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IEEE Clarifies Obligations when Licensing Standards-Essential Patents

In one of our previous advisories (see, **In Ericsson v. D-Link The Federal Circuit Provides Guidance on Damages for Standard Essential Patents**) we discussed the Federal Circuit's recent decision in *Ericsson, Inc. v. D-Link, Inc.* and its impact on reining in damages for infringement of standards-essential patents, when there is an obligation to license such patents under fair, reasonable and non-discriminatory ("FRAND") terms.

This past month, the Institute of Electrical and Electronics Engineers (IEEE) amended its patent policy to clarify the FRAND obligations of its members when licensing patents covering IEEE Standards. (The IEEE is one of the largest professional organizations and is involved in developing many standards for the electronics and computer industries.)

Among the significant changes are the following:

- The amended IEEE Patent Policy includes a new definition of what constitutes a reasonable royalty rate ("Reasonable Rate") for licensing a standards-essential patent ("Essential Patent Claim"). As defined, the Reasonable Rate explicitly excludes any value attributable to the inclusion of the patented technology in an IEEE Standard. The new Reasonable Rate definition also requires that its determination take into account (1) the value that the Essential Patent Claim

contributes to the value of the relevant functionality of smallest saleable implementation that practices the Claim, (2) the value of all other Essential Patent Claims for that IEEE Standard that may be practiced by that smallest saleable implementation, and (3) existing arm's-length licenses covering the Essential Patent Claim. Excluding any value attributable to being included in a standard, per se, and focusing on the smallest saleable implementation that practices an Essential Patent Claim is consistent with the approach taken by recent Federal Circuit case law.

- The amended IEEE Policy also now obligates standards-essential patent owners to not seek injunctive relief or an exclusion order against the practice of Essential Patent Claims by an unwilling licensee, until a Reasonable Rate and/or the issue of infringement/liability has been adjudicated through a first level appeal. The availability of injunctive relief for such patents has been a hot issue in courts throughout the world and with various antitrust authorities.
- The amended IEEE Policy has added provisions requiring a standards-essential patent owner to offer a license under FRAND terms to an unrestricted number of licensees, without conditioning such license on the taking of licenses to the owner's non-standards-essential patents or the grant back by the licensee of

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licenses to any of its non-standards-essential patents. However, the grant of a standards-essential patent license may be conditioned on the licensee providing a reciprocal license to its own standards-essential patents for the implicated IEEE Standard.

- Finally, the amended IEEE Policy states that a member who has agreed to abide by the Policy (by signing a Letter of Assurance indicating acceptance of its FRAND terms) must advise any subsequent owners of the involved standards-essential patents that these patents are so encumbered and must take steps to bind such subsequent owners to the same terms and to give notice therefore.

As evident, these amendments have been made in an effort to clarify the FRAND obligations of IEEE members involved in the promulgation of IEEE standards, with an eye to curtailing what some have viewed as abusive licensing practices.

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