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U.S. PHILIPS CORPORATION
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DATE: 2-14-85

IMPORTANT NOTICE

PLEASE DELIVER THE FOLLOWING MATERIAL AS SOON AS POSSIBLE

TO: Louis Ettinger - Sanders (603) 885-3655
2596

FROM: Alvy Tamoshunas

NUMBER OF PAGES FOLLOWING THIS PAGE: 3

9 15 FEB 1985

PLEASE NOTIFY US IMMEDIATELY IF NOT RECEIVING PROPERLY
(914) 332-0222 - EXTENSION 277

*1x Feb 1985
Called A.T. - talk
OK
[Signature]*

THANK YOU

The Magnavox Company

580 WHITE PLAINS ROAD
TARRYTOWN, NEW YORK 10591

(914) 332-0222

February 12, 1985

Activision Inc.
c/o Martin R. Glick, Esq.
Howard, Rice, Nemerovski, Canady, Robertson & Falk
Three Embarcadero Center
Seventh Floor
San Francisco, CA 94111

Re: Magnavox v. Activision

Gentlemen:

This will confirm our agreement in principle to settle the pending lawsuit, Magnavox Company and Sanders Associates, Inc. v. Activision Inc., Civil Action No. C82-5270, on the following terms:

1) Activision will acknowledge the validity and infringement and/or contributory infringement of the patent in suit, Re. 28,507 to Rusch.

2) Magnavox will grant to Activision a release from past infringement and/or contributory infringement of the Sanders' patents exclusively licensed to Magnavox, by home video game cartridges sold by Activision prior to January 1, 1985. In consideration of said release, Activision will pay to Magnavox the sum of \$1,150,000 in the following installments:

<u>Amount</u>	<u>Due Date</u>
\$400,000	April 1, 1985
\$200,000	October 1, 1985
\$275,000	April 1, 1986
\$275,000	April 1, 1987

The \$400,000 and \$200,000 payments due April 1, 1985 and October 1, 1985, respectively, shall be guaranteed by letter of credit.

3) Magnavox will grant to Activision a running royalty license under the Sanders patents exclusively licensed to Magnavox under which Activision shall pay the following royalty for each home video game cartridge covered by any of said Sanders patents:

a) 4-1/2% of the Net Selling Price, if the Net Selling Price is over \$10 per cartridge;

b) 2-1/4% of the Net Selling Price, if the Net Selling Price is \$5-\$10 per cartridge; and

c) 1% of the Net Selling Price, if the Net Selling Price is less than \$5 per cartridge.

4) Magnavox will grant to Activision a paid-up license for home computer game software under the Sanders patents exclusively licensed to Magnavox for payment by Activision of the sum of \$200,000, which payment shall be contingent on either of the reissue applications of Baer Serial Numbers 810,538 and 810,542 issuing as a reissue patent with a claim similar to any one of claims 1, 13, 25, 40, 50, 53 to 56, 59, 83 or 91 now pending in application Serial No. 810,538 or any one of claims 1, 3, 7, 9, 12, 26 to 29, or 31 now pending in application Serial No. 810,542. In the event of issuance of said reissue patent to Baer with said claim, then said sum of \$200,000 shall be paid by Activision in the following installments:

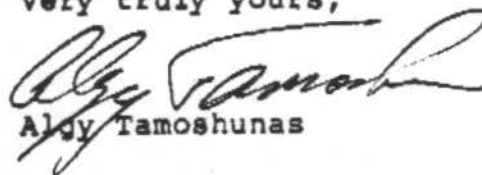
<u>Amount</u>	<u>Due Date</u>
\$100,000	within two months of issuance of said Baer reissue patent or April 1, 1987, whichever is later,
\$100,000	one year after payment of the initial \$100,000 payment

5) This agreement in principle shall not be binding until a definitive agreement is executed by the parties.

Activision, Inc.
February 12, 1985
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If the above correctly sets forth your understanding, please
so indicate by acknowledging this letter.

Very truly yours,



Alvy Tamoshunas

AT:kc4