such separate, unwritten agreement, or "arrangement," was ever specifically discussed or entered into between the parties in 1971.

The Defense of Laches and Estoppel.

Finally, I find no basis for the defense of estoppel or laches on the grounds asserted by Compo. It is asserted by Compo that C & A should be estopped from terminating Compo as the manufacturer of C & A's carpet tiles while at the same time prohibiting Compo from using its tile process to make carpet tiles for others. It says that C & A permitted Compo to construct and open a plant in Cartersville, Georgia, and to hire employees and to enter into financial commitments, so as to have a facility to manufacture vinyl backed carpet tile exclusively for C & A. It says that the relief that C & A seeks, if granted, will put it out of the carpet tile business and require it to close its plant since more than half of its Cartersville business derives from the manufacture of the tile. It argues that C & A having permitted Compo to get itself in this position over a nine-year period for the profit and benefit of C & A, it should not now be permitted to cut it adrift and at the same time prohibit from doing business with others.

On this, however, I tend to agree with C & A's position. In the first place, the 1967 license agreement contains a provision which permits C & A to terminate the license at any time on 90 days notice. Compo has always been aware of this. Secondly, since 1971 C & A has made it clear to both Pandel and Compo that it would intend to develop its own tile process in view of Pandel's refusal to disclose the process to it. Thus Pandel, and thus Compo, have always been aware that the day might come when C & A would no longer need the manufacturing capability of Compo.

Finally, Compo's position rests on its argument that C & A has no exclusive right or license to Compo's tile process. If Compo is correct, then it has no need to rely on a defense of laches or estoppel. If it is not, then it means that it has been in default of its obligation under the license agreement since 1971 in refusing to disclose the process to C & A. This would mean, in turn, that Compo's large volume of tile business derived from C & A over the years was created solely from Compo's refusal to divulge the tile technology in accordance with the license agreement. If it has been in default under the license all this time, then what it stands to lose, and that on which it bases its laches and estoppel defense, was gained by holding up C & A, so to speak, by wrongfully giving C & A no choice but the continue to deal with Compo if it wished to have an exclusive item to sell. This is a slender reed on which to claim a defense of laches or estoppel based upon a detrimental change in position in reliance on the conduct of another.

The Defense That The Process Is In the Public Domain.

With these defenses out of the way, I turn then to Compo's contention that the license agreement cannot be enforced against it as to the carpet tile process because the process itself is already in the public domain. As best I can tell, Compo's position is two-pronged; but it is bottomed on the resulting premise that unpatented technology or know-how must be such as to constitute a trade secret in order to be protected under a license agreement.

For one thing Compo relies on decisions which have held that certain types of know-how are not protectable. In Van Products v. General Welding & Fabricating Co., Pa. Supr., 213 A.2d 769 (1965) it was held that know-how consisting of a generalized knowledge acquired by an employee with respect to research, development and experimentation in a given field constituted a labor asset that an employee was entitled to take with him upon leaving his employer so as to go into a competing business. Such know-how was held not to constitute a trade secret of the employer, and thus the employer was not entitled to injunctive relief against the former employee to prevent him from using such knowledge in a competitive manner.

In Abbott Laboratories v. Norse Chemical Corporation, Wis. Supr., 147 N.W. 2d 529 (1967) it was held that know-how consisting of knowledge acquired while working with a process, applying different engineering techniques at various stages of a process, being aware of the outcome, etc. -- as distinguished from copying a sepecific process of another -- did not amount to trade secrets belonging to the owner of the process and thus it did not constitute know-how that was protectable by injunction.

Similarly, under New York law, in a case involving purchasing, manufacturing and testing techniques utilized by an employer so as to establish a price for its product, it was held that the general knowledge and experience gained by a former employee as to such matters did not constitute the type of know-how that could be protected by injunction at the suit of the employer. Tempo Instrument, Inc. v. Logitek, Inc., 229 F. Supp. 1 (E.D.N.Y. 1964).

For another thing Compo relies on the proposition that once a process is disclosed to the general public through the issuance of a patent, the process is no longer novel and thus there can be no protectable trade secret rights in it, the only protection being that granted by the patent. In Ferber v. Sterndent Corp., N.Y. App., 412 N.E. 2d 1311 (1980) it was held that even if an idea had novelty when disclosed by plaintiff to the defendants, the subsequent issuance of two patents to unrelated third parties had put the same concept into the public domain, thus causing the movelty of the idea to be lost and thus prohibiting the plaintiff from enforcing any trade secret claims against the defendants.

And recently, in Laurie Visual Etudes, Inc. v. Chese-borough-Ponds, Inc., N.Y. Supr., App. Div., 441 N.Y.S. 2d 88 (1981), the court, citing Ferber stated that "nder the law of New York, a plaintiff may not recover for a trade secret when the movelty of the idea has been lost through the issuance of a patent."

Assembling these authorities, and applying them to the facts, Compo's argument, as I perceive it, runs as follows. The 1967 license agreement admittedly purports to cover all know-how possessed at any time by Compo with regard to the application of a synthetic resin backing to tufted carpet products. However, one can grant an exclusive license only to that in which the party has a protectable proprietary interest. In order for a protectable proprietary interest to exist, the know-how or technology must be such as to meet the novelty and confidentiality requirements of a trade secret. If the technology is in the public domain, or if it constitutes mere general knowledge gleaned from testing and experimentation with a known process, it cannot amount to a trade secret.

Here, Compo argues that the title process is nothing more than its adaption of a lay-in process long known within the industry, a process which it has developed by simply testing and experimenting with that which was common knowledge. It says that the tile process is a mere variation of Powerbond process, run on the same type of range, involving the same plastisol and filler components, involving the same basic principles as to heating, cooling, etc. Moreover, it points out that in 1973 it was issued a patent on the carpet tile process in which is revealed the design of the range, the method of bringing the carpet, scrim and vinyl together, the location of the nip roll, the pre-heat units, the oven, etc. Thus it says that the process itself has been disclosed to the public by virtue of the patent, and that as a consequence Compo can now have no trade secret rights in the tile process that it is presently using.

In short, as I understand it, Compo takes the position that the technology and know-how comprising its process for applying a vinyl backing to a tufted carpet tile has never risen to the level of a trade secret since the means for duplicating it was always available through known information, and that even if it could be said that it met the test for trade secrecy at one time, such status has been lost at least since 1973 when the patent was issued. Since it has no trade secrecy rights in the tile process, it has no proprietary interest which it can license exclusively to C & A. Thus, even though its tile process does come within the definition of know-how under the terms of the license agreement, C & A has no rights under the license to either compel the disclosure of compo's process and technology to it or to prevent Compo from using the process to manufacture and sell to competitors of C & A the same carpet tile that Compo made exclusively for C & A for than eight years.

Tantilizing as this line of reasoning may be, however, I find it unpersuasive. The simple fact of the matter is that on the evidence it appears that Compo has developed and has been successfully using for some ten years a tufted carpet backing process which no one else has yet been able to duplicate. The reason for this is that no one else knows precisely how Compo does it. One reason for this status is that Compo has at all times maintained its process in strict secrecy, particularly as against its licensee, C & A. Thus it seems a bit strained for it to argue that it has no present contractual obligation to C & A for the reason that the process is well known in the art and has long been in the public domain. (It is interesting to note that as offshoot of this position, Compo would necessarily be conceding that it has accepted more than $1 million in royalties over the past ten years for something as to which it had no right to grant an exclusive license to begin with, or at least to continue to license exclusively since 1973.)

In resolving this aspect of the matter, I am content to be guided by the wisdom of the New York court in Fairchild Engine & Airplane Corp. v. Cox, N.Y. Supr., 50 N.Y.S. 2d 643, 662 (1944) wherein it was stated, after a lengthy review of argument and authorities such as have been offered here, as follows:

"No matter how much is said about the facts and the law, we invariably gravitate toward the simple issue -- was the process secret and confidential? An irrefutable authority on that issue is the defendant himself."

Here, as with the defendant in Fairchild, the record firmly establishes that Pandel, and then Compo, have at all times considered their particular process for making tufted carpet tiles to be a matter of secrecy and confidentiality. As far back as March 1971 Stevens refused to disclose it to the representatives of C & A, or to even allow them in Pandel's plant. Subsequent requests for the process by C & A were politely and quietly refused. It has never been disclosed to anyone else, presumably even to the competition of C & A for whom Compo has since made and sold certain amounts of carpet tile.

While C & A was permitted to film the compo tile line while in operation as part of the discovery taken in connection with this case, even that does not reveal how Compo does it. It does not reveal the various temperature settings and pressures along the way. Nor does anyone but Compo know the critical make up of the chemical compounds which are used to form the vinyl backing material. What is used may be known, but not the precise ratios and percentages that are employed. In fact, even during discovery, Comporefused to permit C & A access to its mixing and compounding room. And of course, the obvious question remains: If the process is not secret, if it is within the public domain, if it has no proprietary value to compo as a trade secret, what is all the fuss about? Why is Compo going to such lengths to prevent disclosure to C & A of that which is not secret? The answer would also seem obvious.

I agree with C & A that the Fairchild case controls. There a former employee was resisting an injunction sought by his former employer on a similar basis, namely, that the process in issue was merely an extension of prior art, that it thus represented technology that was in the public domain, and that as a consequence it did not amount to a trade secret such as would justify injunctive relief. The fact that the former employee, during his period of employment in an executive capacity, had repeatedly treated the process as being secret and confidential to Fairchild, when coupled with the fact that the process represented one which no one else in the industry had then been able to match, compelled the obvious Conclusion that the process constituted a trade secret, that as such it was a thing of value to Fairchild in the conduct of its business, and that Fairchild was entitled to an injunction against its former employee so as to prevent him from using the process in competition with Fairchild. See also, Eastman Co. v. Reichenbach, N.Y. Supr., 20 N.Y.S. 110 (1892).

Admittedly the Fairchild case differed from this one in the sense that it involved a suit between an employer and its former employee. In fact there appears to be no direct precedent for this case, it representing the somewhat unusual situation in which a licensor is attempting to disavow any proprietary or trade secret rights in a process known only to it so as to defeat the claims of its exclusive licensee. However, there is no difference in the underlying legal theory. In each case the question amounts to whether the process is sufficiently secret and novel so as to give rise to an obligation. In Fairchild it derived from the confidential employment relationship by virtue of which the know-how and technology were obtained. The obligation concerning the know-how and technology here is contractual, having been established by the 1967 license agreement.

Accordingly, I conclude that Compo cannot defeat its express obligation under the license agreement by claiming that its know-how as to the carpet tile process is in the public domain and, therefore, cannot constitute an enforceable property right under the license because it does not warrant trade secret classification.

The Defense that the License Violates Public Policy

Finally, Compo makes the argument that the 1967 exclusive license agreement is unenforceable because it is in violation of public policy. Compo says this is so because, if enforced as C & A seeks, it amounts to an unfair restraint on trade. Compo relies primarily on two cases in making this contention. One is Republic Engineering & Mfg. Co. v. Moskovitz, St. L. app., Mo., 376 S.W. 2d 649 (1964), cert. Den., 379 U.S. 837, 13 L. Ed. 2d 44 (1964). The other is Larido Corp. v. Crusader Manufacturing Co., N.Y. Supr., 155 N.Y.S. 2d 715 (1956).

Republic Engineering involved an exclusive license agreement which covered a patented movable ball joint device. By its terms the license included all future improvements made or acquired by the licensors during the term of the agreement. The agreement also required Moskovitz, the inventor and licensor, to inform the licensee of all improvements designed by him in the field of movable ball joint devices and to provide the licensee with drawings disclosing such improvements regardless of whether or not he felt them to be patentable.

While the exclusive license was in effect, Moskovitz developed another type of ball joint which he made no effort to patent because he did not consider it to be new or novel. However, he did not disclose this differing ball joint device to the exclusive licensee. Rather, he formed a new company for the purpose of marketing the product. On discovering this the licensee brought suit under the exclusive license agreement to enjoin further sales by Moskovitz and his company and to compel him to turn over the design of his new products to the licensee. In the reported decision of the case previously referred to, relief granted to the licensee at the trial level was, in the main, reversed.

In its decision the Court reviewed the status of the patent laws so as to reach the basic starting premise that any right to the exclusive use of an invention by others is dependent upon the existence of a patent in the inventor. From this is went on to its Conclusion that the "future improvements" referred to in the exclusive license agreement before it necessarily meant only those improvements which could be patentable. As stated at 376 S.W. 2d 657:

"In view of the foregoing state of the law it would appear abvious that when Moskovitz attempted to grant, and plaintiff to obtain, an exclusive license on future improvements they had in mind only those improvements which would be patentable. For Moskovitz could not grant that which he did not have, or could ever acquire, and neither he nor plaintiff, his licensee, could ever have or acquire the right to exclude others unless and until a patent was actually granted on his improvement." (Emphasis in the text.)

Continuing on at the same reference the Court Stated that

". . . to construe the contract as contended for by the plaintiff would lead to an absurd result, and would give the contract the effect of an unreasonable contract not to compete. As we have heretofore pointed out, unless the future improvement on which the license was granted is patentable, neither Moskovitz nor plaintiff have any right to exclude others from making or selling it. Were we to construe the scope of the agreement as including unpatentable improvements, as plaintiff requests, the result would be that any one could make and sell the improvement -- except Moskovitz. In effect this would convert the license agreement as to future improvements into a compact on the part of Moskovitz not to compete with Plaintiff. * * * Since the license will extend to at least 1972, and since the area included is not limited but extends to the entire United States, such a contract would be unreasonable and therefore unenforceable in a court of equity."

In the Larido case, a New York decision, the parties entered into a written contract whereby the defendant agreed to manufacture plastic rain bonnets for the plaintiff. The agreement contained a restrictive covenant whereby the defendant promised that it would not manufacture the product for anyone other than the plaintiff for a period of three years.

After plaintiff had placed an initial order, it discovered that defendant had made rain bonnets for another, in apparent violation of the restrictive covenant. Plaintiff then brought suit for a permanent injunction so as to enforce the covenant. Such relief was denied, however, the Court being impressed with the fact that under the agreement the plaintiff was not required to purchase any particular amount of bonnets from the defendant during the three-year period and, in fact, was free to purchase its needs from others. Since there was no obligation upon the plaintiff to purchase all of its requirements, or any portion thereof, from the defendant, the Court viewed the covenant restricting the right of the defendant to do business with others as an unreasonable restraint on trade, and thus unenforceable.

Relating its position in this controversy to that of the defendants in Republic Engineering and Larido, Compo argues that to enforce the 1967 license agreement against it so as to prevent it from using its unpatented know-how to make carpet tiles for others would constitute an unreasonable restraint of trade and, in effect, enforce a non-competition restriction against it on behalf of a party which, as in Larido, is under no obligation to continue purchasing carpet tile from Compo. Thus, Compo argues that the enforce the exclusive license agreement in the manner sought by C & A would violate public policy.

C & A has countered by relying primarily on Aronson v. Quick Point Pencil Co., 440 U.S. 257, 99 S.Ct. 1096, 59 L.Ed.2d (1979), a decision subsequent to Larido and Republic Engineering, in which the United States Supreme Court enforced an exclusive license agreement which was based upon an invention that had been the subject of a pending patent application. The license agreement required the licensee to pay royalties as long as it used the invention. The licensee did so for a period of years and enjoyed the advantage of having gained a jump on the market by virtue of the license. Eventually, however, the patent application was rejected. The invention thus became available to others through its unprotected public disclosure, and as a result, and for that reason, the licensee brought an action to have the license agreement declared no longer enforceable so as to thereby terminate its contractual obligation to pay royalties. The licensee contended that the license was no longer exclusive and was thus being used to require a royalty payment on public information, contrary to public policy.

The Supreme Court, however, reversed the Court of Appeals and held that the license was enforceable against the licensee and that royalties were required so long as the invention was used, pointing out in the process that the enforcement of an exclusive licensee's contractual obligations, even after the subject matter of the license becomes public, encourages research, invention and exploration and, ultimately, fosters competition. From this C & A concludes that an enforceable contract right can arise out of an exclusive license to an unpatentable invention or process, and since it violates no public policy to enforce such an exclusive license agreement against the licensee, as was held in Aronson, then correspondingly, there can be no public policy reason why, as here, the contractual rights of the exclusive licensee should not be enforced against the licensor.

This argument is fortified by the decision in Westgo Industries Inc. v. W. J. King Co., Inc. 1981-1 Trade Cases p. 63, 984 (D.N.D. 1981) which, in reliance on Aronson, held that an exclusive license agreement as to a type of cultivator, which was concededly unpatentable and not protectable as a trade secret, did not frustrate the purpose of the federal patent laws, and thus was enforceable against the licensee by the licensors.

Having read and reread these and other cases cited by the parties on this public policy point, I find that I am persuaded by the position of C & A. The Republic Engineering case is itself somewhat difficult to grasp. It contains various statements which, taken literally, would seem to put the facts there very close to the factual situation here and which would seem to favor Compo's argument that the 1967 license agreement should not be enforced so as to prevent Compo from using its unpatented know-how as to the carpet tile for its own economic benefit. Yet the statements in Republic Engineering relied upon by Compo were made in a context wherein the Court was attempting to ascertain the scope of a patent license by looking to the intent of the parties in using the term "further improvements" in the license agreement. It is not a decision on the precise issue of whether or not an exclusive license to unpatentable technology is unenforceable against the licensor for policy reasons.

Also, I find it somewhat difficult to reconcile Compo's reading of the effect of the case with the Court's finding at 376 S.W. 2d 658 that the licensor, Moskovitz, against whom it declined to enforce the license agreement in one respect, was nonetheless in breach of the license agreement for failing to provide the licensee with drawings of "all improvements he designed in the field of movable joint devices" as he had obligated himself to do under the terms of the exclusive license agreement. Since the 1967 license in this case likewise obligates Compo to C & A all know-how acquired by it in the field of applying a synthetic resin backing to a tufted carpet product, how does that finding in Republic Engineering aid Compo's defense to the case here?

In short, Republic Engineering is susceptible to the reading that the Moskovitz license agreement was not rendered totally unenforceable because it imposed an unreasonable restraint on competition, but rather that it was unenforceable only to the extent that it ran afoul of the rationale of the patent laws. Since Aronson has subsequently held that an exclusive license agreement as to unpatentable technology or invention can be enforced according to its terms, despite the existence of the patent laws, it may be that that fair import of Republic Engineering is not now what it once was.Compare also, Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470, 94 S.Ct. 1879, 40 L. Ed. 2d 315 (1974).

On the arguments and authorities submitted, I do not find that the license here is rendered unenforceable against Compo for public policy reasons.

The Relationship of the Parties Appearing From the Evidence

Having thus dealt at length with the defenses asserted by Compo, I think that the Court has perhaps earned the right to express a view as to what the legal relationship between the parties really is. As noted at the outset of this decision, all legal issues, regardless of the effort put forth to make them complex, must necessarily reduce themselves to a basic ascertainable premise before they become susceptible to a logical answer. It is to be recalled that this is not a patent infringement action. Nor is it a suit in which an understanding of highly technical material forms the key to the decision. It is a suit to enforce common law contract rights arising out of an eight-page, double-spaced, typewritten licensing agreement.

Given this basic nature of the action I think both sides have tended to ignore a factor which, at least to me, has considerable significance. Both sides have gone at the case just as though the suit had been brought in 1971 when the carpet tile first made its commercially acceptable appearance on the scene. It is as though C & A, at a time shortly after the development of the product, was attempting to enforce the literal terms of the license so as to compel Compo to disclose the tile process and to enjoin Compo from using the process for itself or for anyone other than C & A. In short, in the presentation of the matter, both sides have tended to ignore the passage of some eight years during which the parties voluntarily operated on a basis different from the literal language of the license agreement and to litigate their rights under the agreement just as though that intervening eight-year period never existed. While the parties may choose to do this, I cannot.

My point is close to the claimed defense of Compo that a separate arrangement concerning the carpet tile was made in 1971 as a result of an oral understanding reached in New York between Charren and Wiegand. On the evidence I have found that no such separate arrangement was ever made. At the same time, the absence of any express oral agreement between Charren and Wiegand aside, I think that the conduct of the parties over that eight-year period clearly evidences a modification of the 1967 license insofar as the carpet tile product is concerned. it scarcely seems open to doubt.

According to the language of the license agreement C & A had the exclusive right to any know-how developed and possessed by Compo in the field of applying a synthetic resin backing to a tufted carpet product. Further, Compo had a duty to disclose that know-how to C & A and to assist C & A in setting up its own operations under such know-how if it so desired. The carpet tile process clearly involved the application of a synthetic resin backing to tufted carpet. Thus, according to the language of the license, I think it clear that in 1971, when the potential problem developed, C & A had a strongly arguable right to seek the relief which it has sought by this suit later filed in 1980.

C & A, however, for its own reasons, deemed it unwise to attempt to enforce its contract rights at that time. It elected to take a different course. Likewise, Compo, which at the time may have felt in good faith that the carpet tile was not covered by the license, elected to go along with the plan of C & A rather than to attempt to assert a right to market the carpet tile product as it saw fit. This was not accomplished by any express Discussions or comunications between the parties. Rather it was an arrangement they simply fell into by a mutually acceptable course of conduct. The terms seem evident by the course of conduct to which both parties acquiesced over a period of eight years.

As I see it, C & A, rather than run the risk of losing its source for the carpet tile by commencing litigation, and thus risk the loss of its potentially exclusive market, elected to forego its claim under the license agreement to have process disclosed to it by Compo. Rather, it chose to tie up Compo while it attempted to develop a comparable tile process on its own. In fact, this is exactly what it did.

So as to tie up Compo, C & A clearly gave indication, by its conduct (1) that it would pay Compo royalties on the carpet tile as called for by the license agreement for the balance of the license term; (2) that it would pay Compo a separate manufacturing fee for backing the tile; and (3) that it would take all of its carpet tile requirements from Compo for the balance of the license term. It is the payment of the royalties as computed under the license agreement which convinces me that what we have is a mutual modification of the license as to the carpet tile process. In my view, it is the same factor which fixes the term of the modification as the same as the term fixed by the license agreement.

In return for not disclosing the know-how and technology for the tile process as expressly required by the language of the license, Compo, as evidenced by its conduct, clearly undertook (1) to accept a consideration in the form of a separate manufacturing fee in addition to the royalties and (2) to neither make the product for its own commercial use or for that of another nor to disclose the carpet tile process to another for the balance of the license term. In this sense, even without the precise know-how the exclusivity of the carpet tile know-how was preserved for the benefit of C & A for the balance of the license term. In 1971, faced with its dilemma, that was what C & A was after.

I think from the evidence that all of the foregoing is fairly inferable. I think that this is exactly how the parties were willing to treat the situation, and that they did so. I think that the effect was to work a modification of the terms of the 1967 license agreement whereby any question as to C & A's right to the exclusive benefit of Compo's carpet tile know-how was settled by (1) C & A's willingness to forego its claimed right to the disclosure of the process itself and (2) its implied commitment to take all of its carpet tile needs from Compo for the balance of the license term in return for Compo's guarantee of the exclusivity of the product. But, by so doing, I think it clear also that the resulting legal relationship between the parties with regard to the carpet tile was transformed into a requirements contract and that as a consequence the outcome of the case is dictated by the decision in Larido Corp. v. Crusader Manufacturing Co., (supra) .

I think further that the critical element in this whole scenario was the decision of C & A, in the face of Compo's unwillingness to disclose its process and knowhow, not to insist upon disclosure. To illustrate, had Compo voluntarily disclosed its tile technology to C & A at the outset, and had C & A simply chosen not to use it itself but rather had it continued to purchase its needs voluntarily from Compo during the eight-year interval prior to its decision to make its own product, there would be no basis for thinking that there had ever been a mutual deviation from the terms of the 1967 license. In such event, even though Compo would have been making the tile for no one other than C & A over the years, it would have little basis for arguing that C & A's eventual decision to make its own product freed Compo from the license and entitled it to use the process to make carpet tile for others. Under such circumstances, the situation would be no different than that regarding the Powerbond process.

But the fact that Compo refused to disclose the process on the theory that it did not fall under the license, and C & A's willingness to tie up an exclusive right to the benefit of the process in the absence of disclosure by offering to pay a royalty plus a manufacturing fee for all its needs, and Compo's willingness to go along with this, indicates a mutually acceptable contractual arrangement different from the literal language of the license. Thus do we have what I feel to be a mutual modification of the license through the conduct of the parties.

It is stated as a general proposition that parties to an unperformed contract may, by mutual consent, modify it by altering, excising or adding provisions. 17A C.J.S., Contracts § 373. That is said to be the law of New York. Carnival Company v. Metro-Goldwyn-Mayer, Inc., N.Y.Supr., App.Div. 258 N.Y.S.2d 110 (1965); Knight v. Kitchin, N.Y.Supr., App.Div., 261 N.Y.S. 809 (1933). It is also stated generally that the mutual assent required for a modification may be implied from a course of conduct by the parties in accordance with its existence. 17 C.J.S., Contracts § 375. this is also said to be the law in New York. Martin v. Pettion, N.Y.App., 158 N.W.77 (1927). See also, 4 Williston On Contracts (3rd Ed.) § 623, at page 815.

If a modification has occurred such as I have found on the evidence, then it follows, first of all, that C & A has surrendered any right it might otherwise have had under the 1967 license agreement to have Compo's carpet tile technology and know-how disclosed to it. Secondly, it would follow, as in Larido, that any right of C & A to prevent Compo from using the technology to make and back carpet tiles for itself or for others is dependent upon C & A continuing to purchase all of its carpet tile backing requirements from Compo. Since C & A has commenced the production of its own carpet tile by a process developed by it and has ceased to take all, or in fact any of its needs from Compo, it would follow, as in Larido, that it has no contractual right to enforce the permanent injunction against Compo that it seeks by this action. therefore, at present, it would be my intention to enter judgment in favor of Compo.

I realize, however, that my view of the case rests on a theory which has not been specifically addressed by cousel, despite the length of their post-trial briefs. also, modification of contracts by means other than express written agreement is subject to regulation by statute in some states. My own research indicates that New York would seem to be one of them, at least to some degree. And the decision in Martin v. Peyton, (supra) , is a decision of many years ago.

Accordingly, before entering judgment, I shall give counsel an opportunity to submit supplemental memoranda concerning the status of the law of New York on the question of whether a modification of a written contract can be established through a course of conduct engaged in by the parties to it. Amy submission will be limited to this precise issue. I am not inviting reargument on any other aspects of this decision. Any brief or memorandum which attempts to do so will be rejected. In view of the season, I allow 30 days from the date of this decision for such supplemental purpose.