

## ITC Issues First Exclusion Order on SEPs and Upcoming Opinion Expected To Provide Important Guidance on FRAND and SEPs

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The decision in U.S. International Trade Commission (ITC) investigation *Certain Magnetic Data Storage Tapes and Cartridges Containing the Same*, Inv. No. 337-TA-1012 (“1012 Investigation”), is still confidential, but the ITC has issued a notice stating that ALJ Shaw has ruled in favor of patentee Fujifilm against Sony and recommended that an exclusion order be issued. This is important because it is the first time the ITC has issued an exclusion order on standard-essential patents (SEPs), and may be the first time any U.S. tribunal has issued exclusionary or injunctive relief on patents which were declared standard essential. In the opinion, which should become public in a few weeks, ALJ Shaw, who presided over the case, is expected to address a number of key issues relating to the assertion of SEPs in general, and at the ITC specifically. In this case many of Sony’s affirmative defenses relate to the alleged essentiality of the asserted patents and the Administrative Law Judge was asked to answer a number of questions relating to SEPs generally and the ability to enforce them at the ITC.

### 1. Background

The dispute between Fujifilm and Sony is worldwide and encompasses two pending ITC investigations, 3 IPRs, and infringement actions in the Southern District of New York and Japan. Fujifilm brought an ITC complaint on May 27, 2016, alleging that Sony magnetic tape media (specifically, Sony’s linear tape-open, or “LTO,” products) infringed six Fujifilm patents and seeking a limited exclusion order precluding the importation of those Sony products. LTO, according to the complaint, “is a magnetic tape storage technology developed ... as an open format by a private consortium comprised of Hewlett-Packard, IBM, and Quantum.” Sony responded with a public interest statement saying that the asserted patents had been declared essential to the LTO standard LTO-7 and were therefore subject to fair, reasonable, and non-discriminatory (“FRAND”) licensing requirements. Sony’s response to the complaint also raised a number of FRAND-related defenses. Sony claimed that an exclusion order was contrary to the public interest because Fujifilm had not met its FRAND obligations, that Fujifilm’s assertion was patent misuse, that Fujifilm, by participation in the standards process, had implicitly waived exclusionary relief as a remedy against infringement of LTO SEPs by willing licensees like Sony, and that Fujifilm had committed breach of contract because the AP-75 license obligated Fujifilm to offer FRAND terms to Sony and not to seek to enjoin the importation of Sony’s LTO products. Fujifilm disputed that the patents were FRAND-encumbered.

The parties were asked to list the issues to be decided by the judge in his opinion, and identified a number of issues related to Sony’s FRAND defenses in their Joint Outline of Issues to Be Decided in the Final Initial Determination (Feb. 28, 2017). The parties asked the ALJ to decide:

- Whether the asserted patents were standard-essential;



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- Whether an affirmative defense of breach of contract is an appropriate defense to patent infringement or an appropriate defense that may be brought at the ITC;
- Whether Fujifilm breached the AP-75 license;
- Whether Fujifilm engaged in patent misuse by asserting the purportedly essential patents;
- Whether Fujifilm had waived its right to injunctive or exclusionary relief by its participation in the LTO consortium; and
- Whether Fujifilm had implicitly licensed or exhausted its rights in the asserted patents.

## 2. Possible Implications

The ALJ's Initial Determination issued last Friday, September 1, but is currently confidential so all that is currently known is that the judge ultimately found a violation and recommended that the ITC issue an order excluding the accused Sony products and other order barring Sony from selling or marketing the products within the United States. As mentioned previously, this decision is significant as it marks the first time the ITC has issued an injunction on a standard essential patent. However, the Administrative Law Judge's public opinion, which should issue within the next two weeks, is likely to be interesting for several reasons.

First, whether and under what circumstances the ITC can order the exclusion of articles that infringe SEPs is a question that has been heavily litigated in recent years and any judicial statements on the point will be helpful to understanding what restrictions on remedy, if any, the ITC recognizes as flowing from a F/RAND commitment.

Second, how a F/RAND obligation may arise is another contested area of law. The asserted patents in the 1012 Investigation may not have been expressly declared essential to a standard, and Fujifilm denies that they are F/RAND-encumbered. Courts, notably, the Federal Circuit in *CSIRO v. Cisco Systems, Inc.*, 805 F.3d 1295 (Fed. Cir. 2015), have under some circumstances determined that the balance of equities favored encumbering SEPs not declared essential in respects akin to F/RAND, and it will be interesting to see how the ITC addresses this issue.

Third, the 1012 Investigation may present an opportunity for the Commission to discuss the burden of proof a respondent raising an affirmative F/RAND defense bears and what evidence can meet that burden.

Finally, as the parties in the 1012 Investigation noted, the availability in the ITC of breach of contract as an affirmative defense to a patent infringement count is an open question.

For all of these reasons, parties interested in SEPs, standard setting organizations, or the scope of injunctive relief available to patentees should follow this case.

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