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November 13, 2007

VIA E-MAIL

Michael B. Verne
FTC Premerger Notification Office
Bureau of Competition Room 303
600 Pennsylvania Avenue, N.W.
Washington, D.C. 20580

Re: Licensing arrangement

Dear Mike:

Thank you for your email regarding the staff's recent interpretations concerning the effect of retaining research and development rights on the exclusivity of intellectual property licenses. See, e.g., Informal Staff Opinions 0702022 (which found the license in question to be non-exclusive) and 0511011 (which found the license in question to be exclusive). As we discussed, we represent clients proposing to enter into a global license and product development agreement, and wish to determine whether their proposed license would constitute a reportable acquisition of assets under the HSR Act and rules.

While the license being granted to our client would be termed an "exclusive worldwide license" within its defined field of use, the grantor will, in addition to retaining certain rights to continue to research and develop innovations under the licensed patents, also retain rights to sell or commercially exploit the patented technologies under certain circumstances as set forth in the agreement and described below.

The following is a summary of the key terms of the agreement:

License Grant. Licensor anticipates granting to Licensee an "exclusive, worldwide license," including the right to sublicense, develop, make, have made, use, have used, sell, offer for sale, have sold, install, lease, convert, modify, repair, rebuild, import, export, or otherwise dispose of *Innovations* incorporated in *Products* in the *Field of Use* and to practice or have practiced all methods under the *Licensed Patents*. *Innovations* are commercially valuable ideas covered by one or more *Licensed Patents*; *Products* are any item that incorporates an *Innovation*; *Field of Use* is defined in terms of a specific category of industry usage; and *Licensed Patents* are both issued and pending patents or any patents subsequently filed, whether owned or licensed to Licensor, relating to the *Field of Use*.

The grant would be subject to four existing licenses issued by Licensor (one of which is to Licensee), which are in the same *Field of Use* and some of which overlap with the *Innovations*

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protected by the Licensed Patents. Licensor would be prohibited from expanding the scope of these existing licenses, or otherwise extending or enlarging the rights conferred under these licenses, without Licensee's consent. To the extent Licensor is able to pay a fee or penalty to terminate or limit an existing license, it would be required to do so, provided Licensee reimburses Licensor therefor. Any termination or reduction in scope in the existing licenses with respect to the Field of Use correspondingly would expand the license in the Field of Use granted to Licensee.

Project Initiation Process. Under the proposed license, Licensor would approach Licensee with Innovations to be developed. If Licensee accepts Licensor's proposal for a Product based on one or more Innovations, Licensee would be required to either (a) accept the project and develop the Innovation at its own expense, (b) fund the development by reimbursing Licensor's expenses therefor, or (c) decline to develop the Innovation. If Licensee aborts development it has undertaken or funded, or declines the Innovation from the start, Licensor would be able to develop the Innovation alone or with a third party, provided that Licensee would have the right to approve any agreements between Licensor and such third parties. If Licensee were to approve Licensor's pursuit of the Innovation without Licensee's involvement in its development, Licensee agrees to grant back to Licensor a license to the Licensed Patents for solely that purpose.

Retained Research and Development Rights. Licensor would continue to conduct R&D on the Innovations in so far that projects submitted by Licensor to Licensee for consideration will have to demonstrate that the Innovations are commercially viable. Also, Licensor would continue doing R&D on a going forward basis for Products that Licensee has declined or that Licensee has agreed to merely fund. Some of those Innovations and Products would be pursued with or by Licensee and some would be pursued by Licensor itself or with third parties. Finally, the parties contemplate a consultative process for the development of certain Products.

Certain IP Provisions.¹ Title to inventions and discoveries, and any resulting patent or patent application, would be owned by the inventing party. Inventions jointly made would be co-owned by the parties, provided that Licensee would have an automatic non-exclusive, worldwide, royalty-free license in the co-owned inventions in the Field of Use, and would have the right to acquire an exclusive license to the co-owned inventions in the Field of Use in exchange for one-half of the applicable royalty rate payable for the Products, as the case may be.

Please let us know if you have any questions or require any additional information. We would appreciate the staff's guidance, at your earliest convenience, regarding whether the rights retained by the Licensor in the above described license are sufficient to make the license non-exclusive and hence non-reportable under the HSR Act.

Sincerely,

[Redacted Signature]

*THIS IS NOT AN
EXCLUSIVE LICENSE
FOR HSR PURPOSES.
K. WALSH & K. BEEG
CONCUR
11/13/07*

cc:

[Redacted CC]

¹ The parties are still negotiating who will have the right to pursue an enforcement action against a third party for alleged infringement of the Licensed Patents.

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