

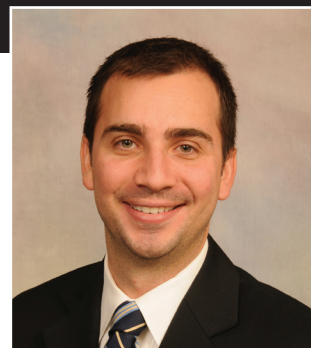
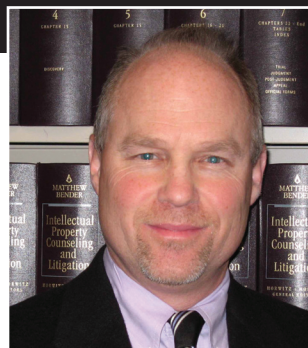
# The IPXI: An Alternative to the License Agreement? Maybe!

Monetizing intellectual property (IP) as discussed in previous *BONEZONE* articles is the process of deriving tangible value from the IP or the technology that is protected by the IP. Currently, however, there are only a limited number of ways of deriving such value. For example, monetizing a patent usually follows one of two paths: 1) deriving value through the sale of products and services based on the coverage of the patent, or 2) leveraging the patent through licensing or outright sale of the patent.

***Intellectual Property Licensing Exchange International is billing itself as the “world’s first financial exchange that facilitates non-exclusive licensing and trading of intellectual property rights with market-based pricing and standardized terms.”***

Critics have complained for years that IP licensing is an inefficient and costly way to do business. Most of these complaints center on the fact that the negotiations typically take anywhere from a few months to a year or more to complete. In addition, the associated transactional costs incurred by the parties may actually outweigh the value of the license. For example, think of the numerous steps companies undertake when contemplating a licensing agreement. First, they will determine the value of the IP and the market potential of the technology or product. After that, they may identify possible licensees. Once a potential licensee is found, the due diligence process will occur with the validity and clearance position being evaluated. After these steps have been completed, the two parties finally commence the license agreement negotiations. Once the deal terms are agreed to and the contract is signed, the burden of policing of product sales and auditing of royalty payments starts for the licensor, while the licensee will take on the role of the enforcer as to the licensed IP rights. All of these steps will cost the licensor and the licensee time and money.

Over the past few years, a group of individuals, corporations and leading universities have worked to create an alternative to the licensing paradigm with the formation of the Chicago



**John W. Boger, Esq.**

**Kristian E. Ziegler**

*Heslin Rothenberg Farley & Mesiti P.C.*

based Intellectual Property Licensing Exchange International, Inc. (IPXI®). Led by several individuals who helped set up and initially operate the Chicago Climate Exchange and European Climate Exchange (the exchanges are based on the cap and trade business model for greenhouse gas emissions), the IPXI will likely open for business later this fall. The new exchange is billing itself as the “world’s first financial exchange that facilitates non-exclusive licensing and trading of intellectual property rights with market-based pricing and standardized terms.”<sup>1</sup>

At the core of IPXI’s marketplace is a new type of commodity or exchange-traded product called the Unit License Right™ (ULR™) Contract. Each ULR Contract is offered on a non-discriminatory basis at a market-based price and sold on a standardized technology-unit basis or “unit-base” that is uniquely determined by IPXI according to the underlying technology or IP of the ULR Contract.<sup>2</sup> The purchaser of a ULR Contract is granted the non-exclusive license to use the IP for a pre-determined number of instances based on the corresponding unit-base. In this way, each ULR Contract grants the buyer a right to manufacture and/or sell a certain predefined number of products or services incorporating or utilizing the patented technology without fear of an infringement suit. For example, a patent owner (i.e., licensor) lists on the IPXI a ULR Contract that covers a technology for a biological coating. Each ULR Contract will allow the purchaser (i.e., licensee) to make, use and/or sell one, or alternatively, a predefined number of implants with the patented biological coating, such as 100 implants. So, if the purchaser or licensee wants to make and sell 100,000 implants with the patented technology and each ULR Contract represents a single use of the IP, then the purchaser will need to buy 100,000 ULR Contracts. Each ULR Contract will expire when one implant is manufactured using the patented biological coating. A valuable byproduct of the exchange model is the secondary market for unused ULR Contracts. The IPXI will manage this hedge opportunity and attempt to minimize financial risk associated with unused ULR Contracts.<sup>3</sup>

One of the biggest advantages of the ULR Contract for both IP licensees and licensors is the removal of the lawyer-intensive traditional bilateral licensing process that was discussed above. One of the IPXI’s initial objectives was to build an exchange that operates under two core principles that do not exist in the traditional bilateral product/technology licens-

ing scenario: transparency and efficiency.<sup>4</sup> Regarding transparency, the IPXI starts the ULR Contract process by performing in-house a legal analysis designed to give the marketplace confidence in the quality of all patent rights listed as available ULR Contracts.<sup>5</sup> Following this vetting process, the IPXI publishes market-based pricing and the pre-established, agreed-to terms of all ULR Contract offerings in a manner similar to that of public equity offerings of corporations. This means that financial and technologic details are provided in offering memorandums, road shows as to the offered patents are undertaken and potential buyer one-on-one meetings are conducted.<sup>6</sup>

The potential efficiency of the ULR Contract system is three-fold. First, the IPXI acts as a central marketplace for transacting IP licenses and provides a platform for licensors and licensees to transfer technology on standardized terms.<sup>7</sup> Secondly, the IPXI provides access to technologies for consumers of all types. This means that small companies, research organizations and universities have the same access to ULR Contracts, and thus the technologies covered by the contracts, as Fortune 100 companies. Finally, the IPXI identifies, evaluates, markets and audits IP licensing transactions through its ULR model, and provides a rules-based approach to directed

enforcement.<sup>8</sup> This approach outsources to the IPXI much of the transactional costs typically associated with IP licensing. Which means, for example, that traditional tasks of the licensor of royalty auditing and IP enforcement by the licensee will now be performed directly or indirectly (e.g., community rules approach) by the IPXI. Thus, the IPXI marketplace is designed as a platform that allows IP owners to monetize their IP assets more cost effectively.

Conversely, on the buy-side, the IPXI marketplace is designed to give buyers, licensees, investors and industry access to new licensing, trading, investment and, potentially, arbitrage opportunities. For example, many universities and small/medium sized organizations own significant IP assets that are unused or under monetized. Currently, there is no effective way to market these assets to interested licensees or investors without significant time and monetary investment on the part of the seller.

Similarly, there is no single location, website or other portal where one can go and seek out those available technologies, no less a platform to acquire the technologies via a cost effective, arms-length transaction. This function is precisely IPXI's niche.



## WHAT'S YOUR SPECIALTY

- Multi-Axis: CNC Swiss Style Precision Turning
- CNC Milling
- CNC Turning
- CNC Ultra-Precision Cutter Grinding
- Polishing
- Specialized Deburring
- Laser Marking
- Passivation
- Clean Room
- ISO 13485:2003 Certified
- ... and much more



Division of Brinkman International Group | 10101 NW 67th Street | Tamarac, FL 33321  
p: 800.992.5018 | <http://www.mskprecision.com/>

# PRECISION

MSK Precision Products, Inc. specializes in precision parts manufacturing and assembly for the medical, telecommunication and aerospace industries.

Complex medical and aerospace components are our specialty.

Now before one jumps in and starts listing all of their IP on the exchange, one needs to understand that these services do not come cheap. As presently constituted, both ULR Contract sponsors (i.e., licensors) and buyers (i.e., licensees) must each pay an annual membership fee of \$5,000, and sponsors must pay a \$100,000 listing fee per patent or patent portfolio.<sup>9</sup> In addition, a sponsor is assessed 20% of the ULR Contract price as a commission to the IPXI.<sup>10</sup> These and other guidelines and regulations governing the IPXI are contained in its "Unit License Right Contract Market Rulebook" that was released in May 2012. The rule book, which outlines all of the parameters and working guidance for the exchange, can be obtained by visiting the IPXI website at [www.ipxi.com](http://www.ipxi.com).

As one would expect, the IPXI has encountered scrutiny and skepticism. Proponents of the IPXI highlight the growing pains experienced by other exchanges until they became accepted in their industries, such as the Chicago Climate Exchange and New York Mercantile Exchange.<sup>11</sup> However, with ongoing commitments from large corporations, universities and Federally funded labs, the IPXI appears to have taken root and, in fact, is already growing. Initially, the IPXI signed ULR Contract sponsorship agreements with five entities: Philips, Com-Pac International, Rutgers University, Northwestern University and the University of Utah.<sup>12</sup> Each organization agreed to issue one or more ULR Contracts with a market value of at least \$50 million.<sup>13</sup> More recently, Sony USA, Ford Global Technologies, MetaPower Inc., the University of Notre Dame, the Regents of the University of California, the U.S. Department of Energy and various national laboratories and have committed to the IPXI as sponsors.<sup>14</sup> As of May 25, 2012, the IPXI's total membership includes 27 organizations, 13 of which have committed to ULR Contract sponsorship roles.<sup>15</sup>

Nonetheless, myriad questions about profitability, accessibility to smaller companies due to the cost to participate and the interaction of the IPXI with traditional IP valuation, licensing and even litigation paradigms will continue to be debated. Most licensors and licensees will likely take the "wait and see" approach to gauge how these issues and market acceptance play out. If the IPXI's novel approach succeeds, a new significant IP monetization pathway will become available to licensors and, as a result, a wide breadth of technologies that are not currently available or financially practical will be accessible to licensees.

Please remember that this article has been written for informational purposes only and should not be interpreted as legal advice.

*John W. Boger is a partner with the boutique Intellectual Property Law Firm of Heslin Rothenberg Farley & Mesiti P.C. and is the Chairman of the firm's Medical Products and Technology Practice*

*Group. Before attending law school, Mr. Boger worked for eight years with a large orthopaedic device manufacturer in various product development and marketing positions. He can be reached at 518-452-5600 or at [jwb@hrfmlaw.com](mailto:jwb@hrfmlaw.com).*

*Kristian E. Ziegler is an associate with Heslin Rothenberg Farley & Mesiti P.C. and a member of the firm's Medical Products and Technology Practice Group. Mr. Ziegler's intellectual property law practice includes all aspects of patent, trademark and copyright law but is primarily directed to patent preparation, prosecution and opinion work in the medical device, mechanical, business method and electrical arts. He can be reached at 518-452-5600 or at [kez@hrfmlaw.com](mailto:kez@hrfmlaw.com).*

Heslin Rothenberg Farley & Mesiti P.C.  
[www.hrfmlaw.com](http://www.hrfmlaw.com)

## ENDNOTES

- 1 *Intellectual Property Exchange International Attracts Leading Global Corporations, Universities, National Laboratories as new Members*, Intellectual Property Exchange International, Inc., May 25, 2012. Available at: <http://www.ipxi.com/media/newsreleases/IPXI-Attracts-Leading-Global-Corporation-Universities-National-Lab>
- 2 *Frequently Asked Questions: Unit License Right (ULR) Contracts*, Intellectual Property Exchange International, Inc., December 2011. Available at: [www.ipxi.com/system/files/IPXI\\_mediakit\\_Dec2011-ULRfaq.pdf](http://www.ipxi.com/system/files/IPXI_mediakit_Dec2011-ULRfaq.pdf)
- 3 *Id.*
- 4 *Id.*
- 5 *IPIX: Model and Methodology for the World's First IP Exchange*, Media Kit, IPXI Fact Sheet, Intellectual Property Exchange International, Inc., May 5, 2012. Available at: [www.ipxi.com/media/mediakit](http://www.ipxi.com/media/mediakit)
- 6 *Id.*
- 7 *Id.*
- 8 *Id.*
- 9 *Development of a Global Marketplace for IP*, Gerard J. Pannekoek, Intellectual Property Exchange International, Inc., January 23, 2012. Available at: [www.gtforum.org/wp/wp-content/uploads/2012/03/Track-2-Platforms-Gerard-J-Pannekoek-Presentation-GTIF-Jan2012-IPXI.pdf](http://www.gtforum.org/wp/wp-content/uploads/2012/03/Track-2-Platforms-Gerard-J-Pannekoek-Presentation-GTIF-Jan2012-IPXI.pdf)
- 10 *Id.*
- 11 Ian McClure & James E. Malackowski, *The Next Big Thing in Monetizing IP: A Natural Progression to Exchange-Traded Units*, Landslide 3, 2011. Available at: [www.ipxi.com/.../McClure%20LANDSLIDE\\_May\\_June2011.pdf](http://www.ipxi.com/.../McClure%20LANDSLIDE_May_June2011.pdf)
- 12 *Intellectual Property Exchange International Welcomes Corporate and University Founding Members*, Intellectual Property Exchange International, Inc., December 13, 2011. Available at: [www.ipxi.com/system/files/IPXI\\_mediakit\\_NewsReleases.pdf](http://www.ipxi.com/system/files/IPXI_mediakit_NewsReleases.pdf)
- 13 *Id.*
- 14 See supra Note 1.
- 15 *Id.*