Grant of an exclusive license for a specific product use, [redacted] & limited in time & geographic scope is the transfer of an asset subject to the HSR Act. Product, time & [redacted] geographic limitations go to the valuation of the asset.

June 3, 1992

Victor L. Cohen, Esq.
Premerger Notification Office
Federal Trade Commission
601 Pennsylvania Avenue
Washington, D.C. 20580

Dear Mr. Cohen:

Further to our telephone conversation of yesterday, I am writing to inquire about the staff's position as to whether a transaction which involves the grant of an exclusive patent license that is limited in time, territorial application and field of use, is potentially reportable under the Hart-Scott-Rodino ("HSR") Act.

The essential structure of the transaction is as follows: our client, A, has developed technology relating to the genetic development of certain foods. A has been granted patents on these developments, and has additional patents pending. B is a manufacturer of certain food products. A and B plan to enter into an agreement for the development of a genetically modified ingredient for use in B's production of particular food products. As part of this agreement, A plans to license to B the patents which A has been granted.

The patent licenses will be exclusive only for a limited period of time and will also be limited to a particular field of use and a particular territory (North America and Mexico). We note, in particular, that with respect to time, the period of exclusivity for any particular patent license will be limited to three years following the first commercial introduction in the licensed territory of a food product containing the genetic developments which are the subject of A's patent. Our client estimates that the period of exclusivity is unlikely to exceed the first half of the life of any particular patent. Following the expiration of the exclusivity period, the license to B will become non-exclusive and A will be free to make whatever use of the patents it sees fit. Moreover, even during the period of exclusivity, A will

remain free to license the patents to any other party for a use other than the specific use granted to B. Finally, B's license does not include the right to sub-license, except that B may -- under certain limited conditions -- sub-license growers of the food product in question.

Based on these facts, we believe that the transaction should not be characterized as involving the "acquisition" of an "asset" within the meaning of the HSR Act because it does not appear that beneficial ownership of a sufficiently identifiable asset has passed to B. Rather, B is granted certain limited rights for a period of time which is considerably less than the full life of the patents. We note that, in analogous situations, the FTC staff has viewed the length of time for which a particular right has been granted to another person to be relevant in determining whether an acquisition of the underlying asset has occurred. For example, Interpretation 10 in the Premerger Notification Practice Manual (2nd Ed. 1991) refers to the "staff position that entering into a lease does not constitute an acquisition of the underlying assets . . . unless the lease amounts to an installment sale or a lease that exhausts the useful life of the property" (emphasis supplied).

As we discussed on the phone, it does not appear to us that Interpretation 49 of the Premerger Notification Practice Manual squarely addresses the issue of whether the grant of an exclusive patent license which is limited in time, scope and territorial application is potentially covered by the HSR Act.

I would be grateful if you could inform me of the staff's position on this matter. If you have any questions, please call me at [redacted]

Sincerely,

[redacted]