SUMMARY OF AVC/H.264 LICENSE TERMS[1]

The AVC Patent Portfolio License is divided into two principal parts (see Diagram): (a) sublicenses granting the right to manufacture and sell AVC encoders and decoders with the right of End Users to use them for personal and consumer (including internal business) purposes without remuneration but not for other uses (left half of the Diagram)[2], and (b) sublicenses granting video content or service providers the right to use decoders and encoders for other uses of AVC Video (right half of the Diagram)[3].

Further, the (a) sublicenses are divided roughly into two subcategories: (1) sublicense for branded encoder and decoder products sold both to End Users and on an OEM basis for incorporation into personal computers but not part of a personal computer operating system[4] and (2) sublicense for branded encoder and decoder products sold on an OEM basis for incorporation into personal computers as part of a personal computer operating system.[5] The (b) sublicenses are also divided roughly into two subcategories: (1) where an End User pays directly for video services, i.e., on a Title-by-Title or Subscription basis[6], and (2) where remuneration is from other sources, i.e., Free Television AVC Video (AVC Video which constitutes television broadcasting sent to an End User by an over-the-air, satellite and/or cable Transmission, and which is not paid for by an End User) and Internet Broadcast AVC Video (AVC Video that is delivered via the Worldwide Internet to an End User for which the End User does not pay

[1] The licensing terms summarized below are for informational purposes only. They are not an offer to license and may not be relied upon for any purpose. The AVC Patent Portfolio License provides the actual terms of license on which users may rely.

[2] Sections 2.1 and 2.6 of the AVC Patent Portfolio License

[3] Sections 2.2, 2.3, 2.4 and 2.5 of the AVC Patent Portfolio License

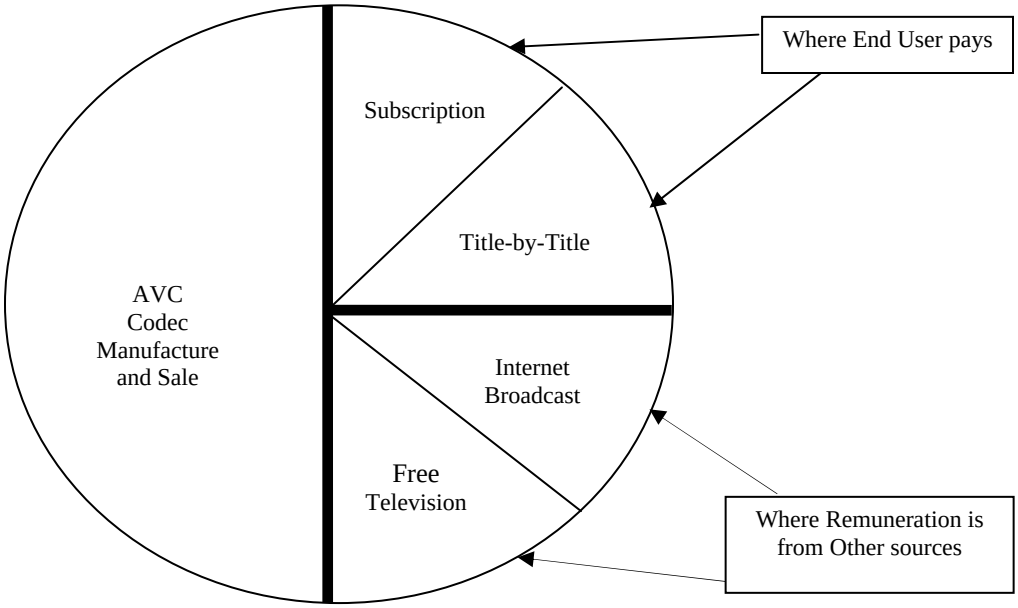
[4] Section 2.1 of the AVC Patent Portfolio License

[5] Section 2.6 of the AVC Patent Portfolio License

[6] Sections 2.2 and 2.3 of the AVC Patent Portfolio License

remuneration for the right to receive or view, i.e., neither Title-by-Title nor Subscription).[7]

<u>Diagram</u>: The left side of the Diagram below refers to the (a) sublicenses, and the right side of the Diagram refers to the (b) sublicenses



In the case of the (a) sublicenses:

For (a) (1) branded encoder and decoder products sold both to End Users and on an OEM basis for incorporation into personal computers but not part of a personal computer operating system (a decoder, encoder, or product consisting of one decoder and one encoder = "unit"), royalties (beginning January 1, 2005) per Legal Entity are 0 - 100,000 units per year = no royalty (this threshold is available to one Legal Entity in an affiliated group); US $0.20 per unit after first 100,000 units each year; above 5 million units per year, royalty = US $0.10 per unit. The maximum annual royalty ("cap") for an Enterprise (commonly controlled Legal Entities) is $3.5 million per year 2005-2006, $4.25 million per year 2007-08, $5 million per year 2009-10, and $6.5 million per year in 2011-15.[8]

For (a) (2) branded encoder and decoder products sold on an OEM basis for incorporation into personal computers as part of a personal computer operating system, a Legal Entity

[7] Sections 2.4 and 2.5 of the AVC Patent Portfolio License

[8] Section 3.1.1 of the AVC Patent Portfolio License

may pay for its customers as follows (beginning January 1, 2005): 0 - 100,000 units/year = no royalty (available to one Legal Entity in an affiliated group); US $0.20 per unit after first 100,000 units/year; above 5 million units/year, royalty = US $0.10 per unit. The maximum annual royalty ("cap") for an Enterprise (commonly controlled Legal Entities) is $3.5 million per year in 2005-2006, $4.25 million per year in 2007-08 and $5 million per year in 2009-10, and $6.5 million per year in 2011-15.[9]

In the case of the (b) sublicenses:

For (b) (1) where an End User pays directly for video services on a Title-by-Title basis (e.g., where viewer determines Titles to be viewed or number of viewable Titles is otherwise limited), royalties for video greater than 12 minutes (there is no royalty for a Title 12 minutes or less) are (beginning January 1, 2006) the lower of 2% of the price paid to the Licensee (on first Arms Length Sale of the video) or $0.02 per Title (categories of Licensees include Legal Entities that are (i) replicators of physical media, and (ii) service/content providers (e.g., cable, satellite, video DSL, internet and mobile) of VOD, PPV and electronic downloads to End Users).[10] Where an End User pays directly for video services on a Subscription-basis (not ordered or limited Title-by-Title), the applicable royalties per Legal Entity payable by the service or content provider are (beginning January 1, 2006) 100,000 or fewer Subscribers during the year = no royalty; greater than 100,000 to 250,000 Subscribers during the year = $25,000; greater than 250,000 to 500,000 Subscribers during the year = $50,000; greater than 500,000 to 1,000,000 Subscribers during the year = $75,000; greater than 1,000,000 Subscribers during the year = $100,000.[11]

For (b) (2) where remuneration is from other sources, in the case of Free Television (television broadcasting which is sent by an over-the-air, satellite and/or cable Transmission, and which is not paid for by an End User), the Licensee (broadcaster which is identified as providing Free Television AVC Video) pays (beginning January 1, 2006) according to one of two royalty options: (i) a one-time payment of $2,500 per AVC transmission encoder (applies to each AVC encoder which is used by or on behalf of a Licensee in transmitting AVC Video to the End User) or (ii) annual fee per Broadcast Market[12] starting at $2,500 per calendar year per Broadcast Markets of at least 100,000 but no more than 499,999 television households, $5,000 per calendar year per Broadcast Market which includes at least 500,000 but no more than 999,999 television households, and $10,000 per calendar year per Broadcast Market which includes 1,000,000 or more

[9] Section 3.1.6 of the AVC Patent Portfolio License

[10] Section 3.1.2 of the AVC Patent Portfolio License

[11] Section 3.1.3 of the AVC Patent Portfolio License

[12] "Broadcast Market" refers to the "geographic area within which an End User could use an AVC Decoder to view Free Television AVC Video sent by a single transmitter or transmitter simultaneously with repeaters by a single Legal Entity." Section 1.15 of the AVC Patent Portfolio License.

television households.[13] In the case of Internet Broadcast AVC Video (AVC Video that is delivered via the Worldwide Internet to an End User for which the End User does not pay remuneration for the right to receive or view, i.e., neither Title-by-Title nor Subscription), there will be no royalty for the life of the License.[14]

In the case of the (b) sublicenses, the maximum annual royalty ("cap") for an Enterprise (commonly controlled Legal Entities) is $3.5 million per year in 2006-07, $4.25 million per year in 2008-09 and $5 million per year in 2010, and $6.5 million per year in 2011-15.[15]

The first term of the License runs through 2010, but the License will be renewable for successive five-year periods for the life of any Portfolio patent on reasonable terms and conditions which may take into account prevailing market conditions, changes in technological environment and available commercial products at the time, but for the protection of licensees, royalty rates applicable to specific license grants or specific licensed products will not increase by more than ten percent (10%) at each renewal.[16,17]

[13] Section 3.1.4 of the AVC Patent Portfolio License. It is recognized that broadcasters in developing countries may have different circumstances to be considered. It is also recognized that there may be AVC Video services that qualify as Free Television AVC Video rather than Subscription AVC Video or Title-by-Title AVC Video where a nominal (but no other) payment is required or where other relevant circumstances taking into account the nature of the video service may apply.

[14] Section 3.1.5 of the AVC Patent Portfolio License

[15] Sections 3.1.2, 3.1.3, 3.1.4 and 3.1.7 of the AVC Patent Portfolio License

[16] Section 6.1 of the AVC Patent Portfolio License

[17] Annual royalty caps are not subject to the 10% limitation