



Software Policy
Effective December 1, 2016

Summary

This presentation references and should be read with HEVC Advance's November 22, 2016 new Software Policy Announcement.

This presentation offers examples of the operation of the Software Policy.

A synopsis of each case precedes a flow diagram of the case.

Please contact us at licensing@hevcadvance.com if you have any questions.

Case 1 Synopsis

Royalty Already Paid for HEVC in Consumer Device

The **Case 1** diagram on the next page depicts HEVC Advance's general licensing policy as described in Section II of the Software Policy, reprinted below.

In brief, if a consumer device is sold with an enabled/activated HEVC Codec at time of its initial sale to a consumer, and a royalty is paid on it, then additional HEVC codecs may be incorporated/downloaded to such device without any additional royalty (other than stand-alone software under Section IV.D).

SECTION II: CURRENT PROGRAM REQUIREMENTS

Under the HEVC Advance Patent Portfolio License (PPL), a royalty must be paid for HEVC decoders and/or encoders included in (i) *consumer devices* and (ii) *software products*, as well as certain updates/upgrades to such software products (hereinafter “device royalty”). These software products may include, for example, browsers, media players, operating systems and various software applications.

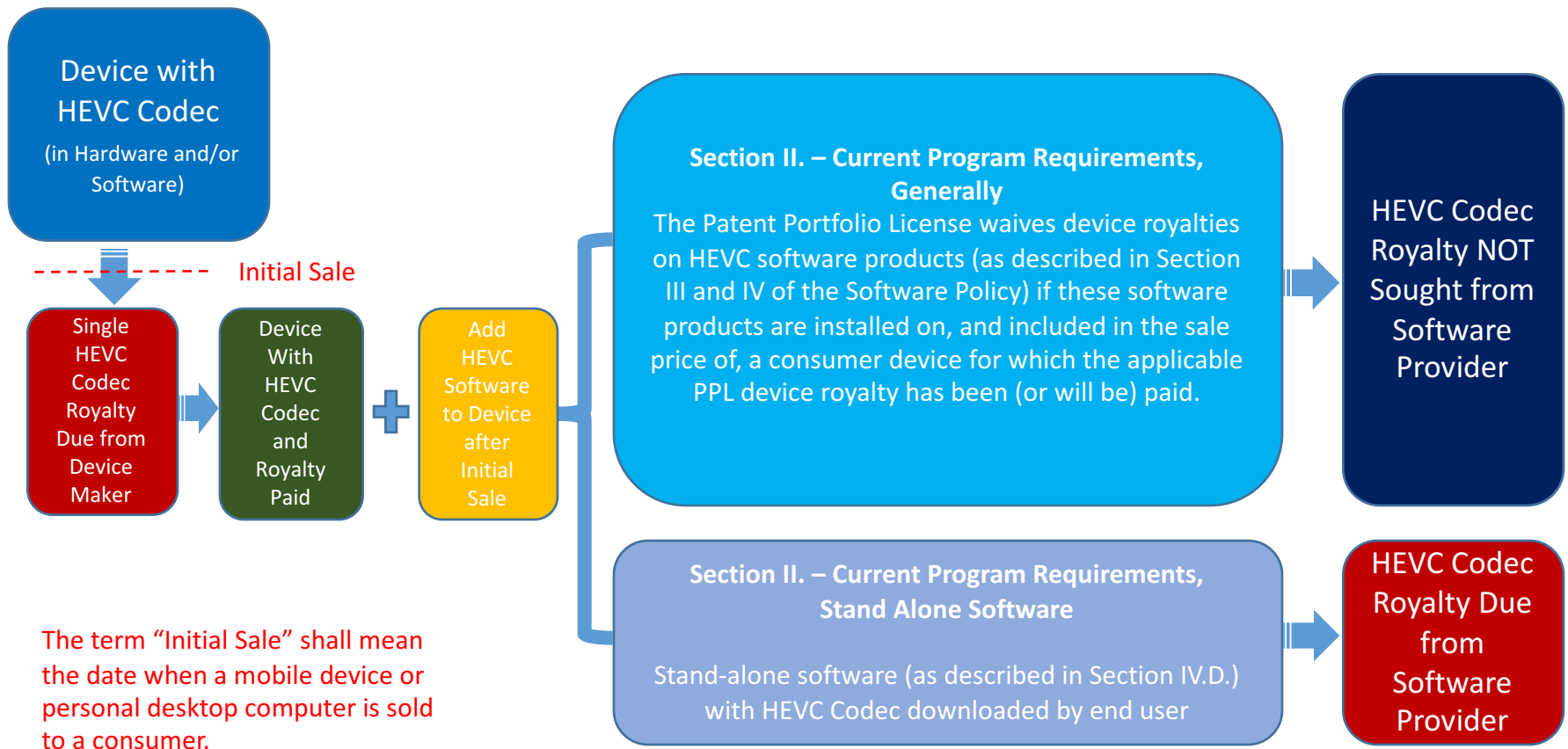
However, the PPL waives device royalties on HEVC software products **if** these software products are installed on a consumer device for which the applicable PPL device royalty has been (or will be) paid.

In addition, under the PPL **only one device royalty** is due for a consumer device that includes one or more HEVC decoders or encoders at the initial sale of the consumer device to the end-user. Therefore, any number of HEVC software products may be included in a consumer device at initial sale without incurring additional royalties, **if** the applicable device royalty has been (or will be) paid by the consumer device manufacturer.

Footnotes excluded.

Case 1

HEVC Codec in Device at Initial Sale (Any Time)



Cases 1 Examples

Example 1.A: XYZ Company releases a new MilkyWay mobile phone that includes an HEVC hardware decoder. XYZ licenses the HEVC Advance patent pool and pays royalties on its MilkyWay phones. A MilkyWay phone user later downloads a MMM Company software app to watch HEVC video on her phone, where the app includes a full HEVC software decoder that can execute on a general purpose CPU. HEVC Advance would not seek a royalty from MMM on such software app, for two independent reasons: First, XYZ has already paid a royalty on a HEVC decoder in the MilkyWay phone, and, second, the HEVC software decoder included in the MMM app falls within this announced software policy. (Note: Execution of a PPL would be required if MMM also sold HEVC devices, stand-alone software and/or commercial HEVC content with royalties due in excess of the \$25K annual waiver (\$6250/qtr).

Example 1.B: XYZ Company releases a new StarBurst laptop that includes an HEVC hardware decoder in its GPU. A StarBurst user later downloads ABC Company's sophisticated stand-alone video editing software, StarDirector, which includes its own HEVC decoding capability and has a suggested retail price of \$50 or can be obtained on a subscription basis for \$5/month. HEVC Advance would require ABC to license and pay royalties to the HEVC Advance patent pool on its StarDirector product. (Note: if the price was less than \$45 or 3.75/month no royalty would be due.)

Cases 2 and 3 Synopses

New Software Policy for Mobile Devices and Desktop PCs

The **Case 2** and **Case 3** diagrams (starting the page after next) depict HEVC Advance's New Software Policy that applies to Mobile Devices and Desktop Personal Computers, reprinted on the next page.

Case 2 applies to devices sold before December 1, 2016. **Case 3** applies to devices sold on or after December 1, 2016. The operative difference between the cases is as follows:

- **Case 2:** For devices sold prior to December 1, 2016, there are no limitations on Section III application software for which HEVC Advance will **not seek a license and corresponding royalty payment** (other than stand-alone software under Section IV.D). That is, Section IV.C. which limits application software that may be offered or provided by, or with the acknowledgement or cooperation of, the device manufacturer does not apply to devices sold prior to December 1, 2016.
- **Case 3:** For devices sold on or after December 1, 2016, however, Section III application software subject to the policy excludes any software that is described under Section IV.C. of the Software Policy (as well as stand-alone software under Section IV.D). That is, unless a royalty was paid in conjunction with the sale of the device, HEVC Advance will seek a royalty from a software provider for application software that is offered or provided by, or with the acknowledgement or cooperation of, the device manufacturer. This limitation is intended to prevent device companies from purposely trying to exploit this policy to circumvent their royalty obligations for new devices. **But a software provider that is NOT working with a device manufacturer would not be impacted by this exclusion.**

New Software Policy for Mobile Devices and Desktop PCs

SECTION III: 'NEW SOFTWARE POLICY' - HEVC SOFTWARE PRODUCTS FOR WHICH HEVC ADVANCE WILL NOT SEEK A LICENSE

HEVC Advance will not seek a license on a software product that performs HEVC decoding, encoding and related functions for a software product that is:

- i. application layer software, or software encoding or decoding libraries used by application layer software, where the encoding or decoding is fully executed in software on a general purpose CPU; and is
- ii. downloaded to a mobile device or desktop personal computer after the initial sale of such product; and is
- iii. intended for personal, and not commercial, use by the user of such product; and is
- iv. not excluded under Section IV below.

Examples of such software products may include web browsers, personal video conferencing software and video players provided by various internet streaming video distributors or software application providers.

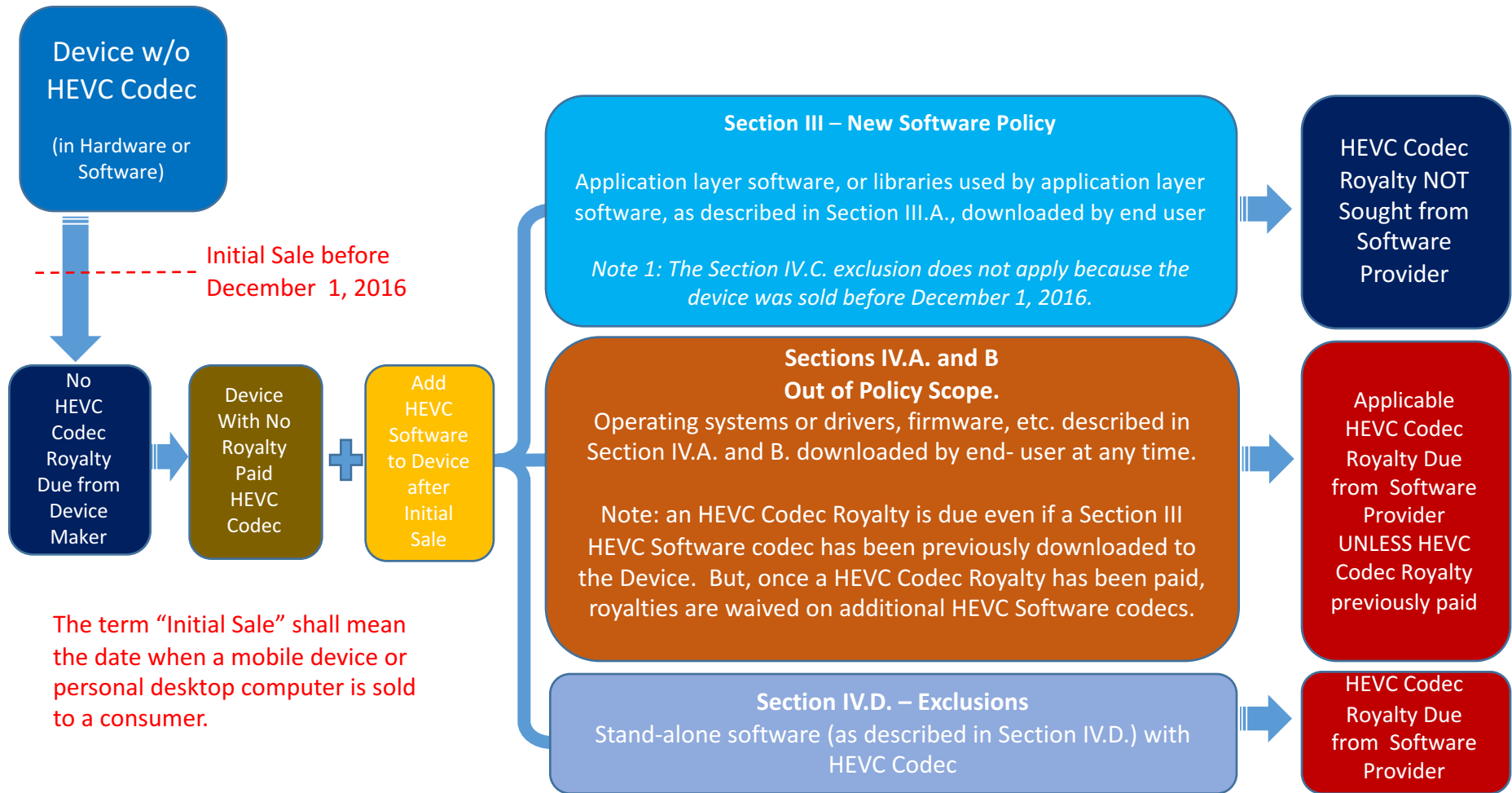
SECTION IV: HEVC SOFTWARE PRODUCTS THAT DO NOT FALL UNDER THE 'NEW SOFTWARE POLICY'

HEVC Software to which this policy does not apply includes the following:

- A. Operating systems; and
- B. Drivers, libraries, firmware or other software that enables hardware on a device, which hardware is specifically designed, in whole or in part, to decode and/or encode HEVC content, in whole or in part; and
- C. Software, and updates/upgrades to software that was loaded on or bundled with a mobile device or desktop personal computer at the time of initial sale, which software or updates/upgrades:
 - (i) add HEVC encoding or decoding functionality in software, and
 - (ii) are downloaded to a mobile device or desktop personal computer that was sold on or after December 1, 2016 for which *no device royalty was paid*, and
 - (iii) are offered by, on behalf of, or with the acknowledgement or cooperation of the device manufacturer.
- D. Application layer software that is sold as a *stand-alone software* product marketed as providing advanced HEVC video functions where such software is offered for sale with a published or suggested retail price of \$45.00 or more, or on a subscription basis for \$3.75 per month or more.

Case 2

Mobile Device or Desktop PC with NO HEVC Codec Sold Before December 1, 2016



The term “Initial Sale” shall mean the date when a mobile device or personal desktop computer is sold to a consumer.

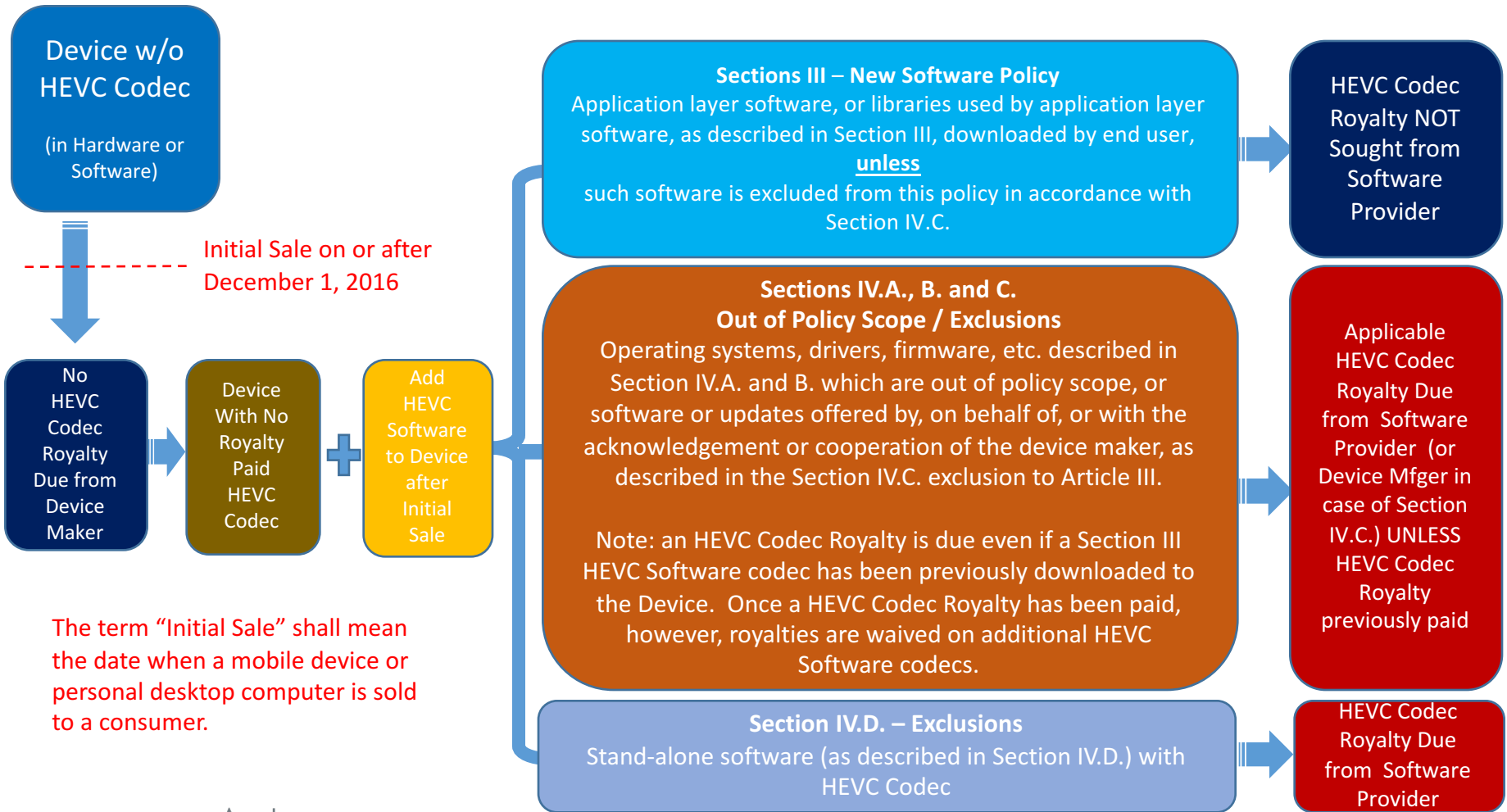
Cases 2 Examples

Example 2.A: WXYZ Company sold over 10MM Asteroid-Pad tablets prior to December 1, 2016 that do not include any HEVC functionality at all. WXYZ would not require a license to the HEVC Advance patent pool for those sales and, thus, would not pay royalties on such Asteroid-Pad tablets. An Asteroid-Pad tablet user later downloads one or more software apps to watch and record HEVC video on his Asteroid-Pad tablet, where the software apps include a full HEVC software encoder and decoder that executes on a general purpose CPU. HEVC Advance would not seek a license or royalty from the software app provider, whether such provider was WXYZ or a third party unaffiliated with WXYZ. (Execution of a PPL would be required by such software provider if such company also sold HEVC devices, stand-alone software and/or commercial HEVC content with royalties due in excess of the \$25K annual waiver (\$6250/qtr).)

Example 2.B: WXYZ Company sold over 5MM Nova laptops prior to December 1, 2016. The laptops do not include any HEVC functionality at all. A Nova user downloads a new STAR Company operating system to his laptop, where the STAR OS includes a full HEVC software decoder. HEVC Advance would require STAR to license and pay royalties to the HEVC Advance patent pool on its STAR operating system. (Note: Operating system providers that agree to include HEVC capability in their operating systems may be eligible for certain royalty discounts or waivers for OS upgrades to existing devices.)

Case 3

Mobile Device or Desktop PC with NO HEVC Codec Sold On/After December 1, 2016



The term “Initial Sale” shall mean the date when a mobile device or personal desktop computer is sold to a consumer.

Cases 3 Examples

Example 3.A: QXW Company sells STAR1-phones after December 1, 2016 that do not include HEVC hardware capability. DEF Company makes available to STAR1-phone customers after purchase application software that provides a full HEVC software decoder that executes on a general purpose CPU. QXW cooperated with DEF to make such software available. A STAR1-phone user downloads DEF's software decoder to enable HEVC support in her STAR1-phone. HEVC Advance would seek a license or royalty from DEF, or QXW. (Note: IF QXW was NOT involved with or cooperated with DEF in any way, then HEVC Advance would NOT seek a license or royalty from DEF.)

Example 3.B: QXW Company sells MoonBeam-phones after December 1, 2016 that include a new SunRay-processor with HEVC hardware capability, but which HEVC functionality is not accessible by any applications running on the Moonbeam-phone upon initial purchase. DRIVER Company makes available to Moonbeam-phone customers software that enables the HEVC hardware. A Moonbeam-phone user downloads DRIVER'S software to enable HEVC hardware capability in her Moonbeam-phone. HEVC Advance would require DRIVER to license and pay royalties to the HEVC Advance patent pool in the event that QXW was not licensed by HEVC Advance and paying royalties for such MoonBeam-phones either at initial sale or when the HEVC capability was enabled. (Note1: Unless the HEVC functionality was encrypted with control maintained by QXW, the HEVC royalty would have been due upon initial sale by QXW.) (Note 2: Since royalties were not paid by QXW, DRIVER would be required to license and pay royalties irrespective of whether QXW was involved with or assisted DRIVER.)

 Thank You.

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