

802.51

December 6, 1999

CONFIDENTIAL

VIA FACSIMILE

Mr. Michael Verne
Federal Trade Commission
Room 323
6th Street & Pennsylvania Avenue, NW
Washington, DC 20580

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FEDERAL TRADE COMMISSION
WASHINGTON, DC 20580

This will confirm my conversation with Dick Smith and our subsequent conversation concerning the application of the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (15 U.S.C. 18a) to a proposed transaction.

license agreements which prevent competing patents and allow the two companies to market and produce products that they would otherwise be prevented from bringing to market. Both licenses would cover foreign and U.S. patents. We assume for purposes of this analysis that both parties meet the size-of-persons test.

The license under Company A's patents would be semi-exclusive because Company A would retain the right to use the patents. The license under Company B's patents also would be semi-exclusive, but with one exception: it would be exclusive for a specific field of use.

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The parties have determined that the present fair market value of the 5-year period of partial exclusivity is more than U.S. \$15 million. This estimated value, however,

You confirmed the following application of the Act and 16 C.F.R. § 802.51(1998) to the proposed transaction. The FTC staff has taken the position that although a semi-exclusive license is not the transfer of an asset, the grant of an exclusive patent license is the transfer of an asset, and thus potentially reportable under the Act. See ABA, Premerger

territory, is also an asset transfer. See id. The staff has further taken the position that the grant of a patent license that is exclusive only for a particular period of time is an asset transfer. In

Company B's license under Company A's patents would be nonexclusive and thus not reportable. On the other hand, Company A's license under Company B's patents would transfer of an asset. Accordingly, because the value of the license under all the patents (both foreign and United States) exceeds \$15 million, the transaction could be reportable.

Under 16 C.F.R. § 802.51 (1998), certain acquisitions of assets by foreign persons are exempt from the Act's reporting requirements. Under section 802.51, an acquisition

(under section 802.51) of assets by foreign persons is exempt from the Act's reporting requirements if the acquisition is for a person who is a foreign person.

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attributable to the foreign patents is "located outside the United States" because the source of the revenues generated is foreign intellectual property. The remaining portion of the license attributable to the U.S. patents is located in the United States.

To value this asset, you stated that Company A should determine in good faith the reasonably expected amount of the royalties to be paid. Under Interpretation 116 of the ~~Preparer Notification Manual when a payment is contingent, the acquiring person (but not~~

~~_____~~
Interpretation 129 (1991).

Therefore, the patent license granted to Company A would be exempt under Section 802.51. The portion of the license attributable to the foreign patents is "located outside the United States." The remaining portion of the license, which is attributable to the LLC

~~_____~~
foreign person of less than \$10 million in assets located in the United States, and thus not reportable.

Please call me promptly at ~~_____~~ believe that any part of our conversation was misunderstood. Thank you for your assistance

Sincerely,
~~_____~~
~~_____~~

AGREE WITH THE WRITER'S CONCLUSIONS.

Michael Verne

12/9/99

N. OVUKA CONCURS.