

301.10

ATTORNEYS AND COUNSELORS

WRITER'S OFFICE

DIRECT DIAL TELEPHONE:

October 29, 1999

Mr. Patrick Sharpe
Compliance Specialist
Premerger Notification Office
Bureau of Competition
Room 303
Federal Trade Commission
Sixth Street and Pennsylvania Avenue, N.W.
Washington, D.C. 20580

Re: Request for Interpretation

Dear Mr. Sharpe:

This letter confirms the substance of our conversation this morning and memorializes the advice given therein regarding premerger notification under the Hart-Scott-Rodino Act (the "Act").

Prepaid Maintenance Contracts

The first proposed scenario involves an asset acquisition in which as part of the assets acquired, the acquiring entity will assume the obligation to perform maintenance contracts, which were prepaid by customers of the selling entity who desired continuing maintenance on items purchased by the customers of the selling entity in the ordinary course of business. In other words, the acquiring entity will assume the liability to perform the services under the maintenance contracts. As I mentioned in our conversation, the contracts are currently a line item on the balance sheet of the selling entity as deferred revenue. Essentially, the selling entity has received the money up front, and the acquiring entity will now be assuming the obligations thereunder on an ongoing basis. You advised that when the acquiring entity "stands in the shoes" of the selling entity, assuming the obligation to perform the contract, the contract is a wash and has zero (0) value for purposes of the Act in determining value under the size-of-the-transaction test. Therefore, the assumption of the liability under the maintenance contracts by the acquiring entity has zero (0) value for determining the size-of-the-transaction and will not represent additional consideration received for purposes of the acquisition price.

contracts

OK

[Redacted signature block]

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Nonexclusive Intellectual Property Licenses

The next proposed scenario involves an acquisition of assets in which the acquiring entity (the "Licensee") will receive a license to use certain intellectual property or know-how ("intellectual property"). The intellectual property will be licensed to the Licensee for a royalty, which will be based upon use of the intellectual property. However, the selling entity (the "Licensor") will retain ownership of the intellectual property in order to fulfill an ongoing contract. To appease the Licensee, such license may be entitled an "exclusive" license; nevertheless, the Licensor will retain ownership and the right to use the intellectual property in connection with the Licensor's ongoing contract. You advised that an intellectual property license is not considered "exclusive" for purposes of the Act if the Licensor retains the right to use the intellectual property for its own purposes. You further advised that even if the parties entitle such a license as "exclusive," the fact that the Licensor retains the right to use the intellectual property makes the license "nonexclusive" and therefore, nonreportable under the Act. Additionally, you advised that sublicensing is not critical to a determination of non-exclusivity; the Licensor's retained rights would be sufficient to constitute the license as nonexclusive and to make the granting of such a license a nonreportable event under the Act. OK

I inquired if your answer would change if the license were drafted in such a way that once the royalties received by the Licensor reached a certain amount, the Licensee would obtain title to the intellectual property. As I described, this amount could be reached in Year 1, Year 2, Year 5, etc. of the license or not at all, depending on use by the Licensee. You advised that because the fulfillment of the royalty amount and subsequent ownership by the Licensee is a contingency and because it is unclear that the royalty amount would ever be reached, the transaction would not be immediately reportable. However, the license could become exclusive once the royalty amount was reached, possibly making the acquisition reportable at that time if the relevant tests are satisfied. contingent

Thank you again for your advice and assistance; it was very helpful. In order to confirm the advice given on the facts presented above, I would very much appreciate your signifying your agreement with this letter memorializing our conversation by completing the signature line below and returning this letter to me by facsimile at [redacted] if you have questions or modifications, please contact me at [redacted]. Thank you again for your assistance in this matter.

Sincerely,

Called [redacted]
10/29/99
I concur with
the conclusions of
this letter. (P.S.)

[redacted signature line]

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I hereby confirm that the foregoing accurately represents the facts as provided to me and the advice given by me regarding Hart-Scott-Rodino premerger notification compliance.

Patrick Sharpe
Compliance Specialist
Premerger Notification Office
Federal Trade Commission