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**Verne, B. Michael**

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**From:** [REDACTED]  
**Sent:** Wednesday, February 18, 2009 1:00 PM  
**To:** Verne, B. Michael  
**Cc:** [REDACTED]  
**Subject:** HSR Licensing Question

Mike,

Our client, X, invented a family of compounds. It transferred exclusive rights to those compounds to Y for a restricted set of indications, and retained rights as to all other indications. To date, the compounds have not yielded exciting results in the transferred field, but there is some reason to believe they might be useful in the retained fields. X is considering various alternatives to research the compounds for one of the retained indications.

The first alternative contemplated is a research and development contract in which X pays Y to research the compounds within X's field of use. This makes sense given Y's experience in working with the compound. At a defined point in the process, X will decide if it wishes to pursue the agreed indication. If it does, it will pay Y milestone payments and, assuming the compound is commercialized, royalties on sales. If X decides not to go forward, Y will have an option to acquire the compounds for all indications at a nominal price.

The second alternative is for X to grant Y non-exclusive rights to the IP in the previously retained fields (i.e., X and Y will both have rights to make and sell the product) and pay Y to research the compound for the target indication. At an agreed point in the development process, X will have an option to reacquire those non-exclusive rights from Y by making milestone payments and committing to royalties on sales as described in the first option. If X does not reacquire the nonexclusive rights, Y would have the right for nominal compensation to make its non-exclusive rights to the additional indications exclusive.

The third alternative is for X to transfer the rights to use the compounds for all indications to Y, to pay Y to conduct the research, and for X to have an option to reacquire the exclusive rights to the IP at a defined point in the research by paying milestone payments and royalties as in the first two options.

We believe the first alternative is nonreportable unless X decides not to go forward with the project and Y exercises its right to acquire the additional rights in a transaction that meets the thresholds. We understand that the third alternative involves two potentially reportable transactions, the transfer of additional exclusive rights from X to Y and the reacquisition of those exclusive rights by X if it exercises its option, with reporting required if all the relevant thresholds are met.

In the second alternative, if X exercises its option to re-acquire the non-exclusive rights from Y and all the relevant thresholds are met, would the exercise of the option be reportable?

Let us know if it would be helpful to discuss.

Thanks,

[REDACTED]

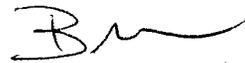
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I agree that the first scenario is non-reportable because X is not licensing the rights to the IP for the retained indications to Y. It is entering into a contractual arrangement with Y to research, develop and commercialize the compound for the retained indications, but X keeps the exclusive rights to the IP for those indications.

1. In the second scenario, I don't think there is anything reportable either. Since X never grants exclusive rights to the IP to Y, there is no change in beneficial ownership of the underlying IP. X reacquiring the non-exclusive rights from Y is a non-event because X retained ownership the entire time.

In the third scenario, I agree that there is a potentially reportable event when X transfers the exclusive rights to Y and when X reacquires the exclusive rights back from Y if it exercises its option.

K. WALSHT } K BERG CONCERN



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