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Analyzing SEPs: Strategies for Licensing Negotiations

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Standard essential patents (SEPs) play a crucial role in ensuring that technical standards are accessible and implementable across industries. These patents, which are deemed essential to implement particular technical standards, generally must be licensed by their owners on fair, reasonable, and non-discriminatory (FRAND) terms. But reasonable minds can differ on what constitutes FRAND terms in individual licensing negotiations, and those disagreements often find their way into courts around the world.

This article delves into the intricacies of SEP licensing, exploring the legal and commercial contexts, various licensing approaches, and strategies for effective negotiations.

Basics of standards and SEPs

Technical standards are developed by standards-setting organizations (SSOs) such as IEEE, 3GPP, and ETSI. While each SSO has its own intellectual property (IP) policy, SSOs generally require contributors to their standards to notify the SSO if the contributors hold patent claims that are potentially essential to that standard and to license those patents on FRAND terms. The obligation to license these patents on FRAND terms ensures that the standards the patents cover remain accessible and that no single entity can monopolize the technology.

SEP licensing is typically global in scope and often involves large, intricate portfolios containing numerous SEPs. Cross-licensing is a common practice, especially among co-members of SSOs. However, the legal frameworks governing SEPs differ significantly across regions. For instance, U.S. courts consider both monetary damages and injunctions in SEP disputes, whereas the International Trade Commission (ITC) only issues exclusion orders. In contrast, injunctions are more readily available in some international jurisdictions. In Germany, for example, obtaining an SEP injunction is often faster than going through an ITC case in the U.S. In Brazil,

injunctions are available through expedited preliminary injunction request proceedings. By contrast, the UK has taken a broad view of its jurisdiction to hear SEP cases and set global FRAND rates, including ordering interim licenses while suits are ongoing.

SEP licensing approaches

Broadly speaking, there are two traditional approaches to licensing SEPs: conventional bilateral licensing and patent pool licensing.

Conventional bilateral licensing involves direct negotiation between a patent owner and an implementer. For SEPs, these licenses must comply with FRAND terms as required by the relevant SSO. However, this approach can be challenging, as implementers often need to negotiate licenses with multiple SEP holders, which can lead to inefficiencies, increased transaction costs, and heightened litigation risk.

An alternative approach is licensing pools. With pools, an independent administrator aggregates patents from multiple owners into a pool and facilitates licenses to the entire pool for implementers. Examples of SEP pool administrators, each with a variety of separate technology pools, include MPEG LA, Avanci, and Sisvel. Pools offer a “one-stop shop” solution, allowing implementers to obtain a single license covering all included patents, thereby reducing fragmentation, simplifying compliance, and lowering negotiation overhead. However, not all pools contain all SEPs, so determining whether additional negotiations with non-pool members are necessary is a key issue in determining the value of joining a patent pool.

Risk assessment and due diligence

Early risk assessment and due diligence are critical in SEP licensing. For both SEP owners and implementers, best practice is to begin by asking the following questions:

- Is your company acquiring or implementing technology governed by technical standards?
- Is your company contributing to standards development and seeking to monetize SEPs?
- Is your company acquiring an entity that holds SEPs or sells products potentially subject to SEP claims?

Also determine whether your suppliers offer indemnity or litigation support for SEP-related claims, as well as whether your company, as an SEP owner, may owe indemnification or defense obligations to downstream customers or licensees.

Technical and legal analysis

Key factors influence a proper technical and legal analysis. First, you should analyze the SEP licensing landscape relevant to your technology or industry. Track licensing trends and notable disputes and benchmark royalty rates across the market and in your field. Next, identify relevant SEPs using publicly declared SEP databases (e.g., ETSI IPR database). Analyze participation in key SEP pools and determine which pools are active in your domain. Evaluate which SEPs are likely to be truly essential to your technology or products, if feasible. Then move on to evaluating SEP portfolios – i.e., collections of patents. When looking at the patents in the portfolio, check for:

- Ownership chain and assignment history
- Patent expiration dates
- Pending or past challenges (e.g., U.S. District Courts, the Patent Trial and Appeal Board, etc.)
- Assess the enforceability, scope, and validity of selected SEPs where possible

Beyond the patents, also analyze prior license agreements involving the SEPs (if accessible), including royalty terms and jurisdictions.

Risk profiling

Once you've conducted your technical and legal analysis, identify potential red flags. These could include:

- Uncertain ownership
- Inventorship, validity, and enforceability issues
- Questionable essentiality to the relevant standard
- Products or services potentially practicing the standard that could be exposed to SEP assertions

To gauge your litigation exposure, research litigation activity by SEP holders in your space and monitor patent enforcement campaigns to anticipate potential risks.

Target company analysis

Companies pursuing mergers or acquisitions, bilateral licensing, or joint ventures will also need to perform an analysis of the target company. To start, look into the company's licensing history and commitments. Do they have a history of SEP licensing or participation in patent pools? Have there been any disputes around licensing terms, especially allegations of FRAND violations? How does the company negotiate (e.g., aggressive, passive, or collaborative)? If the target company has been involved in litigation in the past, research past SEP disputes, settlements, and/or antitrust investigations. When evaluating the target company's patent portfolio, determine whether it has a generally offensive or defensive strategy, whether there is close alignment between R&D and SEPs, and whether the company is vulnerable to any SEP infringement risks.

Offensive and defensive SEP portfolio management

Effective portfolio management further involves both offensive and defensive tactics to ensure a strong and valuable SEP portfolio.

Offensive tactics: Building a strong SEP portfolio

Building a strong SEP portfolio requires aligning R&D with standards development. This involves integrating the intellectual property strategy with the company's participation in SSOs. Companies should devote resources (including employees) to participating in SSO committees, generating meaningful standards submissions, and defending the value of their contributions. R&D teams should track and influence the evolution of standards and attempt to record key innovations early. Collaboration between technical and legal teams is also important for identifying innovations that are aligned with standards applications.

Focusing on high-value contributions is another key aspect of building a strong SEP portfolio. Companies should consider prioritizing technical features that are likely to be adopted broadly in the final standard. Prioritize contributions that are mandatory to practice a relevant standard, as those are more likely to be considered "essential" and thus more valuable in licensing negotiations. Companies should consider both foundational patents (core technology) and implementation-level patents (product-specific features).

Given the global nature of SEPs and SEP disputes, be mindful that patent prosecution, patent litigation, SEP enforcement, and FRAND interpretation vary widely by jurisdiction, and make sure that your portfolio development strategy takes those distinctions into account.

Defensive tactics: Using patents as leverage

Companies can also develop SEP portfolios with defense in mind, particularly as a tool for leverage – companies without their own SEP portfolios are more vulnerable to inbound licensing demands or litigation. Joining or aligning with licensing pools can also be beneficial. Consider joining pools, particularly if your technology overlaps with high-license-density standards. Participating in a pool may improve revenue generation from SEPs and reduce the burden of bilateral negotiation.

While not all R&D is ideally suited for patent protection, companies still have tools at their disposal to prevent competitors from obtaining patents on the subject technology. Defensive publication – i.e., proactively publishing

non-patented innovations to prevent competitors from patenting trivial or incremental enhancements – is a key tool in the defensive arsenal. This strategy helps maintain a competitive edge and reduces the risk of facing SEP assertions from competitors.

Evaluating and optimizing a portfolio

Patent portfolio management is an ongoing obligation. Regular internal audits help verify ownership, fill gaps in coverage, flag outdated assets for pruning, and ensure that patent families remain aligned with current products and business priorities. When examining your patent monetization strategy, weigh patent maintenance and enforcement costs against licensing potential, as well as the patents' value as leverage during negotiations. Companies should also conduct essentiality assessments, especially for patents they intend to license as SEPs.

Strategies for offensive and defensive negotiations

Preparation and positioning

Whether asserting or defending SEP claims, it is important to develop a clear, flexible strategy (even if it is not perfect) tailored to your commercial goals and jurisdictional risks. Applying this strategy consistently helps ensure that your behavior is standard and non-discriminatory. Also make sure that you understand the global legal landscape, including jurisdiction-specific approaches to FRAND enforcement, injunctive relief, and damages.

SEP owners can prepare an offensive SEP licensing strategy by:

- Preparing high-quality claim charts and technical evidence to support essentiality and infringement claims. Also consider preparing charts or referencing related NEPs concerning the implementation of those SEPs.
- Bundling SEPs for broader licensing offers when appropriate (but ensure compliance with FRAND obligations and antitrust considerations)
- Determining whether to license directly or through a patent pool
- Deciding on which jurisdiction(s) to engage with, including the U.S., UK, Europe, and more

SEP implementers can prepare a defensive SEP strategy by:

- Challenging the essentiality, practice, validity, or enforceability of asserted SEPs
- Responding with timely and well-documented FRAND counteroffers, including proposed rates, rationales, and market comps
- Strategically structuring the negotiations to ensure key issues are discussed
- Ensuring you have enough information to pass to suppliers for indemnification
- Discussing technical information prior to financial terms to ensure that you have a solid basis to assess the financial claims

Considerations during negotiations

During negotiations, try to maintain detailed communication records. Document all offers, counteroffers, technical exchanges, and meetings, and retain internal memos and licensing analyses. This information can be important down the road in litigation to explain the history of the negotiations, as well as to demonstrate FRAND-compliant behavior. Depending on how detailed the information you provide during the negotiations is, consider whether to seek to negotiate under a non-disclosure agreement. While these agreements can protect sensitive technological and financial information, they can also slow the negotiation process and potentially exclude suppliers from accessing information.

Understanding the future impact of negotiated licenses

Negotiating licenses has long-term implications, both for your company and your broader industry. Recognize that negotiated license terms — including royalty rates, territorial scope, and field-of-use limitations — may be referenced in future negotiations, audits, or litigation. Licensing deals, especially with key players, can effectively set industry benchmarks that are difficult to walk back from. Terms agreed upon in one deal may be cited in litigation or rate-setting proceedings as evidence of your FRAND obligations or licensing practices, and some courts may use prior licenses to determine global FRAND rates in future disputes. Licenses will also need to be scaled over time. To plan accordingly, assess how the license structures (e.g., per-unit, revenue-based, or capped rates) will adapt as the licensee's market share, product offerings, or technology evolve. Consider built-in mechanisms for adjusting rates, such as tiered pricing, reopener clauses, or volume thresholds.

Royalty rates are sometimes determined based on factors including the below:

- **Historical rates:** Past licenses (especially with comparable licensees or under similar technology standards) can be used as reference points in determining FRAND rates. Consider whether rates you accept now could anchor future valuations of your entire SEP portfolio.
- **Global vs. regional licensing models:** Courts in some jurisdictions (e.g., the U.K.), have issued global FRAND rate determinations using existing licenses to extrapolate reasonable global terms. Be aware that a license negotiated in one jurisdiction could be used to justify or challenge royalty expectations elsewhere.
- **Internal rate setting:** Develop an internal model for consistent rate-setting based on the strength and essentiality of the SEPs, the value of the full portfolio, the technology's history, the licensing history, and the market comps.

Once you set a rate, your attention should turn to compliance and enforcement. To monitor your active licenses, establish internal processes to track licensee compliance, including reporting accuracy, payment schedules, and field-of-use restrictions. Plan for future disputes by including in your licenses clear dispute resolution mechanisms, such as mediation, arbitration, and escalation paths. Also address what will happen at the end of the license term (i.e., whether and how it will be renewed or terminated), as well as how termination will be handled if one party breaches.

Best practices for avoiding litigation

There are several common practices that are effective for demonstrating that negotiations are proceeding in a FRAND manner and thereby helping to avoid litigation. As a licensee, make sure you understand your licensed rights. As a licensor, make sure you understand exactly what you are giving the licensee access to; for example, if you are licensing 5G technology, does the license also include 4G technology? Both parties should not only engage in negotiations in good faith but also document the negotiations. Early and transparent engagement can demonstrate FRAND behavior, as well as avoid exposure to injunctions and/or anti-suit injunctions. Respond to requests promptly and keep detailed records of offers, counteroffers, and all other correspondence. If negotiations stall, consider using a neutral third party to get them back on track.

Preparing for SEP litigation

If negotiations fail, even after following best practices, the dispute may end up being litigated.

SEP litigation and litigation strategy vary widely based on jurisdiction. For example, in the U.S., monetary damages are common while injunctions are rare (other than exclusion orders at the ITC), although anti-suit injunctions are available. German courts grant injunctions more often than those in the U.S., so long as the party seeking an injunction can show that it met its FRAND obligations. Courts in both the U.K. and China may issue anti-suit injunctions and determine global FRAND rates, while U.K. courts may also order interim licenses.

SEP owners seeking to enforce their patents must thus choose their forum carefully. Generally, U.S. District Courts are well-suited for breach of contract claims and claims in which the remedy sought is damages, with the ITC being better suited for claims seeking injunctive relief (i.e., exclusion orders). SEP owners seeking

injunctions or global rate-setting should consider U.K. and Chinese courts. But while SEP owners generally may assert their rights on the same basis as other patent owners, SEP over-enforcement may raise antitrust concerns, and anti-suit injunctions and anti-anti-suit injunctions are on the rise in courts around the world. For SEP owners, balance your IP rights with your FRAND commitments. For SEP implementers, consider the risks of non-compliance, including potential injunctions.

A key consideration for both SEP owners and implementers is the coordination of litigation on a global scale. As we've noted, each jurisdiction has different laws, procedures, and remedies available for handling SEP and FRAND disputes. Coordinate timing, messaging, and legal theories across geographies to avoid conflicting outcomes. And because some jurisdictions set global FRAND rates, monitor procedural developments in related foreign actions that could affect your position.

Once limited to a handful of industries, SEPs and their attendant licensing issues are now pervading a wider range of sectors than ever before. Innovation-forward companies must update their patent strategies to account for the unique risks and rewards SEPs offer if they are to remain competitive. For SEP owners, good-faith negotiations that lead to executed licenses can create revenue streams, open access to wider markets, and attract investment. For implementers, SEP licenses grant access to standardized technologies and help maintain an edge against competitors. By implementing best practices for FRAND negotiations, both SEP owners and implementers can foster innovation, protect their interests, and contribute to the advancement of standardized technologies.