

INTERNAL MEMO

Our Concept of Tokenization of Timeshare Through Non-Fungible Tokens (NFT)
Ecosystem

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Whilst Play-Sell model is a working horse which will generate cash as in good times so in bad times (see White Paper on Play-Sell Collaborative Purchasing), we are currently (April 2021) approaching a perfect storm opportunity with tokenizing timeshare industry.

On the one hand, the classic timeshare industry is currently experiencing huge problems as the holders of timeshares realized, due to pandemic, that there is no secondary market for their contracts and the only way to get their money back is to sue the operators,

On the other hand, the Non-Fungible Tokens come into fashion which will last for the next year or so.

The first problem can be easily solved by tokenizing timeshare contracts through NFT and creating robust, solid secondary market for it.

It is just a matter of time when the largest operators will realize that, not they have not yet get this “Aha!” moment.

The only way we can do this is to get in touch with the largest operators directly. We need good contacts, either of our own, or through reliable intermediaries.

The technical implementation is very doable.

NON-FUNGIBLE (NFT) UTILITY TOKENS:

Real Estate-Backed Utility Tokens may have strong similarities to the Equity Tokens due to the presence of fractional owner or quasi-ownership as an undivided interest in the underlying real property.

There are two major subtypes of the Real Estate-Backed Utility Tokens to be considered:

- Deeded Fractional Ownership Token, when a buyer purchases interest in a property¹;

¹ With deeded contracts the use of the property is usually divided into week-long increments and are sold as real property via fractional ownership. As with any other piece of real estate, the owner may do whatever is desired: use the week, rent it, give it away, leave it to heirs, or sell the week to another prospective buyer. The problem of the present systems is absence of efficient trading platform and liquid instruments. The owner is also liable for an equal portion of the real estate taxes, which usually are collected with condominium maintenance fees (the owner can potentially deduct some property-related expenses, such as real estate taxes from taxable income). Deeded ownership can be as complex as outright property ownership in that the structure of deeds vary according to local property laws. Leasehold deeds are common and offer ownership for a fixed period of time after which the ownership reverts to the freeholder. Occasionally, leasehold deeds are offered in perpetuity, however many deeds do not convey ownership of the land, but merely the apartment or unit (housing) of the accommodation. For a deeded timeshare, the owner also has to the proportionate share of the monthly mortgage.

- Non-Deeded Fractional Ownership Token, when a buyer purchases the limited rights of use for a property².

The General Topology of the Real Estate-Backed Utility Tokens:

- fixed-time-slot ownership - buyers have the right to use a unit during the same time-slot (most often a week) each year;
- floating-time-slot ownership - buyers have the right to use the property during a range of available time slots;
- point-system ownership – club-style system where buyers purchase a specific number of points that can be redeemed at various locations. In some instances, buyers can save their points to purchase more expensive time. The costs can vary by unit size, location, time of year, brand, and other factors.

The mechanisms of the most perspective modifications of the Utility Tokens have strong similarities to well-established timesharing part of the vacation industry.

The unfair practices of timeshare servicers were strongly addressed by international and a number of national regulations, especially in the E.U.³ and the U.S.A.

Timesharing is essentially a form of fractional ownership, where buyers purchase the right to occupy a unit of real estate over specified periods. For example, purchasing one week of a timeshare means the buyer owns 1/52 of the unit. Buying one month equates to one-twelfth ownership.

Time-sharing is relatively popular within vacation locales. Property types include homes, condominiums and resorts. The model can also apply to recreational vehicles and private jets. The timeshare industry is mainly concentrated within the United States.

One of the strongest points of the timeshare is presumed to be competitive pricing for staying in professionally-managed resort in a predictable setting.

Deficiencies of Contemporary Timeshare Market to be Solved by Deployment of Utility Tokens:

² With right-to-use contracts, a purchaser has the right to use the property in accordance with the contract, but at some point the contract ends and all rights revert to the property owner. Care should be taken with this form of ownership as the right to use often takes the form of a club membership or the right to use the reservation system, where the reservation system is owned by a company not in the control of the owners. The right to use may be lost with the demise of the controlling company, because a right to use purchaser's contract is usually only good with the current owner, and if that owner sells the property, the lease holder could be out of luck depending on the structure of the contract, and/or current laws in foreign venues.

³ In 1994, the European Communities adopted "The European Directive 94/47/EC of the European Parliament and Council on the protection of purchasers in respect of certain aspects of contracts relating to the purchase of the right to use immovable properties on a timeshare basis", which was subject to recent review,[3] and resulted in the adoption on the 14th of January 2009 on European Directive 2008/122/EC.

- The size of conventional timeshare market is relatively low⁴. However, it can be substantially increased by introduction of the organized market of relevant Utility Tokens;
- Timesharing is rife with gray areas and questionable business practices and has been suffering a serious controversy over recent years due to the unfair practices of some of the operators who had left with them and then leveraged in their own favor the option to increase annual and other periodical maintenance costs, which led to considerable hidden costs to the timeshare participants and often drove the total cost of timeshare ownership to prohibitive levels (contemporary average 10-year one-week-a-year timeshare costs are currently valued at around \$45,000 in the US). Timeshare sales more often than not have been high-pressure and fast-moving affairs. This issued can be efficiently addressed by streamlining and simplifying the process through creation of transparent publicly traded Utility Tokens platform;
- Cancellations, or rescission, or even exchange of the timeshare contract, remain the industry's biggest problems to date. A timeshare contract is a binding one; the owner cannot walk away from a timeshare contract because there is a change in his or her financial or personal circumstances. The resale is notoriously difficult (even if the contract allows it at all) as secondary market is extremely underdeveloped due to a number of technical reasons. This problem can be solved by creating global public trading platform for the Utility Tokens;
- The negotiability of the timeshare is greatly hampered by the fact that the lion's share of the cost of a new timeshare are sales commissions and marketing overhead, and cannot be retrieved by the timeshare owner if he wants to sell what she bought. Unified Utility Tokens platform solves this problem;
- the unlimited duration of a commitment to pay ownership maintenance fees is often prohibits the potential buyer from purchasing timeshare. Once timeshare has been tokenized, the maintenance fees will be reflected into the market price of the Token;
- The idea of owners exchanging their week, either independently or through exchange agencies, has been used as the basis for attracting mass appeal to purchasing a timeshare. However, in the current state of affairs, it remains mostly idea, but not readily available option. Timeshare reselling by the private owner is almost impossible to implement. In most cases, an owner looking to sell literally cannot give the timeshare away. Timeshare resale companies have sprung up that actually charge the owner to assume his/her timeshare ownership - contending that the resale company must assume the maintenance fees along with marketing fees - until that burden can be transferred to a new buyer. The coverage of the

⁴ In 2019, The Worldwide Vacation Ownership (Timeshare) market size was USD 15 billion and it is expected to reach USD 26 billion by the end of 2026, with a CAGR of 7.3% during 2021-2026.

timeshare contracts in terms of locations available for a particular contract remain an issue as they limit buyers' freedom of choice. As a matter of fact, the exchangeability of the timeshare contract is a matter of liquidity of the timeshare as an instrument. The vacation industry tried to increase liquidity by creating certain similarity of the institutional market through establishment of timeshare location exchange companies, such as Interval International and RCI⁵. However, the efforts essentially failed and the global market remains highly fragmented phenomena, which limit the options available for timeshare holders and thus keeping down the liquidity of timeshare as investment instrument. This problem can be successfully addressed by creation of the global digital trading platform for the exchangeable Utility Tokens so that owners in any given area could exchange their week with owners in other areas effortlessly. This is massively appealing idea.

Pros for the Utility Tokens:

- In the U.S., timeshare is generally not considered to be security, which simplifies issued of Utility Tokens⁶;
- The Tokenization of timeshare can simplify the distribution of the maintenance expenses by the fluctuating dynamic pricing of the Tokens on the trading platform (timesharing typically comes with a number of recurring payments and fees. Monthly loan payments often come with high-interest rates and annual

⁵ RCI and Interval International (II) are the two largest exchange agencies which over 7,000 resorts. They have resort affiliate programs, and members can only exchange with affiliated resorts. It is most common for a resort to be affiliated with only one of the larger exchange agencies, although resorts with dual affiliations are not uncommon. The timeshare resort one purchases determines which of the exchange companies can be used to make exchanges. RCI and II charge a yearly membership fee, and additional fees for when they find an exchange for a requesting member, and bar members from renting weeks for which they already have exchanged. Owners can also exchange their weeks or points through independent exchange companies. Owners can exchange without needing the resort to have a formal affiliation agreement with the companies, if the resort of ownership agrees to such arrangements in the original contract.

Due to the promise of exchange, timeshares often sell regardless of the location of their deeded resort. What is not often disclosed is the low liquidity of the trading market and the difference in trading power depending on the location, and season of the ownership. If a resort is in a prime vacation region, it will exchange extremely well depending on the season and week that is assigned to the particular unit trying to make an exchange. However, timeshares in highly desirable locations and high season time slots are the most expensive, subject to demand typical of any heavily trafficked vacation area. An individual who owns a timeshare in the American desert community of Palm Springs, California in the middle of July or August will possess a much reduced ability to exchange time, because fewer come to a resort at a time when the temperatures are in excess of 110 °F (43 °C).

⁶ The Federal Trade Commission makes it clear that "the value of these options is in their use as vacation destinations, not as investments." (<https://www.consumer.ftc.gov/articles/0073-timeshares-and-vacation-plans>) - retrieved as at 03.28.21.

In *Scott v. Bluegreen Vacations Unlimited, Inc.*, 2020 U.S. Dist. LEXIS 107212 Applying the definition of an "investment contract" adopted by the U.S. Supreme Court in *SEC v. W.J. Howey Co.*, 328 U.S. 293 (1946), Judge Anthony W. Ishii ruled that the purchased rights were not securities under either the federal or state definitions. In particular, he noted that the Vacation Points were for the use and enjoyment of the purchaser and not transferable. Judge Ishii's ruling, however, should not be understood to mean that a time share arrangement can never come within the definition of a "security". An arrangement's status as a security is not determined by nomenclature but by the particular facts and circumstances involved (<https://www.natlawreview.com/article/court-rules-rights-to-timeshare-vacation-points-are-not-securities>) - retrieved as at 03.28.21.

maintenance fees can escalate. As with ownership in any type of property, one-off expenses can add up and become more frequent over time;

- With properly structured Utility Token and the public trading platform, the holders will be able to easily:
 - Use their usage time;
 - Rent out their owned usage;
 - Give it as a gift;
 - Donate it to a charity;
 - Exchange internally within the same resort or resort group;
 - Exchange externally into thousands of other resorts;
 - Sell it;
 - Assign their usage time to the point system to be exchanged for airline tickets, hotels, travel packages, cruises, amusement park tickets;
 - rent part of their points without actually getting any usage time and use the rest of the points instead of renting all their actual usage time;
 - Rent more points from either the internal exchange entity or another owner to get a larger unit, more vacation time, or to a better location;
 - Save or move points from one year to another;
 - Etc.

Cons for the Utility Tokens:

- The efficiency will depend on the width and depth of the property pool compatible with the Tokens traded on the platform.

The deployment of Utility Token for timesharing contracts allows to mitigate and ultimately eliminate the deficiencies of the inherited timeshare market through liquid negotiability of the instrument on the organized market of digital crypto-tokens, higher transparency, standardization of rules, terms and procedures, typification of conditions and practices and much better protection of the interests of the timeshare holders.

How the Utility Tokens Can Work:

The simplest form of realization is points-style system, that combines features of deeded timeshare with right-to-use offerings.

Purchasers of Utility Tokens (Tokeners) receive a deed conveying an undivided real property interest in a timeshare unit. Each Tokener's property interest is accompanied by an annual allotment of points (sub-Tokens) in proportion to the size of the property interest. The points system shall be highly flexible and may be used in different increments for vacation stays at various locations in a variety of accommodations.

Tokens and sub-Tokens can be exchanged for worldwide for using various locations and premise. They shall also may be banked into or borrowed from future periods. Deeded

Token / sub-Token structure shall be adopted by large timeshare developers, like the Disney Vacation Club, Hilton Grand Vacations Company, the Marriott Vacation Club, the Hyatt Residence Club, Accor, WorldMark by Wyndham, Diamond Resorts International and others to offer a large selection of options for destination.

Points/sub-Tokens programs periodically and systematically give the owner a number of Tokens equal to the level of ownership. The owner in a Token program can then use these Tokens to make travel arrangements within the resort or hospitality group.

The platform shall provide flexibility from the traditional week stay and provide access to the entire available inventory of the affiliated members of the platform.

A Tokener may request fractional weeks as well as full or multiple week stays, or any other time slots, down to particular hours.

The number of Tokens required to stay at the resort in question will vary based on a Tokens price chart.

The points chart will allow for factors such as:

- Popularity of the resort;
- Size of the accommodations;
- Quality of the accommodations;
- Number of nights;
- Number of guests;
- Desirability of the season;
- Auxiliary services and amenities (transportation, tour guiding, child care, etc.);
- Additional accompanying services (e.g., through expansive vendor network to help save on repairs and maintenance)
- etc.

As the Token will be openly traded on specially created public platform, it will be easy to compare the price of the Token to staying at hotels and other accommodations.

Monthly vacation mortgage payments, upfront costs, fixed schedules, maintenance fees, preset vacation locations and other factors will be factored into and reflected by the market price of the Token and thus shall not be paid separately.

Etc. to be discussed.

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