



# FREQUENTLY ASKED QUESTIONS

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IPXI Holdings, LLC

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## Frequently Asked Questions

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### A. IPXI & the ULR Contract Model

#### 1. What are the primary objectives of IPXI?

- Provide transparency to the IP transaction market, including price discovery, comparable technology identification and adoption rate, and standard term information.
- Provide efficiency in patent licensing and technology transfer.
- Accelerate innovation by providing more complete information to intellectual asset management and R&D decision-makers about the value and adoption of technology.
- Assist IP owners with monetization of their portfolios, returning investment dollars to research and development, thereby creating a continuous cycle of innovation which will result in societal benefits.
- Maximize licensing opportunities and access to the full addressable market for technology including smaller users not otherwise efficiently reached.
- Provide licensees with broad access to quality-vetted patents and technology at market-established prices and with standardized terms.
- Assure fair market pricing without bias based on licensee.
- Provide an options and secondary market for technology, allowing operating companies to hedge their exposure to new technologies, manage their exposure to infringement and R&D risk in emerging technology markets, and allowing investors to financial exposure to valuable technology.
- Address the main considerations of operating companies for patent non-compliance, providing an economically efficient and accessible means to patent use compliance thereby reducing the risk of litigation and excessive damage awards.
- Allow market-driven pooling and more refined options when selecting relevant patents for licensing.
- Allow for development of a technology transfer market based on participant needs.

#### 2. What is the structure of IPXI governance?

- IPXI is governed by its Board of Directors and its constitution, the ULR Contract Market Rulebook.
- Under the ULR Contract Market Rulebook, IPXI is a committee-based exchange, comprised of an Executive Committee which oversees the functions of the following other committees:
  - Rules Committee
  - Membership Committee
  - Selection Committee
  - Audit Committee
  - Enforcement Committee
- The roles and responsibilities of each IPXI Committee are defined in the ULR Contract Market Rulebook.

### 3. What is the structure of IPXI membership?

- IPXI is a membership-based exchange, consisting of membership classes varying by type of entity and level of membership.
- IPXI has three types of membership based on the type of entity. The membership types include:
  - Corporate
  - University
  - Laboratory
- Within each membership type, IPXI has two levels of membership:
  - Founding Membership
  - Regular Membership
- IPXI has an Associate Membership category for IP Advisors, as defined in the ULR Contract Market Rulebook, valuation firms, accounting firms, law firms, and other IP market service providers that will not Sponsor or purchase ULR Contracts on the Exchange.
- IPXI has a Limited Membership category for potential ULR Contract purchasers interested in accessing complete information for a particularly identified ULR Contract, but without the benefits of Regular Membership.

### 4. What is a ULR Contract?

- The main IPXI exchange-traded product is a ULR Contract.
- A ULR Contract is an exchange-traded non-exclusive license right product, offered on a non-discriminatory basis at a market-based price and with standard terms.
- A ULR Contract is priced and sold on a standardized technology-unit basis, where each unit-base is uniquely determined by IPXI according to the underlying technology for each ULR Contract, and where each unit-base is an easily monitored measurement of that patented technology's adoption.
- The purchaser of a ULR Contract is granted the right to use the underlying technology for a pre-established number of instances (the technology unit); for example, the right to manufacture and/or sell a certain number of defined product units incorporating the patented technology.
- A ULR Contract is tradable on a secondary market maintained by IPXI.

### 5. Which problems with traditional licensing and enforcement programs does the ULR Contract model address?

- Lack of contract and valuation standards.
- Inefficient distribution methods.
- Lack of market transparency, leading to inadequate price discovery.
- Supply uncertainty.
- Lack of predictability in licensors' prospective enforcement strategies.
- Inaccessibility to technology at fair and reasonable prices for smaller market participants.

### 6. Why is the exchange model appropriate for the licensing and enforcement of patent portfolios?

- An exchange allows for transparency in licensing and enforcement of valuable IP.
- An exchange standardizes offerings and enables secondary market transactions avoiding the cost and trouble of having to create bespoke bi-lateral contracts between licensee and licensor and permitting the hedging of IP risk.
- An exchange creates market-based price discovery, enabling ULR Contract purchasers to obtain technology at market-determined prices.
- An exchange allows for open access enabling all qualified buyers to obtain licenses.

- An exchange platform allows for licensees to obtain technology on an as-needed basis and/or resell in the secondary market.
- An exchange model allows for the collection and dissemination of technology adoption data.

## **B. Benefits to ULR Contract Sponsors**

### **1. What specific benefits can Sponsors achieve by bringing IP to market through ULR Contracts?**

- By increasing purchaser confidence, ULR Contracts increase the population of potential licensees, allowing for revenue maximization.
- The ULR Contract model dramatically reduces legal costs for both Sponsors and purchasers, due to standardized, exchange-based offerings of license rights.
- ULR Contracts enable IP Sponsors to avoid forced cross-licensing on unfavorable terms.
- By issuing ULR Contracts, the sponsors are able to outsource costly marketing, auditing and enforcement activities to third parties.
- ULR Contract Sponsors receive regular reports on ULR Contract usage, allowing them to monitor the market penetration of their technology.
- ULR Contract pricing is market-determined, increasing the likelihood of terms that are fair and reasonable.
- ULR Contracts offer a flexible rights structure.

### **2. What are the relative merits of bringing a patent to market as a ULR Contract versus selling it outright?**

- Because ULR Contract Sponsors retain patent ownership and license their offerings non-exclusively, they can achieve ongoing revenue streams from multiple ULR Contract offerings.
- By creating ULR Contract cash flows, it is significantly easier to borrow against the subject IP.
- Outright patent sales often require significant pricing discounts to guarantee the consummation of a transaction, while the unitized and market-based nature of ULR Contract offerings allows for capture of full market value and market penetration.

### **3. What are the relative merits of bringing a patent to market as a ULR Contract versus traditional in-house licensing programs?**

- In-house licensing requires an IP Sponsor to engage in a number of costly functions to maintain its licensing program. These include licensee identification, price negotiations, contract drafting, usage auditing, compliance monitoring, and enforcement. Conversely, the issuance of ULR Contracts allows for the IP Sponsor, to outsource some or all of these functions.
- ULR Contract standardization, transparency, price discovery, and public opportunity offer the potential for vastly larger market opportunities than possible through traditional bi-lateral licensing activities.
- ULR Contract purchasers' ability to buy on an as-needed basis and resell in the secondary market may increase buyer confidence by decreasing buyer risk, bolstering demand and maximizing revenue to the licensor.
- ULR Contracts avoid revenue-mitigating cross-licensing demands which may arise through in-house licensing.

#### **4. Why would a company utilize ULR Contracts to bring patents to market that it hasn't already licensed itself?**

- ULR Contract Sponsors lacking the resources to conduct in-house licensing or enforcement programs may view the issuance of ULR Contracts as a lower-cost, lower-risk alternative.
- ULR Contract Sponsors who have already identified usage of their technologies may be concerned about the public relations or branding ramifications of pursuing enforcement activities and find IPXI's community rules approach to be more attractive.
- ULR Contract Sponsors may wish to avoid being forced into a disadvantageous cross-licensing deal that does not adequately compensate it for its IP contribution.

#### **5. What benefits can University and Laboratory Sponsors achieve by bringing IP to market through ULR Contracts?**

- ULR Contracts' market based pricing will be fair and reasonable, ensuring that university and laboratory technology transfer offices adhere to their mission to monetize and/or commercialize the university's or laboratory's scientific and technical research findings for the benefit of the university or laboratory, the public, and the local and regional communities.
- ULR Contracts will provide university and laboratory technology transfer office management with information to make better informed decisions regarding intellectual property strategy, maximizing the benefit to the university or laboratory and public, including:
  - Price discovery
  - Market characteristics
- The issuance of ULR Contracts will ensure that university and laboratory technology transfer offices are provided with demand and consumption analytics regarding the usage of their technologies.
- The ULR Contract model provides universities and laboratories with the ability to outsource monitoring responsibilities, legal costs, and transaction costs providing a low-cost alternative to self-managed technology transfer.

### **C. Benefits to ULR Contract Purchasers**

#### **1. What specific benefits do Purchasers achieve through ULR Contracts?**

- ULR Contract purchasers have transparent, unbiased access to fully paid-up, unitized licenses for critical patent portfolios.
- ULR Contract purchasers receive standard in-licensing terms, regardless of company size, market position, or relationship with the ULR Contract Sponsor.
- ULR Contracts are available at prices determined by market dynamics, decreasing the need for purchasers to engage in complicated internal or external valuations. ULR Contract purchasers can purchase license rights in the primary market on an as-needed basis.
- ULR Contract purchasers have the right to resell unused ULR Contracts or purchase additional ULR Contracts on IPXI's secondary market to accommodate unexpected changes in long-term needs.

## **2. What will motivate potential ULR Contract buyers to purchase voluntarily, rather than wait for enforcement?**

- Innovative companies may hope to be first movers in the ULR Contract market as a way to spearhead technology development and cultivate their reputations as innovative leaders.
- Because IPXI engages in measures prior to the issuance of ULR Contracts meant to help confirm patent quality, define claim scope and provide fair and reasonable pricing on standard terms, purchasers may view ULR Contracts as lower-risk alternatives to patent infringement.
- Many companies may voluntarily become members of the exchange in an attempt to foster public goodwill and be considered good corporate citizens; this has been a key motivator at the outset of several climate exchanges in recent years.
- Potential licensees will want to avoid the negative publicity that is likely to come from commencement of an enforcement action for infringement against the company.
- Certain ULR Contracts will include favorable pricing terms and potential amnesty for past infringement for early adopters.
- A new licensing model does not eliminate the legal obligation to comply with patent laws.

## **D. Characteristics of ULR Contracts**

### **1. What are the characteristics of a strong ULR Contract candidate?**

- The technology is conducive to non-exclusive licensing.
- There is observable current or future adoption of the patented technology.
- The licensable market has multiple potential licensees.
- The patented technology can be licensed for multiple applications or fields of use.
- The IP has at least five (5) years of remaining life.
- Usage of the IP can be easily “unitized,” in that it can be tied to a measure of output or use (e.g., cell phone, computer, engine, barrel of oil, duration of time, number of users, financial service transaction, website click-through, etc.).
- Usage of the IP can be readily monitored and audited.
- The patent portfolio is enabling, covering an entire process or product, and lacks royalty stacking considerations.
- The patent(s) hold strong priority positions in the relevant patent landscape, reducing the potential for invalidating prior art.
- The due diligence process reveals one or more of the following qualities in the IP:
  - Successful existing licensing history
  - Successful judicial determination
  - Successful patent office reexamination

### **2. Can a ULR Contract be based on or include a non-U.S. issued patent?**

- Yes. An IP owner may sponsor patents issued in any jurisdiction.

### **3. Can a ULR Contract be based on patents that are the result of federally funded research?**

- Yes. ULR Contracts may allow for the pass-through of government march-in rights and other legal or contractual limitations, where necessary and appropriate.

#### 4. What is the timeline for a typical ULR Contract offering from submission to first sale?

- From the date that a prospective IP Sponsor submits a Unit Offering Scenario (UOS) document to IPXI for Selection Committee review, it is typically a 5 month timeline to the ULR Contract offering. The timeline to ULR Contract offering will include the following tasks:
  - **Days 1-30** – IP Sponsor/IP Advisor submits UOS document; IPXI reviews UOS proposal, including prior art search and vetting.
  - **Days 30-90** – UOS public review and comment period.
  - **Days 60-90** – IPXI and IP Sponsor/IP Advisor assess UOS proposal comments submitted by Selection Committee and IPXI Members; IPXI and IP Sponsor/IP Advisor modify UOS proposal based on assessment.
  - **Days 90-110** – Selection Committee reviews modified UOS proposal, and makes final decision regarding acceptance or rejection of UOS proposal.
  - **Days 90-150** – IPXI forms Special Purpose Vehicle (SPV); IP Sponsor assigns or exclusively licenses IP to SPV; IPXI lists ULR Contract on [www.ipxi.com](http://www.ipxi.com); IPXI and IP Sponsor/IP Advisor draft and market offering memorandums for Dutch auction or price allocation and road show.
  - **Day 151** – Initial ULR Contract offering; open secondary market for ULR Contract trading.

#### 5. When will IPXI bring its first ULR Contract to market?

- IPXI is currently screening a large number of potential ULR candidates. It anticipates issuing and listing a series of ULR Contracts, covering a variety of technologies in 2012.

### E. Patent Encumbrances & Licensing Concerns

#### 1. How will ULR Contracts manage existing encumbrances?

- ULR Contract offering documents will provide disclosure of licenses and other encumbrances, and describe the remaining market opportunity.

#### 2. How does IPXI address risks of royalty stacking or the need to license multiple patent portfolios for any given product?

- All patents included in a ULR Contract are publically disclosed, and IPXI solicits comments from market participants and potential licensees regarding the ULR Contract offering, including price and whether other patents held by third-parties are essential to the unit-base.
- IPXI will work with patent pooling organizations to multiple patents for ULR Contract offerings, where necessary and appropriate.
- IPXI's market-based pricing and public opportunity allows for fair and reasonable and non-discriminatory (FRAND) licensing.
- ULR Contracts require that all patented technologies or applications held by Sponsors, at the time of issuance or later developed, which are essential to the unit-base must be included in the ULR Contract.

**3. Will IPXI facilitate the transfer of know-how required to implement the licensed invention?**

- If know-how is required, the related ULR Contract may include a right to the needed expertise, data, drawing, software or other IP. The know-how elements of each ULR Contract and related transfers will be described in the offering memorandum.
- IPXI offers the opportunity for Sponsors to offer know-how, materials, or other services as a Know-How Warrant (KHW) included with the purchase of a ULR Contract, allowing the ULR Contract purchaser to exercise the KHW as desired, which acts as a rebate or coupon in the purchase of the Sponsor's know-how or other products or services. A KHW may be a separately traded product on the Exchange, attributing a market-based value to know-how transfer.

**4. What distinguishes IPXI from non-practicing entities that pursue aggressive enforcement programs?**

- IPXI was created to facilitate market-based pricing for patent licenses and acts as a neutral transaction facilitator. IPXI is driven by community rules, which is a common characteristic of all exchanges, including the most well-known equity and commodity markets. In contrast, NPEs are driven exclusively by their profit motive.
- IPXI's stringent selection and acceptance criteria, in addition to a public comment and vetting process, is rigorous and should address validity and pricing concerns leading to only strong, quality patent portfolios marketed through ULR Contract offerings.
- IPXI's only goal in passively managing enforcement is to maintain the integrity of the market-based system for the benefit of all market participants. This system promotes fair, reasonable, and non-discriminatory practices among IP-owners and ULR Contract purchasers alike.
- To the extent that an IPXI Sponsor authorizes compliance action, the remedy sought from the infringer is specific performance in the market (i.e., if the infringer needs to purchase 100,000 ULR Contracts to no longer be infringing, a portion of the recovery would be used to purchase ULR Contracts in the primary or secondary market).
- ULR Contract purchasers are bound by IPXI's arbitration rules, and alternative dispute resolution mechanisms, including re-examination. These mechanisms will be considered by IPXI before commencing enforcement litigation.
- Effectively, the IP Sponsor of a ULR Contract has the right to veto the pursuit of litigation.
- As part of the ULR Contract enforcement process, IPXI will establish an independent enforcement committee to investigate instances of infringement and make recommendations to IPXI Executive Committee.