DOCUMENT RESUME

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Need to Improve Reviews of Royalty Charges Included in Air Force Contracts. PSAD-77-153; B-133386. Augus: 16, 1977. 7 pp. + enclosure (9 pp.).

Report to Secretary, Department of the Air Force; by Richard W. Gutmann, Director, Procurement and Systems Acquisition Div.

Issue Area: Federal Procurement of Goods and Services (1900);
Federal Procurement of Goods and Services: Reasonableness of
Prices Under Negotiated Contracts and Subcontracts (1904).
Contact: Procurement and Systems Acquisition Div.
Budget Function: National Defense: Department of Defense Procurement & Contracts (058).

Organization Concerned: Department of the Air Force:
Wright-Patterson AFB, OH; Patent and Trademark Office.
Congressional Relevance: House Committee on Armed Services;
Senate Committee on Armed Services.

The Armed Services Procurement Regulation permits a decense contractor to include in his proposed contract price roulties he must pay a patent owner. The contracting officer must submit the information about royalties received from the contractor to a patent office for advice on the propriety of the royalties. Findings/Conclusions: A review of patent royalty files indicated a general lack of documentation necessary to determine the propriety of royalties approved. About 40% of files examined did not contain documents showing that the Patent Division: (1) determined if the Government had rights to the patent: (2) obtained engineers' comments: or (3) reviewed engineering drawings. The Patent Division recommended approval of about \$106,000 under nine license agreements for which there was no evidence that the patents covered items procured. There were several instances in which royalty approvals were questionable. Contracting officers were not familiar with general guidelines for processing royalty requests, and some Air Force contracts included royalty charges without identification by the contractor. A review of four cases showed that conflicting opinions on the propriety of royalty approvals went unresolved for several years. Failure to obtain and review necessary information on royalty requests can lead to improper contract payments. Recommendations: Procedures should be established to assure that necessary documentation is obtained, reviewed, and maintained to support royalty approval action. Such procedures could involve requiring a statement or certification from the contractor regarding the amount of royalties included in a price proposal and the use of a checklist by the contracting officer. Steps should be taken to reevaluate those cases identified where royalties may have been improperly approved and, if appropriate, take measures to recover improper payments. (Author/HTW)



UNITED STATES GENERAL ACCOUNTING OFFICE WASHINGTON, D.C. 20548

PROCUREMENT AND SYSTEMS ACQUISITION DIVISION

5-133386

AUG 1 6 1977

The Honorable
The Secretary of the Air Force

Dear Mr. Secretary:

The General Accounting Office reviewed the procedures followed for approving patent royalty charges included in Air Force contracts awarded by the Air Force Logistics Command and other procuring activities at Wright-Patterson Air Force Base. Our review of patent royalty files indicated a general lack of documentation necessary to determine the propriety of royalties approved. In several instances, questionable approvals were made.

we reviewed studies made by Air Force Headquarters on four longstanding royalty cases to determine the propriety of royalties approved. These cases were referred to us by Congressman Clarence J. Brown. Based on our review of these cases, we believe royalties may have been improperly approved in three of the four cases.

We are recommending that you require procurement and legal review activities to establish procedures to assure that necessary documentation is obtained, reviewed, and maintained to support royalty approval actions. Further, we recommend that steps be taken to reevaluate those cases identified where royalties may have been improperly approved and, if appropriate, take measures to recover any related improper payments.

SCOPE OF REVIEW

We interviewed officials and reviewed documents at the Office of the Staff Judge Advocate, Patent and Data Division (Patent Division), Wright-Patterson Air Force Base, and contacted officials at Air Force Headquarters, Air Force Logistics Command, Air Force Systems Command, and the Aeronautical Systems Division.

ASPR REQUIREMENTS AND AIR FORCE REGULATIONS CONCERNING ROYALTIES

The Armed Services Procurement Regulation (ASPR) permits a defense contractor to include in his proposed contract price royalties he or any of his subcontractors must pay a patent owner for use of a patent. For negotiated contracts which will exceed \$100,000, and which will include over \$250 in royalties, the ASPR requires the contractor to separately identify the amount of royalties in his price proposal and furnish details concerning the royalties to the contracting officer. The contracting officer is to submit the information received from the contractor to the appropriate patent office for advice on the propriety of the royalties before the contract is awarded. The contracting officer may deviate from the Patent and Data Division's advi with the consent of the head of the procurement activity.

When reviewing the propriety of royalties, an Air Force supplement to the ASPR requires that the Patent Division

- --obtain and review the applicable patent and the engineering drawings and consult the project engineer concerning the items being procured to ensure that the patent covers the items;
- --obtain the license agreement to verify that it requires royalty payments and that the rate is reasonable: and
- --ensure that the Government does not have a royalty-free license to use the patent (the Government may be entitled to royalty-free use if the invention was first conceived and reduced to practice under a prior Government contract).

The contracting officer is to use his best effort to obtain the necessary documents for the Patent Division's review. If the contracting officer is unable to obtain the information, the Patent Division is to obtain it. When the Patent Division receives the information, it must reach a conclusion concerning the propriety and reasonableness of the royalty charges and transmit its recommendation to the contracting officer.

LACK OF DOCUMENTATION IN FILES

In 1975 and 1976, the Patent Division received 79 royalty requests and recommended that 68 requests be approved. Many of these approvals were multiple requests under 28 separate license agreements. These approved royalties totaled about \$356,000.

We reviewed the Patent Division's files containing the 28 license agreements and found many of the files to be incomplete. The chart below summarizes our analysis of the contents of the files.

Analysis of 28 Files Containing Requests Recommended For Approval

Required data	Number of files containing data
Patent	24
License agreement	23
Engineering drawings	11
Project engineers' comments	11
Determination of Government's rights	12

About 40 percent of the files did not contain documents showing that the Patent Division (1) determined if the Government had rights to the patent, (2) obtained engineers' comments, or (3) reviewed engineering drawings of the patented items. Only three of the files contained the entire complement of required data.

We found that the Patent Division recommended approval of about \$106,000 under nine separate license agreements for which there is no evidence in the files that the patents cover the items procured.

By examining the data in the files, plus additional information we obtained, we also found several instances in which royalty approvals were questionable. For example, the Patent Division

--recommended the wrong royalty rates because it apparently did not review the license agreement or know the terms of the contract;

- --recommended approval of royalties based on the use of a patent that had expired;
- --recommended approval of royalties without knowing whether license agreements had expired; and
- --recommended approval of royalties even though charges were for technical assistance and the amortization of development costs rather than patents.

These cases were identified and discussed with Patent Division officials at the close of our review.

CONTRACTING OFFICERS DO NOT ALWAYS OBTAIN AND SUBMIT REQUIRED DATA TO THE DIVISION

We found that contracting officers were not familiar with the general guidelines for processing royalty requests which are contained in the ASPR and were unaware of any responsibility to obtain more information than was volunteered by the contractor. Contracting officers stated they have no way of determining whether royalties will be paid unless the contractor identified them in the proposal. Even though the contractor may identify the royalties in his proposal, the contracting officer may not always obtain and forward the required information to the Patent Division in a timely manner.

Our analysis of selected Air Force contracts showed that royalty charges have been included in contract prices without identification by the contractor, and that royalty charges have been included in contract prices but not identified until after negotiations were complete. For example, about \$24,000 in royalties were included in contracts for sensors used in the F-15 air inlet controller but were not reported to the contracting officer. Additional royalties for the sensors totaling about \$116,000 were reported to the contracting officer and the Patent Division after negotiations had been completed.

In 1974, the Air Force Audit Agency reported to the Commander of the Aeronautical Systems Division that contracting officers failed to obtain and forward complete information concerning royalties to the Patent Division.

As a result, the Aeronautical Systems Division office responsible for procurement issued a memorandum to procurement personnel emphasizing the need to follow the established procedures of the Air Force supplement to ASPR. The Air Force Audit Agency has not conducted a followup review.

In early 1977, contracting officers and officials responsible for procurement policy at the Aeronautical Systems Division, Wright-Patterson Air Force Base, told us that the Air Force has not established internal controls to ensure that contractors properly identify royalties in proposals to the Government.

REVIEW OF FOUR LONGSTANDING ROYALTY CASES

During our study, Congressman Clarence J. Brown referred information to us where it was alleged that the Air Force had approved about \$5.9 million in royalties over a number of years without legal support.

A review of the files on these four cases showed that Air Force attorneys, contractors, and patent owners expressed conflicting opinions on the propriety of the royalty approvals. These differences went unresolved for several years.

We did not attempt to resolve the differences of opinion. In 1975, the Patent Division requested Air Force Headquarters to study one of the four cases. We requested studies of the three remaining cases to resolve specific issues which were still open.

In Case 1, royalties have been paid over a 20-year period without determining if the components were patented. In Case 2, steps were not taken to recover improper royalty payments identified. In Case 3, royalties may have been approved after the license agreement expired. There were no problems with Case 4. Overall, we believe that royalties of about \$349,000 may have been improperly approved. Details on each case are contained in enclosure I.

AGENCY COMMENTS AND OUR EVALUATION

The Patent Division officials commented that our draft report accurately portrayed the handling of royalty payments under Air Force contracts. They agreed that there appears to be a lack of communication between their division and the

contracting officer on the approval of royalty payments. They also pointed out that the contracting officer has the final responsibility for determining action to be taken on their recommendations.

The Director of Procurement and Manufacturing, Aeronautical Systems Division, commented that it would be difficult, if not impossible, to establish further internal controls to assure that contractors identify royalties in the contract's cost breakdown. He felt that sufficient local internal controls existed for identifying applicable royalty charges.

CONCLUSIONS

Failure to obtain and fully review the necessary information on royalty requests can lead to improper contract payments. Several license agreements were brought to our attention under which the Air Force had paid royalties for up to 20 years without obtaining the necessary information to determine the propriety of royalties. Unless the Air Force obtains and fully reviews the necessary data and resolves pertinent questions before contracts are awarded, similar problems may arise regarding the propriety of royalties.

Since contractors do not always identify royalties when appropriate, there is uncertainty as to the total amount of royalties the Patent Division should have reviewed in 1975 and 1976, although \$356,000 in royalties were identified and paid in these years. Also, lack of control and incomplete reviews may result in unidentified royalties, improperly approved royalties and/or disagreements which could take years and considerable expense to resolve.

RECOMMENDATIONS

we recommend that you require the procurement and legal review activities discussed in this report to establish procedures to assure that necessary documentation is obtained, reviewed, and maintained to support royalty approval action. Such procedures could involve requiring a statement or certification from the contractor regarding the amount of royalties included in a price proposal and the use of a checklist by the contracting officer to remind him of the documentation needed to support royalty charges. Also, the reviewing patent official could have a list of the things he would need to support a royalty approval.

With regard to the cases identified where royalties may have been improperly approved, we recommend that the Patent Division reevaluate its actions on those cases mentioned on pages 3 and 4, and if appropriate, recover those royalties improperly paid.

Regarding the four longstanding cases in which royalties of about \$349,000 may have been improperly approved, we have made specific recommendations on each case in the enclosure to this report.

We are sending copies of this letter to the Secretary of Defense, the Director, Office of Management and Budget, House and Senate Committees on Armed Services, and Appropriations, House Committee on Government Operations, Senate Committee on Governmental Affairs, and Congressman Clarence J. Brown.

With regard to these recommendations, as you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations, and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

Sincerely yours,

R. W. Gutmann

Director

Enclosure

ENCLOSURE

DETAILS ON FOUR LONGSTANDING ROYALTY CASES

The following describes the specific issues of the four cases, the results of studies performed by Air Force Headquarters (Headquarters), and our conclusions and recommendations.

CASE 1 - ROYALTIES PAID FOR SWITCHES IN AIRCRAFT ENGINES

The main issue in this case involved whether or not the components were actually patented. The royalties applied to switches used in certain aircraft engines. The payments were made to patent owners who were affiliated with the manufacturer of the patented items (self-royalties).

The first request for royalties, according to the Patent Division's files, was dated March 1956 and totaled about \$5,400. The Patent Division recommended approval. The switches were supplied to the prime contractor by a subcontractor who was licensed to produce them by the patent owners in 1951. From 1955 through 1976, about \$277,000 in royalties were recommended for approval. During this period the Patent Division's advice to the contracting officer was not consistent, as it recommended approval of some requests, recommended disapproval of some and consented to others provided that a royalty reservation clause was placed in the contracts. The clause enabled the Government to withhold final payment in an amount equal to reported royalties until they were found to be proper.

In 1962, the Patent Division recommended that the contracting officer disallow the royalties for the switches because the royalty rate of 7.5 percent seemed too high, the royalties appeared to be self-royalties, and the rate was applied to the entire cost of the switches instead of the patented components. The contracting officer notified the contractor that the royalties would be disapproved and the contractor appealed to the Armed Services Board of Contract Appeals. In 1964, the Air Force and the contractor stipulated before the Board to a 5-percent royalty rate on the entire switch. Because of this stipulation, the Air Force was to receive a refund of royalties amounting to about \$21,800.

ENCLOSURE

Again in 1969 and 1970, a Patent Division patent attorney opposed the royalty payments because he considered them to be self-royalties and to be improperly computed on the entire switch rather than on the components. He also questioned whether the patents even covered the components. From 1970 to 1976, these issues continued to surface. We requested Headquarters to resolve the issues involved.

Headquarters study

The resulting Feadquarters' study concluded that the Government's legal position would be tenuous if it attempted to disallow royalty costs on the basis of self-royalties. The study indicated that self-royalties are not always improper but must be evaluated on the facts of each case. Also, the soft-royalty issue in this case was discussed and resolved during negotiations leading to the settlement of the appeal in 1964.

with respect to payment of royalties on the entire switch, Headquarters stated they were reasonable because there is no "proper" royalty base or rate for the use of a patented item. A patent owner may fix any convenient base he desires and obtain royalties as high as he can negotiate.

Headquarters could not determine from the available engineering drawings and other file materials if the patents covered the switch components.

Conclusions and recommendations

The files related to this case did not contain sufficient information to resolve the issue. Headquarters did not conclude that the royalty payments were proper or that they should have been approved because it could not determine if the components were patented. Therefore, we believe the Air Force has approved \$277,000 in royalties over a 20-year period without documenting the legal basis of its actions.

We recommend that the Patent Division approve no further royalties under the license agreements until it is determined that the items are covered by the patents. If the Patent Division cannot satisfy itself, we recommend that the procuring activity take whatever action is available to recover royalties previously paid.

CASE 2 - ROYALTIES PAID FOR JET ENGINE AFTERBURNING ACTUATOR ASSEMBLIES

The issue in this case involved a question of whether the patents cited the requests for royalty approval covered actuator assemblies used in J79 engines purchased by the Air Force. The engine contractor purchased the actuator assemblies from a subcontractor who was licensed by the patent owner to manufacture the assemblies. Each engine has four actuators with pistons connected by a flexible shaft. The pistons position the flaps of the engine's afterburner nozzle and their movement is synchronized by the shaft.

From 1961 through September 1970, the requests for royalties generally cited patent number 2,657,539, which expired November 3, 1970. The Patent Division did not request copies of engineering drawings until 1968 and determined in early 1969 that the assemblies were covered by the patent. After November 3, 1970, the Patent Division reviewed seven requests. Five of the requests cited another patent—number 2,806,450—as the basis of the royalty charge; one cited the expired patent, and one did not cite any patents.

The Patent Division recommended that the request which cited the expired patent be disapproved. For the other six requests totaling \$39,334, the Patent Division did not determine if the new patent covered the actuator assembly, but recommended that the royalties be allowed provided a royalty reservation clause was placed in the contract. The clause permitted the Government to recover the royalties if they were found to be improper. Through 1973, the Patent Division recommended approval of about \$510,000 in royalties for actuator assemblies used in jet engines.

In October 1974, a Patent Division attorney questioned the propriety of the royalties that were paid on patent 2,657,539 through September 1970. In his opinion, the flexible shaft or cable used to connect the actuator pistons was not covered by the patent claims since the description of the invention identified the connector as a solid shaft. He recommended the prime contractor make an independent investigation regarding patent coverage. There were no documents in the file which showed that the investigation was made or that the Air Force took any further action.

Headquarters study

In September 1975, the Patent Division requested Air Force Headquarters to review this royalty case and determine whether the actuator assemblies were covered by the patents. Concerning the question of whether the flexible shaft was covered by patent 2,657,539, Headquarters concluded in its study, dated November 1976, that the patent covered the actuator assembly as it was used between September 1961 and November 3, 1970. Beadquarters noted that in engineering terms the word "shaft" may be defined as camshaft, drive shaft and flexible shaft. Also, the Headquarters' report indicated the courts have held that (1) a parent claim is not avoided by use of a different material than that identified in the description section to the patent, and (2) the limits of a patent claim may be interpreted to include equivalent mechanisms that substantially perform the same function in the same way to produce the same results.

With respect to the use of patent 2,806,450 after November 1970, Headquarters concluded that none of the actuator assemblies were covered by any of the patent claims. In December 1976, the Patent Division sent a letter to the Aeronautical Systems Division contracting officer recommending that royalty payments after November 3, 1970, be considered for recoupment. As of May 9, 1977, no action had been taken to recover the royalty payments.

Conclusions and recommendations

The Air Force did not document the basis for its approvals of requests submitted between 1961 and September 1970. From November 19, 1970, to April 19, 1973, six requests for royalties were recommended for approval by the Patent Division without a determination that the assemblies were covered by the patent. Rather, the Patent Division recommended that the royalties be allowed, provided that a royalty reservation clause was included in the contracts. Not until late 1976, about 6 years after the initial request for royalty approval citing the new patent, did the Air Force establish a position that the \$39,334 in royalties allowed were improper. These improper payments could have been avoided had the Air Force documented the basis of its royalty approvals and conducted complete reviews of the propriety and reasonableness of the royalties before or shortly after contract awards.

We recommend that the Commander of the Aeronautical Systems Division promptly take whatever action is available to recover these royalties paid since November 19, 1970, which have been determined to be improper.

CASE 3 - ROYALTIES PAID FOR PARTS OF THE TF-41 ENGINE

The issue in this case is whether the Air Force should pay royalties when the contractor manufactures some of the parts and combines them with other parts supplied by the patent owner to fabricate a patented device.

In August 1966, the Air Force entered into a contract with a domestic corporation to develop and produce the TF-41 jet engine. The TF-41 engine was a modification of a jet engine previously developed by a foreign company. A license agreement, effective July 15, 1966, established a variable royalty rate for use of patents and technical data. The royalty rate was 4 percent on the first 500 engines and decreased to 1 percent for engines in excess of 5,000. The Patent Division recommended approval of royalties at the licensed rates in November 1966 and May 1969. Through December 1976, the Air Force approved over \$5 million for use of the foreign company's patents and for technical data.

In June 1970, the Patent Division reanalyzed the royalty charges. The Patent Division found that the foreign company held five United States patents being used in the manufacture of the jet engines for which royalties were being charged. The domestic corporation made all of the components for the device covered by one of the patents. Under the four other patents, the domestic corporation made some of the parts and combined them with others supplied by the licensor to fabricate the patented devices. For example, one of the four patents covered a valve which contained five separate parts. The domestic corporation made the manifold and valve assemblies and combined them with a bearing housing, valve actuator and shaft housing assembly supplied by the foreign company to fabricate the patented valve. The Patent Division was unable to identify court cases which covered a similar situation and was unsure if royalties should be paid for the use of the four patents.

Since the royalty rate included in the license agreement was intended to cover both the use of patents and technical data, the Patent Division recommended approval of 7 percent of the rate as attributable to patent royalties. The remaining 93 percent would cover technical data and assistance, which is under the purview of the contracting office.

The contracting officer included as royalties in contract prices the total rate specified in the license agreement because

- -- the Air Force wanted the complete transfer of all technical data necessary to manufacture the engine and to design corrective parts when needed; and
- --it was essential to retain the assistance of the foreign company and to maintain its capability so that it could support the jet engine in service.

In early 1973, a Patent Division attorney continued to question the legal basis for paying royalties on the TF-41 engine and believed that the royalty rate was probably too high. He recommended that a complete review of the royalties be conducted. Later in 1973, at the request of the Air Force Logistics Command Staff Judge Advocate, another Patent Division attorney made a study of this case file and recommended that the Patent Division continue to recommended that the Patent Division continue to recommend approval of the royalties. He also recommended approval of royalties computed under the method established in June 1970--7 percent of the licensed royalty rate for royalties, 93 percent of the rate for technical data and assistance. The contracting officer continued to include the total licensed royalty rate in the contract prices.

Headquarters study

In a March 1977 analysis conducted at our request, Headquarters noted that the five patents covered only certain components of the engine. Under one of the patents, the domestic contractor made all of the parts and assembled them into the patented device. For the four remaining patents, the domestic contractor made some of the parts and combined them with others purchased from the patent owner to make the patented devices. The study noted that

courts have held that the sale of a component part of a patented device does not imply that the seller has given the buyer a license to use the entire device. Head-quarters concluded that the domestic contractor was not entitled to free use of the patented devices just because components were procured from the patent owner and, consequently, that the royalties were legally proper.

Headquarters also noted that the license agreement of July 15, 1966, was to expire on July 15, 1976, subject to an extension for an additional 5-year period. We found that about \$33,000 in royalties (based on 7 percent of the rate) was approved from August 5, 1976, through December 14, 1976, although the Patent Division's file did not indicate that the agreement had been extended.

Conclusions and recommendations

Headquarters stated that patent royalties paid by the contractor were legally proper. In 1970, the Patent Division adjusted the method of computing royalties under the contracts because the licensed royalty rate included charges for technical data. The contracting officer continued to approve royalties at the licensed rate to obtain complete transferral of all necessary technical data and to maintain the assistance of the foreign company even though they were not technically royalties. From August through December 1976, however, the Patent Division recommended royalties for approval totaling about \$33,000 without documenting that the license agreement had been extended.

Before the Air Force approves additional royalty requests under this license agreement, we recommend that the Patent Division determine whether the license agreement has been extended. If the agreement has not been extended, we recommend that the Patent Division take whatever action is available to recover the royalties approved since July 1976.

CASE 4 - ROYALTIES PAID FOR MONOCULARS

The license agreement in this case involves 15 United States patents, of which only 2 were claimed to apply to the monoculars being procured. The issues concern the limits of patent coverage and validity of one of the patents.

ENCLOSURE

A request for royalty approval under the license agreement dated January 1971 was for a 5-percent royalty on 100 monoculars. The request totaled about \$20,000 and was based on the use of one patent. The contracting officer notified the Patent Division that the patented parts made up only 22 percent of the price of the items. Based on this advice, the Patent Division recommended to the contracting officer that royalties be limited to 5 percent on 22 percent of the unit price.

The contractor later revised his price proposal because the costs of purchased parts, engineering labor and subcontracted parts had increased. The contractor submitted revised royalty information increasing the royalties to about \$21,000. Royalty charges in this report were based on the patent cited previously and on one additional patent. The Patent Division informed the contracting officer that the additional patent had errors in its language which made it invalid and that it did not cover the items being procured. Again, the Patent Division recommended to the contracting officer that royalties by limited to 5 percent on 22 percent of the monocular unit price.

A Patent Division attorney discussed this case with Headquarters who told the Patent Division that if requested in writing, it would state that the second patent was valid and that the royalties should be approved. Based on this conversation, the Patent Division recommended that the request for about \$21,000 be approved. Because of allegations that the royalties were approved improperly, we requested Headquarters to study the royalties paid in this case.

Headquarters study

Headquarters concluded that the patent which allegedly contained errors was valid, and that royalties paid on the price of the entire monocular were proper.

A patent contains two sections: one describing what the invention is and another containing a series of claims which specify what the invention does. According to Headquarters, one of the claims of the patent incorrectly described a physics principle and, therefore, contained errors in its language. The Headquarters' report indicated that court decisions, however, consistently hold that the errors in a claim do not make it invalid when the intended meaning is apparent from the description of the invention. The study indicated that the patent was valid because the inventor identified what he meant to claim in his description of the device.

Headquarters also maintained that it was immaterial what portion of the monoculars was covered by the claims of the two patents cited in the requests for royalty approval. As long as some portion was covered, a reasonable royalty could be negotiated on the cost of all or any portion of the monocular. If the file documents were correct, Headquarters stated that the monoculars contained the patented parts identified in one of the patents, and the royalty payments on the price of the entire item were reasonable and proper.

Conclusions

The Patent Division recommended approval of the royalty requests in 1971, based on advice from Head-quarters, and established the Air Force position that the royalties were proper. In its March 1977 study, Headquarters concluded that the patents involved in this case were valid and that the royalties were reasonable and proper. Therefore, we are making no recommendation.