

Verne, B. Michael

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**From:** [REDACTED]  
**Sent:** Tuesday, May 18, 2010 10:46 AM  
**To:** Verne, B. Michael  
**Cc:** [REDACTED]  
**Subject:** RE: Licensing Transaction Reportability

Mike,

I writing to confirm the conversation that you, [REDACTED] and I had this morning concerning the timing of the reportability of a licensing transaction. The issue is whether the parties can report the transaction now, or have to wait until shortly before the license is going to be converted to a perpetual one (or the title to the IP is transferred outright).

The terms of the proposed agreement are as follows:

- a) A grants B an exclusive license for certain IP.
- b) The license has an initial period for which B will pay an upfront fee, a regulatory approval based milestone, and royalties totaling less than \$63.4 million in FMV. This initial period is expected to extend approximately 3 to 5 years from the execution of the agreement.
- c) After the initial period, the license will convert "automatically" (unless B affirmatively opts out by terminating the agreement) to a perpetual, non-royalty bearing, exclusive license for which B will pay A an amount with an FMV in excess of \$63.4 million.
- d) The agreement also provides for the possibility that, instead of A granting B an exclusive perpetual license to the IP, A simply transfers the title to the IP to B, for which B would pay an amount approximating the amount B would have paid for the exclusive perpetual license. The acquiring company (B) currently sees this as the preferred outcome.

We have consulted FTC informal interpretation 0602009 and understand it to say that it is permissible to analyze the transaction in two ways, and that the parties could elect to either (i) file now, or (ii) if no filing is made now, file later (assuming such filing is required at the later date):

- a) First, we can treat the entire transaction as the acquisition of a single asset, and include in the FMV calculation a reflection of the likelihood that title to the IP will transfer or that the license will be extended in perpetuity. Under this treatment, the parties would make an HSR filing now, and not when the license becomes perpetual or the IP is transferred outright.
- b) Alternatively, the transaction could be split into the acquisition of two assets: (i) an exclusive license for the initial period, and (ii) the perpetual license or transfer of the IP. Since the acquirer has already determined that the FMV for the license during the initial period does not exceed \$63.4 million, no filing is required now. However, the parties may need to file an HSR report later, before the license becomes perpetual or the title to the IP is transferred.

Based on our conversation, we understand that the analysis above is correct and confirm (i) that it is permissible to file now with respect to the entire transaction, and (ii) if a filing is made now with respect to the entire transaction, a later filing would not be required.

Please let me know if I have misunderstood our conversation. As always, we appreciate your help with these matters.

Best regards,

ACR  
 B  
 5/19/10