Analyzing SEPs: Strategies To Avoid Or Prepare For Litigation

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Standard essential patent (SEP) licensing and litigation continues to dominate major legal headlines. This is unsurprising: These disputes often implicate global patent portfolios—sometimes including thousands of patents—and encompass multiple parallel litigations around the world. Standardized technologies are incorporated into most modern products, and as such, a working knowledge of SEP issues is critical for most companies today.

This article provides a primer on SEP issues, including background on technical standards and SEPs, obligations imposed on SEP holders and best practices for participating in organizations that set standards. It also provides practice tips addressing transactional considerations related to SEPs, how to navigate global litigation forums, and key considerations in preparing for litigation.

I. Technical Standards and SEPS

SEPs are patents that are essential for practicing certain technical standards. These technical standards provide industry actors with guidelines for how to accomplish certain technical goals and do so in a manner upon which other industry participants can predictably rely. Take U.S. electrical outlets, for example. They are standardized to comprise two vertical parallel pins configured for electricity at 60 hertz frequency, 110 to 120 volts, and 15 amps. This commonality enables companies to make their products compatible with agreed-upon specifications and not waste resources creating converters. It also supports consumer optionality by giving them the ability to purchase multiple products knowing that they will all be compatible with their standardized outlets.

The benefits of interoperability, reduced cost, and consumer optionality have motivated the use of formalized standards across a variety of industries. These range from cellular and Wi-Fi standards to mechanical safety and quality standards. Most modern products incorporate technology that implements or complies with standardized technologies, particularly as products are increasingly "smart" or connected to the internet.

Standards are developed collectively and often internationally by standard-setting organizations (SSOs). SSOs develop and disseminate technical standards (*e.g.*, Wi-Fi) through contributions from their members. Members are often industry participants that have a stake in the technology. SSO members can submit proposals on technologies, processes, and protocols for standard operating procedures, all of which can influence standard-building processes.

SSO members, particularly those who continue to innovate in the field, also have obligations. One common obligation is SEP disclosure: If an SSO member's patents are essential for practicing technologies included in a standard, they must be disclosed in a timely manner. Another common obligation is the fair, reasonable, and nondiscriminatory (FRAND) licensing requirement. SSO members are often required to agree to license their SEPs on such terms.

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Importantly, not all technology relating to a standard is standard-essential. In some instances, standards are designed to achieve certain goals (*e.g.*, fidelity in wireless transmission) but leave the details of achieving those goals to industry participants. Industry participants often develop patented solutions for ***implementing*** these goals that, while not essential to practice the standard, may be used by standards implementers. These are referred to as non-standard essential patents (NEPs) and generally do not carry FRAND licensing obligations.

Developing standards through SSOs has benefits and drawbacks. SSOs value industry consensus-building, promote collaboration to identify technological solutions, facilitate compatibility, and encourage companies to adopt new technologies. SSOs also incentivize companies to implement interoperable technologies that would not have been adopted but for the standard. One concern with SSOs, however, is technology "lock-in"—*i.e.*, implementing new or alternative standards may become prohibitively expensive once a standard

is in place. That opens the door for higher royalty rates or restrictive license terms and may discourage companies from improving their products until the next iteration of the standard. SSOs have also been associated with patent ambush, patent "hold-up," and patent "hold-out." These problems occur when patent holders conceal essential patents or refuse to license SEPs on FRAND terms. SSOs address these issues by imposing intellectual property rights (IPR) policies.[1]

In light of this structure, a natural question arises: "What is the value of a SEP?" Some SEPs derive value mainly from their essentiality such that an individual SEP, while essential, only provides marginal value. For example, standards are usually iterative (*e.g.*, 4G to 5G) such that innovations build upon each other. For that reason, many SEPs are incremental, covering only small, updated aspects of a standard. This can mean that the technical value of the patent is limited and that the patent may be more susceptible to invalidity attacks. Moreover, once a patent becomes standard-essential, it joins hundreds, if not thousands, of other SEPs. For an implementer, designing around all of these patents is exceedingly difficult as a practical matter. And because SEP status is sometimes accompanied by the ability to seek injunctive relief, most SEPs are potentially blocking patents. These factors motivate SEP holders to err on the side of over-declaring patents as standard-essential, which poses a challenge for implementers.

II. Participation in SSOs

Given the importance of SSOs in crafting standards, SEPs, and SEP policy, SEP-interested actors often join SSOs. SSO participants can make the most of their membership by having clearly defined objectives. For one, SSO members take part in shaping policies. Indeed, disclosure policies and companies' positions on those policies change over time. One example is the scope of a SEP holder's FRAND obligations.[2] Foreign and U.S. courts provide guidance on what may or may not constitute FRAND compliance in their jurisdictions, and SSO IPR policies change accordingly. Companies can also join or leave SSOs as needed or even invite new entrants to formulate and promote certain SSO policies.

Members can measure their SSO contributions through various metrics. SSO leadership roles, meeting attendance, committee/subcommittee participation, patent counting, contribution counting, and forward reference citation counting are some options for measuring value provided to SSOs. Using proper expertise and tools to demonstrate SSO participation is key.

Members can also monitor SEP holders' disclosure obligations. Patents are transferable, and a SEP's FRAND encumbrance can follow its assignment. Monitoring a SEP's history, its prior owners' obligations, and its prior owners' compliance with disclosure requirements are thus important steps for acquiring and licensing SEPs. Consequences of insufficient disclosure can be substantial. Noncompliance with SSO disclosure requirements can be deemed a violation of a SEP holder's FRAND commitment. Intentional nondisclosure can give way to equitable defenses, including unenforceability. And a SEP's prior owner may have waived certain rights, which can bind subsequent owners in litigation through an implied waiver.

Details in implementation matter. Not all patents become FRAND-encumbered solely by virtue of participation in an SSO. Companies differentiate their products and services from other standard-compliant offerings through unique design implementations.[3] Adopting a global perspective on SSO participation also matters, as international SEP trends and enforcement mechanisms are constantly evolving.

III. Transactional Considerations

Given the importance of SEPs and their ubiquity in the marketplace, industry actors should be careful to consider SEP issues during business transactions. This applies both when the transaction relates to patents and when it relates to products. Three transactional circumstances are key for implementers: dealing with suppliers, SEP holders, and patent pools.

First, implementers should investigate their suppliers' SEP rights and obligations. An implementer (*e.g.*, a consumer electronics original equipment manufacturer) purchasing components that implement standardized technologies (*e.g.*, computer chip components) should identify the suppliers' rights and license terms *vis-à-vis* the associated SSO IPR policy. As an example, a computer chip supplier may be licensed to relevant SEPs. As another example, suppliers might provide indemnity or defense related to the components in certain uses. Implementers should pay careful attention to these provisions to ensure they are protected from potential future infringement allegations. The supplier's rights in indemnification circumstances are also impor-

1. For example, ETSI's IPR Policy Annex 6, Rule of Procedure Clause 4 requires members to "inform ETSI of ESSENTIAL IPRs in a timely fashion" and members submitting a proposal to "draw the attention of ETSI to any of that MEMBER's IPR which might be essential if that proposal is adopted." Clause 6 further imposes FRAND licensing requirements for SEPs. Similarly, IEEE Standard Association Bylaws Clause 6 requires SEP holders to commit to "mak[ing] available a license…under Reasonable Rates… free of any unfair discrimination."

2. Although SSOs impose FRAND obligations to SEP holders, there is no universally accepted definition for FRAND. Whether a party was FRAND-compliant is a heavily litigated issue in SEP disputes.

3. Companies can also obtain NEPs directed to specific implementations surrounding the standard.

tant. Determining whether the supplier has obligations to assist in analyzing potential infringement allegations (*e.g.*, where they depend on confidential information inside the supplied component that is not known to the implementer) or to develop a noninfringing redesign. Additionally, implementers should also be cognizant that a component may be certified as standard-compliant even if it does not support all of a standard's optional features. Supplier test data and documentation relating to standard compliance certifications may also be front and center in SEP litigation.

Second, implementers should understand how to properly engage SEP holders.[4] First, it is important to negotiate with the understanding that the negotiations will have an important effect on any future litigation. Implementers can use nondisclosure agreements (NDAs) to exclude negotiating period communications and documents from substantiating willful infringement or being used to satisfy notice for indirect infringement claims. Implementers can also execute non-use provisions to run with the patents. Given that standards progress through predictable iterations (*e.g.*, Wi-Fi 5 to Wi-Fi 6 transition by a set date), license agreements can be drafted to follow technological cycles. Licenses entered near the end of an iteration can cover the next iteration SEPs, while phasing out the outgoing iteration's SEPs to ensure implementer-licensees can enjoy the full benefits of their bargains.[5] Implementers may also incorporate their risk calculus into royalty structures. If a SEP portfolio is expected to increase in value or an implementer anticipates sales growth, a lump sum payment may be preferable. Otherwise, a running royalty arrangement provides flexibility (*e.g.*, when a product approaches the end of its life cycle). Per-year elections can also mitigate uncertainty. On this point, implementers may prepare a memorandum documenting the valuation process, which may come in handy during litigation. Other considerations include covenants not to sue and cross-licenses for NEPs, patent exhaustion, choice of law provisions, and arbitration clauses.

Third, implementers should understand strategies for dealing with patent pools.[6] While pools aggregate many patents, they may not include all SEPs; therefore, it is important to determine who is and is not in the patent pool, what rights are being offered, and whether the proposed pool royalty rate is reasonable. A patent pool may or may not hold extensive portfolios or high-value patents in a particular standard, which affects the overall value. Also, patent pool royalty rates are sometimes flexible. If a proposed pool royalty rate accounts for patents an implementer already has rights to, rates may be negotiated down to better align with the implementer's internal benchmark valuation.

Good faith negotiation is a core theme underlying SEP transactions. SEP FRAND obligations extend to negotiation conduct. Best practices for demonstrating good faith include communicating on a regular cadence, documenting all correspondence, addressing issues that arise to show diligence, proposing reasonable licensing structures that comport with industry standards or are comparable to past licenses, and maintaining a consistent approach in all matters concerning SEPs. Failure to demonstrate good faith can have serious ramifications in future litigation, sometimes including injunctions.

IV. Global SEP issues

SEP disputes often proceed through worldwide parallel litigation. SEP litigation can be complex—infringement, validity, FRAND compliance, and damages can be adjudicated simultaneously in domestic and foreign suits.[7] Developments in one venue may impact litigation strategy in another. Prospective litigants should be aware of key factors in important SEP jurisdictions, how those differences may influence licensing and litigation strategy, and specific ways venues differ (*e.g.*, Germany's requirements for FRAND-compliant licensing negotiations or China's definition of a "relevant market").

One unique aspect of global SEP litigation is the prospect of multiple injunctions from foreign tribunals regarding related issues. Jurisdictions use different standards for injunctive relief. For example, U.S. district courts issue SEP-based injunctions only upon satisfying all four eBay factors[8] while U.S. International Trade Commission Section 337 investigations permit injunctive relief when no public interest defense is established. Chinese and German courts have historically allowed injunctions upon a finding of infringement, while Brazilian and Colombian courts have shown tendencies to grant injunctions quickly and, in some instances, *ex parte*.

4. While correspondence between implementers and SEP holders is necessary to show good-faith compliance with SEP obligations, parties should be aware that those communications will almost certainly be analyzed during any future litigation.

5. But patent holders can redeclare their SEPs across successive iterations, given their incrementality.

6. A patent pool is an entity that holds licensing rights for patents directed to a common subject from multiple patent holders. Implementers can license entire patent portfolios as a package deal from a patent pool rather than dealing with individual patent holders. An example of a patent pool is the MPEG LA patent pool, which manages licensing for patents directed to video coding standards (*e.g.*, HEVC/H.265 video codec).

7. Courts in Brazil, China, Colombia, India, Germany, Netherlands, and the United Kingdom have recently issued decisions in key SEP cases.

8. *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006).

To prevent conflicting, overlapping judgments, litigants may request a foreign anti-suit injunction (ASI).[9] An ASI is an order by a court that has personal jurisdiction over a party to not initiate, proceed with, or enforce an injunction obtained in a foreign proceeding.[10] The U.S. Court of Appeals for the Federal Circuit recently determined that an implementer in a domestic suit is not barred from seeking a foreign ASI precluding a SEP holder from enforcing injunctions issued in Brazil and Colombia even when the foreign ASI resolves only the foreign injunction (and not all issues litigated in the foreign courts).[11] Since then, U.S. district court litigants have requested foreign ASIs, citing recent Federal Circuit jurisprudence. ASIs can be brought as freestanding actions or as part of a pending action, and can affect the course of global SEP disputes.

Internationally, Europe's Unified Patent Court (UPC) recently resolved its first SEP dispute, where it endorsed a flexible approach for evaluating FRAND compliance in SEP negotiations.[12] One takeaway from the recent UPC ruling is that implementers may be required to demonstrate good faith through certain concrete steps. Another potential consequence is that implementers may be obligated to enter an interim license at the SEP holder's proposed royalty rate until the end of litigation. China[13] and India[14] have also issued landmark decisions on SEPs, FRAND compliance, and damages, which have been closely watched.

9. U.S. courts have adopted a three-prong test for ASIs. First, whether the parties and issues are the same and the first action is dispositive of the one to be enjoined. Second, whether at least one of the four Unterweser factors applies (*i.e.*, whether foreign litigation would (i) frustrate a policy in the issuing forum, (ii) be vexatious or oppressive, (iii) threaten the issuing court's in rem or quasi in rem jurisdiction, and (iv) cause prejudice or offend equitable principles). Third, whether the impact on comity is tolerable. See *Microsoft Corp. v. Motorola, Inc.*, 696 F.3d 872 (9th Cir. 2012).

10. The first known successful ASI in SEP litigation was in *Microsoft Corp. v. Motorola, Inc.*, 696 F.3d 872 (9th Cir. 2012); U.S. courts have subsequently issued a number of ASIs. See, *e.g.*, Jorge L. Contreras, "Anti-Suit Injunctions and Jurisdictional Competition in Global FRAND Litigation: The Case for Judicial Restraint," 11(2) *N.Y.U. J. Intell. Prop. & Ent. L.* 171, 180 (2021).

11. *Telefonaktiebolaget LM Ericsson v. Lenovo (United States), Inc.*, 120 F.4th 864 (Fed. Cir. 2024).

12. *Panasonic Holds. Corp. v. Guangdong OPPO Mobile Telecommc'ns Corp. Ltd.*, UPC LD Mannheim, CFI 210/2023, Nov. 22, 2024.

13. *Advanced Codec Techs. v. OPPO*, 2022 Zui Gao Fa Zhi Min Zhong Nos. 907, 910, 911, 916, 917, 918 (Supreme People's Court, Jan. 15, 2024).

14. *Lava Int'l v. Telefonaktiebolaget LM Ericsson*, CS(COMM) 1148/2016 (Delhi High Court, Mar. 28, 2024).

V. Preparing for SEP Litigation

In litigation, particularly SEP litigation where the stakes are high and procedures are complex and overlapping, pre-suit preparation can make the difference between a successful and unsuccessful campaign. The first step, as always, is diligence. Litigants must review the relevant standard, technologies encompassed by the standard, and obligations created by the standard. Likewise, litigants must keep their patent information organized (*e.g.*, organizing relevant patents, analysis of their essentiality to relevant standards, record declarations of essentiality) and ensure patent maintenance is current.

The next step is analysis of past correspondence with the prospective litigants, which generally should be organized chronologically. Litigants should identify key correspondence and note instances where any of the following were discussed: (i) appropriate rates, financial calculations, license structuring, or discussions of comparable scenarios; (ii) analysis of relevant technology and how it relates to the accused products; (iii) efforts to resolve disputes; and (iv) any conduct that appears not to be a good-faith effort to reach a license. Litigants should be aware that the individuals who author the correspondence are likely to be witnesses, so ensure that they are available for testimony.

Importantly, correspondence should not end with the litigation. Litigants should continue to engage in good-faith negotiations even after litigation is underway. Communications exchanged at the onset or in the course of litigation should clearly indicate a willingness to take or offer a FRAND license. These communications should continue to propose or adhere to reasonable, accepted negotiation formats (*e.g.*, deadlines, topics, structures, and NDAs). Often, parties will debate whether to address the technology or royalties first or exchange claim charts. Having well documented discussions geared towards resolution, even where some impasses remain, ensures that a later adjudicator can recognize efforts to comply with any FRAND or good-faith obligations.

While SEP litigation can be complex and daunting, companies are well served to be prepared. Products implementing standardized technologies are ubiquitous in the marketplace, and that omnipresence exposes most product producers to potential SEP litigation or licensing disputes. Taking steps now to become aware of SEP risks and obligations, to organize relevant pre-suit information, and refresh supplier relationships, can substantially improve your circumstances should a SEP dispute arise. ■