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# **Negotiating Royalties – Commercializing Intellectual Property The Exchange Pricing Model**

**Workshop on Negotiating International R&D and  
Technology Transfer Contracts – Intellectual  
Property Rights, Valuation and Dispute Resolution  
Brussels, Friday, November 12, 2010**

Organized by

WIPO Arbitration and Mediation Center

and the

European Liaison Office of the German Research Organizations (KOWI)

Supported by

Licensing Executives Society (LES) Benelux

European Association of Research and Technology Organizations (EARTO)

and the

Simplified FP7 Model Agreement (DESCA)

# Traditional Bi-Lateral Licensing

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- Non-Transparent
- Non-Level
- Absence of Available Precedent
- Resort to “Rules-of-Thumb”
  - 25% Rule – Income Approach
- Analytical Approach
- Replacement Cost Approach
- Cost of Alternative Technology Approach
- Limited Market Influence

# Exchange Based Licensing

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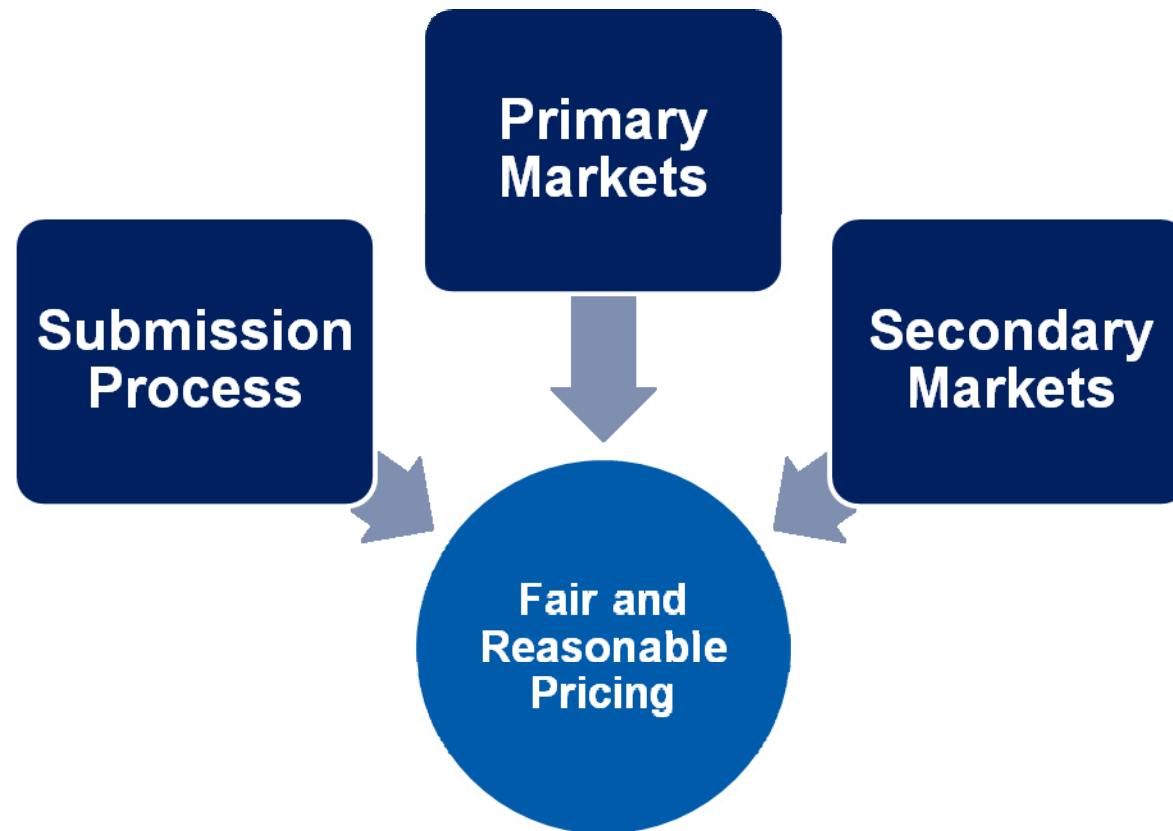
- Unit License Right™ Contracts
  - Tradable license to practice IP for manufacture and sale of a set quantity of products
  - Non-exclusive
  - Open to all qualified buyers
  - Primary and Secondary Market trading
  - Publicly available data
  - Price discovery
  - Market based pricing

# Fair and Reasonable Pricing

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*IP Exchange Model*

- The structure and functionality of IPXI provides a market which promotes fair and reasonable pricing of IP rights



# Sample ULR Contract Specification

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## INITIAL OFFERING

GENERAL DESCRIPTION: USP X,XXX,137 A / B / C Valve Seat Insert  
PATENT(S): USP X,XXX,137 and continuations, continuations-in-part and foreign counterparts.  
FIELD OF USE: All  
UNIT BASIS: Each ULR contract covers one automotive or light truck engine  
TOTAL OFFERED QTY: 50 million license units offered in 10 unit lots  
OPENING: Dutch Auction (50% minimum quantity and price)  
ENCUMBRANCES: Third Party License(s)  
IPXI PRICE BANDING: + / - 20%  
AMNESTY: Full

## INITIAL OFFERING TRANCHES

U137A:	10 million ULR contracts	\$0.50 per unit
U137B:	10 million ULR contracts	\$0.75 per unit
U137C:	30 million ULR contracts	\$1 per unit

## FOLLOW-ON OFFERINGS

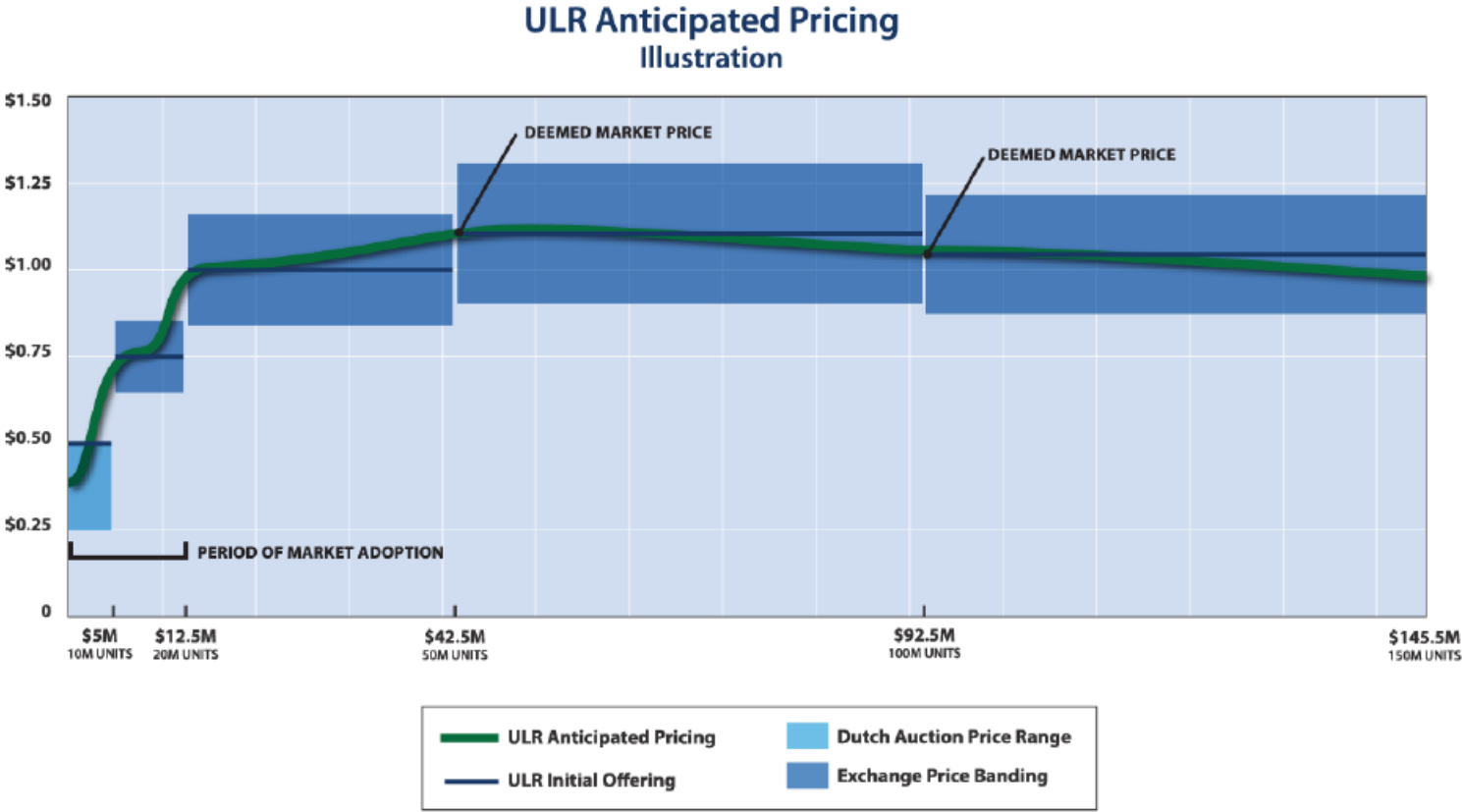
Through Term (2017)	50 million ULR contracts each	Deemed Market Price
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# Offered in Series of Tranches

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- Tranche A
    - Early Stage of Technology Adoption
    - High Risk / New Products Using Not Well-understood Technology
  - Tranche B
    - Mid Stage of Technology Adoption
    - Moderate Risk / New Products Using Well-understood Technology
  - Tranche C
    - Later Stage of Technology Adoption
    - Low Risk / New Features Using Well-understood Technology
  - Follow-on Offerings
    - Mature Technology Adoption
    - Very Low Risk / New But Well-understood Technology
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# Pricing Through Tranches



# Dutch Auction Pricing

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PRICE	ULR Bids	Cumulative ULRs
\$0.50	1 million	1 million
\$0.40	4 million	5 million
\$0.30	2 million	7 million
\$0.20	3 million	10 million

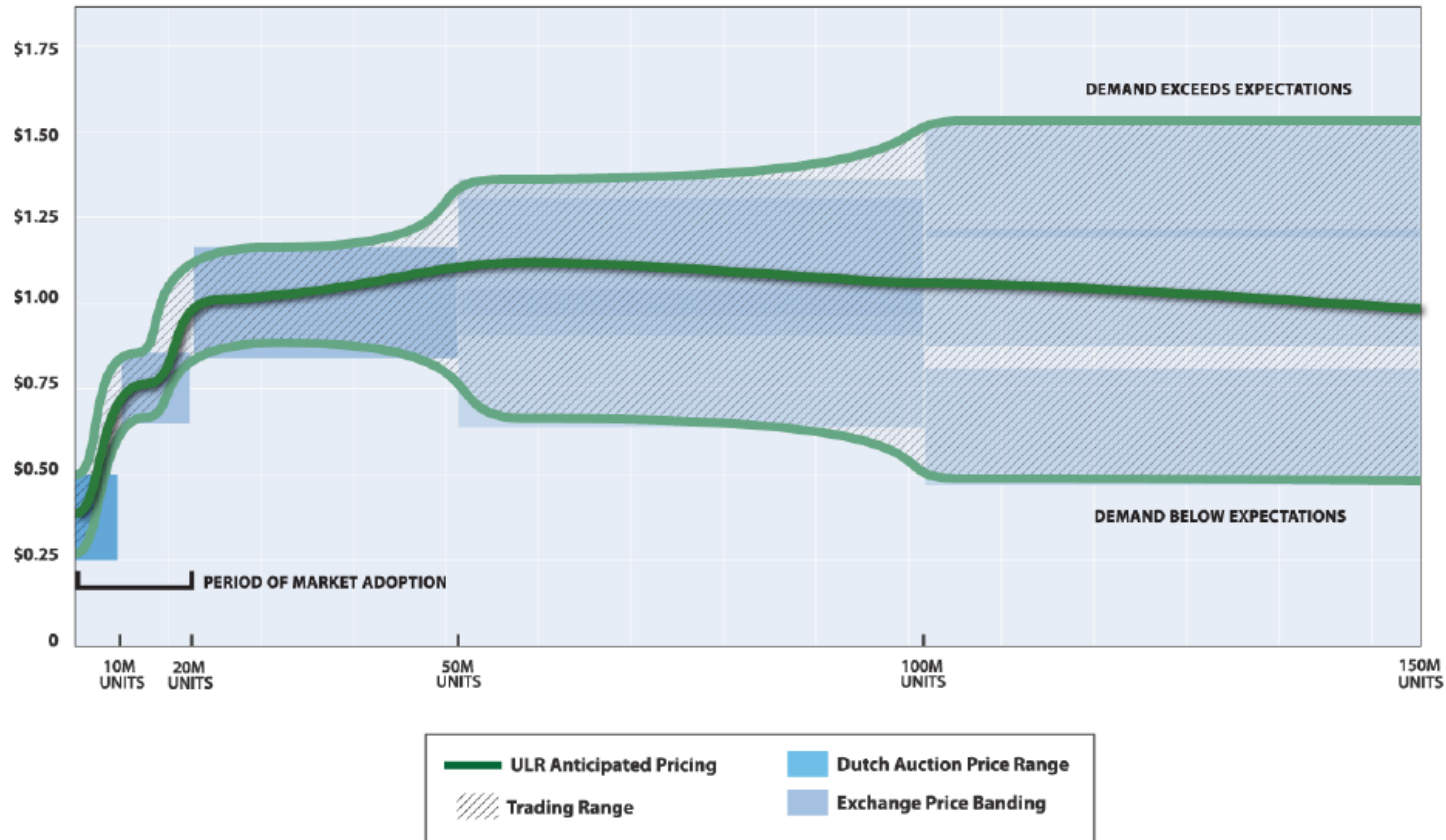
Minimum Price

50% Threshold



# Trading Range over Time

ULR Trading Range Illustration



# Thank You

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