



Essential Patent Blog

The Source for Standard-Essential & Other Patent Litigation Issues

ITC to consider ALJ's decision and recommended exclusion order on alleged SEPs that ALJ found were not essential to the LTO-7 standard (337-TA-1012 Fujifilm v. Sony)

By David Long on December 19, 2017

The U.S. International Trade Commission (“ITC”) recently gave **Notice** that it will review some parts of the September 2017 **Initial Determination** and **Recommended Determination** on remedy by administrative law judge (“ALJ”) Shaw concerning patents alleged to be essential to the **LTO Consortium’s Linear Tape Open (“LTO”)** standard for high-capacity, single-reel magnetic tape storage.

In September, ALJ Shaw found that the claims of one patent alleged to be essential to the LTO-7 Standard were valid and infringed, but that claims of two other alleged essential patents were not infringed. He found that none of the asserted patent claims were essential to the LTO-7 Standard. He also rejected Sony’s defenses that Fujifilm had breached an agreement with the LTO Consortium to license its essential patents to third-parties like Sony. Based on those rulings, ALJ Shaw further recommended that a limited exclusion order should be entered and that Sony’s public interest arguments about the claims being essential to the LTO-7 standard did not require tailoring or curbing such an exclusion order.

The ITC full Commission has now decided to review part of ALJ Shaw’s liability determination, including issues about whether the alleged essential patents are infringed, valid or essential to the LTO-7 Standard. Further, the Commission will consider the form of any exclusionary relief, including whether and to what extent public interests — such as Sony’s essentiality claim — counsel against or limit an

exclusion order. The parties and public may file initial written submissions on exclusionary relief and the public interest by December 27, 2017; reply written submissions must be filed by January 5, 2018.

We summarize the decision below on the standard essential patent (“SEP”) issues. We also discuss an **Order Denying Preliminary Injunction** entered a few weeks after ALJ Shaw’s decision here where Judge Gardephe in the Southern District of New York denied Sony’s motion to enjoin Fujifilm from continuing this ITC litigation. Judge Gardephe’s decision provides more unredacted insight into the alleged LTO-7 licensing commitment at issue. For example, Judge Gardephe’s decision indicates that the licensing commitment at issue was not a FRAND commitment, but apparently a commitment to enter nondiscriminatory licenses under Fujifilm’s standard licensing terms. Further, the licensing commitment concerned essential patent claims, defined as claims “which must of necessity be practiced for compliance with the LTO7 Format.”

Initial Clarifications

We have seen some misunderstandings already about this particular case. For example, some have indicated that the decision concerns FRAND committed patents on which the ITC has issued its first exclusion order on SEPs. There may be a few problems with such assertions.

First, the publicly available information indicates this case does not involve a FRAND commitment—i.e., a commitment to license essential patent claims on fair, reasonable and non-discriminatory terms (“FRAND”). Rather, the accused infringer, Sony, argues that Fujifilm entered a licensing agreement with the LTO Consortium to license third-parties on some form of non-discriminatory terms. We do not know from the ITC decision what are the actual alleged terms (the full agreement is not publicly available) and ALJ Shaw’s decision nowhere refers to the alleged terms as being “FRAND”. But Judge Gardephe’s district court decision (discussed at the end of this blog post) indicates that a FRAND requirement was proposed and rejected for the LTO Agreement. Rather, the LTO7 Agreement adopted a standard of nondiscriminatory licenses under the patent owner’s “standard terms.”

Second, ALJ Shaw did not actually enter an exclusion order. He did recommend that the full Commission enter an exclusion order, finding that Sony’s “essentiality” argument did not provide a public interest that would require tailoring or curbing an

exclusion order. The ITC full Commission will consider ALJ Shaw's recommendation, but they are not bound by it.

Third, ALJ Shaw found that the patent claims were not essential to the LTO-7 standard. Therefore, if the ITC Commission agrees with ALJ Shaw, then any exclusion order entered would not be based on an SEP (because the patent is not essential to the standard).

Fourth, there have been other investigations where the ALJ recommended exclusionary relief on an alleged SEP. And the full Commission itself has decided to enter exclusionary relief a few years ago on alleged FRAND committed SEPs: The 794 Investigation between Samsung and Apple; but the U.S. International Trade Representative ("USTR") Froman disapproved that exclusionary order. (See our **Aug. 3, 2013 post**). The ITC Commission has artfully dodged addressing SEP issues since then, finding one reason or another to resolve the investigation without addressing SEP issues considered by the ALJ. So this case does provide another opportunity for the full Commission to address some SEP issues.

ALJ Shaw's Initial Determination and Recommended Remedy

In May 2016, Fujifilm filed a complaint in the ITC alleging that magnetic tape products made by Sony infringed six patents. The Sony products are compliant with the LTO-6 Standard (6th generation of the LTO standard) as well as the LTO-7 Standard, which is backward compatible with the LTO-6 Standard. Sony alleged that three of the patents were essential to the LTO standard:

- **U.S. Patent No. 6,767,612** entitled "Magnetic recording medium" ("the '612 Patent")
- **U.S. Patent No. 6,703,106** entitled "Magnetic recording and reproducing method and magnetic recording medium for use in the method" ("the '106 Patent")
- **U.S. Patent No. 7,355,805** entitled "Magnetic tape and method of manufacturing magnetic tape, servo writer, and method of an apparatus for specifying servo band" ("the '805 Patent")

The LTO-7 Standard is provided by the LTO Consortium, which is controlled by Hewlett Packard, IBM and Quantum. The LTO Consortium was formed in the late

1990s to provide a more open format for high-capacity magnetic storage than the existing proprietary formats that were prevalent at the time.

The LTO-7 Standard specification itself is not publicly available (it was submitted by the parties and cited by the ALJ Shaw as confidential exhibit JX-0052C). Further, the LTO Consortium maintains its licensing agreements as confidential. Thus the “Fujifilm AP-75 Agreement” at issue was submitted by the parties and cited by ALJ Shaw as confidential exhibit JX-0033C that is not publicly available. Accordingly, ALJ Shaw’s initial determination and recommendation on remedy are highly redacted when it comes to the SEP issues of whether the patent claims read onto the standard and whether Fujifilm made a commitment to license third-parties under LTO-7 essential patent claims.

ALJ Shaw’s Initial Determination

Among other things, ALJ Shaw considered whether asserted claims of three patents were infringed and essential to the LTO-7 Standard. He ultimately found that only one patent was infringed, and no claims were essential to the LTO-7 Standard:

- ‘612 Patent Claims 1, 2, 4, 5, 7 and 9-11 (all claims infringed except Claims 9-11)
- ‘106 Patent Claims 1, 2, 5 and 6 (no claims infringed)
- ‘805 Patent Claims 3 and 10 (no claims infringed)

He also rejected Sony’s defenses that were premised on Fujifilm’s AP-75 Agreement somehow obligating Fujifilm to license to Sony patents that are essential to the LTO-7 Standard, which defenses were:

- Breach of Contract
- Patent Misuse
- Implied License and Patent Exhaustion
- Waiver

Following is a more detailed discussion of ALJ Shaw’s Initial Determination as it relates to the alleged essential patent claims and defenses.

‘612 Patent Claims 1, 2, 4, 5, 7 and 9-11

ALJ Shaw determined that Sony's LTO-7 products directly infringe Independent Claim 1 and its dependent Claims 2, 4, 5, 7 and 8 of the '612 Patent. He also found that Sony's customers would infringe Claim 9 (that depends from Claim 1) and Independent Claim 10, but that Sony had not induced infringement of those claims or Claim 11 (that depends from Claim 10).

Sony argued that all of the asserted claims were essential to the LTO-7 standard. The essentiality dispute was focused on a few limitations of Claim 1 that were not expressly stated in the LTO-7 standard. Sony argues that those limitations were effectively required to implement the standard. We present below the relevant claim language, party arguments and ALJ Shaw's decision as best we can tell from the highly redacted decision.

'612 Patent Independent Claim 1 (limitation enumeration [a]-[e] added)

1. **[a]** A magnetic recording medium comprising a nonmagnetic layer comprising **[b]** a nonmagnetic layer comprising a nonmagnetic powder and a binder and a magnetic layer comprising a hexagonal ferrite powder and a binder in this order on a nonmagnetic support, wherein

[c] the number of pits having a depth of 1/3 or more of the minimum recording bit length present on a surface of said magnetic layer is equal to or less than 100/10,0000 μm^2 , **[d]** the minimum recording bit length is about 50 to 500 nm, and **[e]** the center surface average roughness of said magnetic layer surface SRa is equal to or less than 6.0 nm.

Sony's Essentiality Argument. Sony argues that the "nonmagnetic support" and "nonmagnetic" under layer in limitation **[b]** are "necessarily" required by the standard even though not expressly found in the standard:

- "[A]lthough the LTO-7 standard does not explicitly state the support and under layer must be nonmagnetic, Mr. Jennings experience in testing slightly magnetic layers demonstrates that LTO-7 tape in practice must have a nonmagnetic support and under layer."
- "LTO-7 tape must have a "nonmagnetic powder" within the under layer. Although the LTO-7 standard does not expressly require such a powder, a tape that did not have such a powder in the under layer would not be able to meet

three different sections of the LTO-7 standard, including sections 9.10.1.2, 9.11.1.1, and 9.18.1.”

Sony also argues that the pit density limitation **[c]** is effectively required to comply with the LTO-7 standards 2.5 db signal-to-noise ratio requirement:

- “LTO-7 tape must have less than 100 ‘pits’ per 10,000 um².” “Mr Jennings uses the very data provided by the ‘612 Patent to calculate the number of pits that would result in a drop in signal-to-noise ration (SNR) by 2.5 dB—the LTO-7 requirements—and found that if the tape had more than 31-32 pits, it would not meet the LTO-7 standard.”

Fujifilm’s Rebuttal. Fujifilm apparently argued that the three limitations Sony raises above are not required by the LTO-7 standard.

ITC Staff. The ITC Staff agreed with Fujifilm.

ALJ Shaw’s Decision. ALJ Shaw put the burden on Sony to show by a preponderance of the evidence that the claims are essential to the LTO-7 Standard. He ruled that Sony had not shown that the LTO-7 Standard requires a tape having the pit density limitation **[c]** of Claim 1. He also states in a footnote that Sony had not shown that the “nonmagnetic layer” and “nonmagnetic powder” of limitation **[b]** in Claim would be required to practice the LTO-7 standard.

‘106 Patent Claims 1, 2, 5 and 6

Fujifilm asserted infringement of the Recording Medium Claims 2, 5 and 6, all of which may depend from Independent Method Claim 1 (we say “may depend” because the parties disputed whether they depend from Claim 1 or merely reference Claim 1). ALJ Shaw found that none of the claims were infringed. Specifically, ALJ Shaw found that Fujifilm had not shown that limitations **[b]** and **[d]** of Claim 1 were met or that limitations in Claim 2 were met. ALJ Shaw found that Claim 5 and Claim 6 were not infringed because they depended from Claims 2 and 1 whose limitations were not met.

‘106 Patent Independent Claim 1 (limitation enumeration [a]-[d] added)

1. **[a]** A magnetic recording and reproducing method comprising **[b]** recording and reproducing a signal with a magnetic head in a track width (A) of less than 5 μm on a magnetic recording medium comprising **[c]** a support having provided

thereon a magnetic layer containing at least a ferromagnetic powder, an abrasive and a binder, **[d]** wherein the average longer size (B) of the abrasive particle(s) which are present on the magnetic layer surface is 1/3 or less of the track width (A).

Sony's Essentiality Argument. Sony argued that aspects of limitations **[c]** and **[d]** not expressed in the LTO-7 standard were still necessarily required by it:

- “the LTO-7 standard necessarily requires that the magnetic layer of LTO-7 tape contain abrasive particles” of limitation **[c]** because abrasive particles are required to achieve the minimum average wear index specific in section 9.12 of the standard.
- The abrasive particles must satisfy the “1/3 or less of the track width” requirement in limitation **[d]** in order to avoid being “too abrasive for § 9.12 of the LTO-7 standard.”

Fujifilm Reply. Fujifilm raised three arguments to rebut Sony's argument:

- Sony had acknowledged that only non-essential patent claims were being asserted.
- Fujifilm's expert explained those requirements above were not found in the standard and were not needed to practice the LTO-7 standard.
- Fujifilm's expert provided several alternatives to the limitations in the patent claims that may be used and still comply with the LTO-7 standard.

ITC Staff. The ITC Staff asserted that the claims were not essential, but the ALJ decision does not present what those arguments were.

ALJ Shaw's Decision. ALJ Shaw found that Sony had not shown by a preponderance of the evidence that the claims were essential to the LTO-7 standard. He found that Sony had not shown that the LTO-7 standard requires tape having the limitations **[c]** and **[d]**.

'805 Patent Claims 3 and 10

Fujifilm asserted that Sony's products infringed Claims 3 and 10, both of which depend from Independent Claim 1. Fujifilm's infringement argument was based in part on its assertion that Sony's LTO-7 products comply with the LTO-7 standard. Fujifilm argued that such compliance required Sony's LTO-7 products to meet all limitations of Claims

3 and 10 (including the limitations of Claims 1 and 2 from which they depend) except for a “third step” found within limitation **[c]**. The only claim limitations that Sony disputed as being met were the “first step” and “second step” in limitations **[a]** and **[b]**. ALJ Shaw ultimately ruled that all claim limitations were met except for the “second step” in limitation **[b]**.

Claim 3 and Claim 10 are identical, except that they depend from Claims 2 and 1, respectively. So we present Claim 3 below.

‘805 Patent Claim 3 (limitation enumeration **[a]** – **[c]** added)

3. A method of manufacturing a magnetic tape of claim 2 comprising:

[a] a first step of encoding data for specifying a servo band where the servo signal positions;

[b] a second step of converting the data that is encoded in the first step into a recording pulse current; and

[c] a third step of supplying the recording pulse current to the servo write head and writing on the servo band of the magnetic tape a servo signal in which is embedded the encoded data.

Sony’s Essentiality Argument. Sony argued that Claims 3 and 10 are essential to the LTO-7 standard, because they “cover the only known method to write LTO-7 compliant bands and that [an expert’s] proposed alternatives are ‘academic musings’ and not commercially feasible.”

Fujifilm Reply. Fujifilm argued that the claims were not essential, because the LTO-7 Standard “does not require a particular servo writing technique” as required in the third step of limitation **[c]** and “there are alternatives to the claimed methods.”

ITC Staff. The ITC Staff agreed with Fujifilm.

ALJ Shaw. ALJ Shaw ruled that Sony had not shown by a preponderance of the evidence that Claims 3 and 10 are essential to the LTO-7 standard. Sony had not shown that the standard requires a tape that meets the second step of limitation **[b]** of Claim 3; recall from above that this also is the only claim limitation that ALJ Shaw found was not met by Sony’s LTO-7 products when he ruled the ‘805 Patent was not infringed. He also credited the expert’s testimony that there were alternative techniques.

Sony's Breach of Contract Defense — The AP-75 Agreement

Sony raised a breach of contract defense based on the Fujifilm AP-75 Agreement that Fujifilm entered with the LTO Consortium. Sony also entered its own AP-75 Agreement with the LTO Consortium.

Sony argued that the Fujifilm AP-75 Agreement required Fujifilm to grant Sony certain rights. Sony argues that (a) Fujifilm breached a nondiscriminatory licensing requirement in § 8.2 of the AP-75 Agreement by refusing to license Sony and (b) Fujifilm breached a forum selection clause in § 11.11 of the Agreement by suing Sony in the ITC, rather than in a New York court.

ALJ Shaw found that Sony's breach of contract arguments do not apply because the asserted claims were not essential to the LTO-7 Standard. (ID at 364). The decisions summary of Sony, Fujifilm and ITC Staff arguments on this point are heavily redacted and their post-trial briefs currently are not publicly available, so its near impossible to tell what the arguments were. The ITC Staff argued that "Sony has not shown that a breach of contract is a defense to patent infringement" and ALJ Shaw states in footnote 109 that he "agrees with the Staff's analysis of Sony's arguments." But we don't know what those arguments or analysis were.

With respect to the forum selection clause, ALJ Shaw found there was no breach because "Sony is not a party to Fujifilm's AP-75 agreement." He also found that "Sony is not a third-party beneficiary for purposes of § 11.11 [of the AP-75 Agreement], because § 8.2 limits the rights of third-party beneficiaries to obtain a license." (ID at 368-69).

Sony's Patent Misuse Defense

Sony argued that Fujifilm was misusing its alleged essential patents "by failing to offer Sony a license" to them. ALJ Shaw quoted Sony's entire argument on the issue to be as follows:

For the same reasons, Sony has the irrevocable right under AP-75 to license Fujifilm's essential patent rights on standard and non-discriminatory terms. Yet Fujifilm has denied that right, despite Sony's willingness to license, and instead pursued this ITC action and other court actions. Fujifilm thereby "impermissibly

broadened the physical or temporal scope of the patent grant with anticompetitive effect.”

For patent misuse, all Sony need show is “that the patent in suit must itself significantly contribute to the practice under attack.” Such is the case here: Fujifilm leveraged the license of its essential patent rights to have Sony join the AP-75 Agreement, but then used the very essentiality of those rights to try to force Sony’s LTO-7 tapes form the market. [ID at 370 (internal citations omitted)]

ALJ Shaw found that Sony had not shown by a preponderance of the evidence that “Fujifilm impermissibly broadened the physical or temporal scope of its patents, in a manner that has anticompetitive effect,” stating:

Sony does not cite any evidence specific to its patent misuse defense, and [ALJ Shaw] previously determined that Fujifilm had not breached § 8.2 of AP-75 (when Sony argued that it had an irrevocable right to license Fujifilm’s patents). Accordingly, [ALJ Shaw] has determined that Sony has not shown Fujifilm misused its patents. [ID at 372].

Sony’s Waiver Defense

Sony argued that “Fujifilm knowingly waived its right to injunctive or other exclusionary relief against willing licensees, by failing to offer its standard-essential patent claims under standard and non-discriminatory terms, and to conclude a license on such terms.” (ID at 372). The ITC Staff argued that exhibits relied on by Sony “do not show that FUJIFILM intentionally relinquished or abandoned any known right.” The heavy redaction in the decision makes it unclear what exhibits those were (presumably one is the Fujifilm AP-75 Agreement). ALJ Shaw concluded that “Sony has not shown that these two exhibits are clear and convincing evidence that Fujifilm relinquished its rights.” (ID at 373).

Sony’s Implied License and Exhaustion Defense

Sony argued that the same behavior underlying its other defenses gives rise to the doctrines of implied license and patent exhaustion, stating:

By this same behavior, Fujifilm’s claims are barred by the doctrines of implied license and patent exhaustion. To the extent that Sony infringes any Fujifilm patent claim that is essential under AP-75, Sony has the irrevocable right to license

the claims on standard and non-discriminatory terms. Such licenses include express or implied licenses arising from Sony's status as an FSP and express third-party beneficiary to Fujifilm's signed version of AP-75, as well as from Fujifilm's participation as an LTO-7 FSP and its commitments to license other FSPs. Sony's products incorporating standard-essential technology are expressly or impliedly licensed under the AP-75 Agreement. In addition, Fujifilm exhausted its rights in all of the remaining claims. [ID at 374]

In response, Fujifilm argues that LTO-7 "offers only an option to license patents and that there is no express or implied license to consider." Fujifilm also argued that "Sony has not identified a license or an authorized sale of a patented article."

ALJ Shaw ruled that Sony had not proved its defense under either a preponderance or clear and convincing evidence standard. He found that Section 8.2 of the AP-75 Agreement "provides third parties (such as Sony) only an option to license essential patents, not an implied license to them." Further, "Sony has not identified an authorized sale of a product that would give rise to exhaustion."

ALJ Shaw's Recommended Determination on Remedy

ALJ Shaw recommended a limited exclusion order after considering, among other things, Sony's essentiality arguments made in the context of whether an exclusion order would be against the public interest. (RD at 11-12). Sony argued that its essentiality positions "are part and parcel of the public interest considerations." Fujifilm responded that it had not asserted any essential patent claims.

ALJ Shaw ruled that Sony's essentiality arguments would not preclude an exclusion order, because (1) he found that none of the claims were essential and (2) even if the claims were essential, Fujifilm had not breached its AP-75 Agreement obligations, stating:

[ALJ Shaw] determined that the asserted claims were not essential. Thus, Sony's essentiality arguments are not relevant to the public interest considerations. However, if the asserted claims are found to be essential, then the public interest still does not favor tailoring or curbing an exclusion order because Fujifilm did not breach its AP-75 obligations. Accordingly, [ALJ Shaw] has determined that this

factor does not support recommending a tailored limited exclusion order. [RD at 12].

ITC Notice of Partial Review

The full Commission of the ITC gave notice that it will review at least part of ALJ Shaw's initial determination. Among other things, the Commission will review whether some of the alleged essential patent claims are infringed, invalid or essential to the LTO-7 Standard:

- The Commission will review whether the '612 Patent claims that ALJ Shaw found infringed are invalid.
- The Commission will review whether the '106 Patent claims are valid and infringed.
- The Commission will review whether the '805 Patent claims are valid and infringed.
- The Commission will review ALJ Shaw's "findings that the asserted claims of the '612, '106, and '805 Patents are not essential to the LTO-7 Standard." (Notice at 4-5).

The Commission further asked that the parties provide further briefing to address seven specific questions. Most of those questions, Questions 1-5, concern another patent in the investigation that was not alleged to be standard essential. The two remaining questions might impact the alleged essential patent claims, though its not apparent from the questions that they would be relevant to the essentiality issue:

6. Please address how the asserted domestic industry products practice the limitation "a first step of encoding data for specifying a servo band where the servo signal positions" recited in Claims 3 and 10 of the '805 patent and how, or if, that informs whether the accused products infringe the claim limitation.

7. Please provide a comparison of Fujifilm's domestic revenues to its global revenues for the LTO-6 DI Products for fiscal year 2013-2015, and address whether Fujifilm's domestic investments in the LTO-6 are significant in this context. [Notice at 6]

In addition to the liability issues identified above, the Commission will consider whether and to what extent it would issue an exclusion order including whether an exclusion order would be against the public interest. The Commission will accept written submissions from the parties, government agencies and the public about entering an exclusion order and the public interest. Initial written submissions of up to 50 pages are due December 27, 2017; reply submissions of up to 25 pages are due January 5, 2018. (Notice at 7). The Commission set a target date to complete the investigation of February 20, 2018.

Judge Gardephe Denies Anti-Suit Preliminary Injunction Against the ITC Action

In July 2016, Sony brought an action against Fujifilm in the Southern District of New York bringing claims that include breach of contract, anti-competitive conduct and patent infringement. Sony also moved the court to enter a preliminary injunction that would enjoin Fujifilm from continuing its litigation of the instant ITC investigation based on the same or similar licensing and forum selection provisions of the AP-75 Agreement considered by Judge Shaw. Judge Gardephe denied Sony's motion, ruling that Sony had not shown that it was likely to succeed in establishing that it was a third-party beneficiary entitled to enforce the forum selection clause that would require litigating in New York court, rather than in the ITC.

Judge Gardephe provides more background about the LTO-7 Agreement and parties negotiations surrounding it, which background was not apparent from the highly redacted public version of ALJ Shaw's decision.

LTO-7 Standard Background

Judge Gardephe reviewed the creation of the LTO Consortium to create an "open" standard that would permit different manufacturers of magnetic tape to make compatible products. The companies that formed the consortium—IBM, HP and Seagate (now Quantum)—are commonly referred to as the Technology Provider Companies ("TPCs"). Both Sony and Fujifilm were not TPCs, but were early manufacturers of LTO products that had agreed to cross-license their patents.

In December 2013, the TPC's started discussing LTO-7 licensing terms with Sony and Fujifilm. Fujifilm stated it would negotiate directly with other LTO-7 manufacturers about licensing Fujifilm's patents. The TPC's were fine with that, and suggested they may require licensing be "reasonable and non-discriminatory." Fujifilm, however, wanted licenses to be under Fujifilm's "standard terms and conditions." Sony, on the other hand, suggested licensing be on "reasonable and nondiscriminatory conditions."

In June 2015, the TPCs sent letters to Fujifilm and Sony suggesting that the LTO-7 licensing terms may require agreement to license "commercially essential patents" on "reasonable and nondiscriminatory [RAND] terms and conditions." In response, Fujifilm told the TPCs that it would not agree to license "commercial essential patents", but it would agree to license "technically essential patents" on Fujifilm's "standard" terms (not on RAND terms). In July 2015, the TPCs released a first version of the LTO-7 licensing agreement, but withdrew it after Fujifilm said it would withdraw from the LTO7 market if Fujifilm's June 2015 licensing provisions were not adopted.

In September 2015, the TPCs released a revised LTO-7 Agreement, which apparently is the operable agreement at issue here. A separate LTO-7 Agreement apparently is entered between the TPCs and each specific licensee, who is referred to as a "Format Specification Participant" or "FSP". Among other things, the LTO-7 Agreement concerns licensing essential patents on "standard and nondiscriminatory terms." Footnote 2 of Judge Gardephe's decision provides the terms of Section 8.2 (that were redacted from ALJ Shaw's decision) as follows:

Section 8.2 of LTO-7 Agreement

FSP [i.e., licensee, which is a Format Specification Participant] **agrees to grant to other parties**, who have entered into an LTO7 Tape Media License Agreement (Agreement Package AP-75) ... (such other parties hereinafter "**Other FSPs**", such agreements hereinafter "Other FSP Agreements") with the [TPCs] to use the LTO7 Format, **the right to obtain**, at any time, and from time to time, during the term of this Agreement, a license of the broadest scope which FSP has the right to grant at any time during such term, but of no greater scope than to make, have made, use, import, have imported and sell LTO7 tape product and LTO7 tape product components that are the subject of, and as defined in, the applicable Other FSP Agreement with the [TPCs]), under **nondiscriminatory FSP standard terms and conditions**. Said right shall be with respect to **Essential Patent Claims** (including corresponding patents of other countries) with a priority date prior to

the termination of this Agreement, under which patents, or the applications thereof, FSP or any of its Affiliates has the right, at any time during the term of this Agreement, to grant licenses to third parties (other than Affiliates). Said right of Other FSPs shall be exercisable with respect to any such **Essential Patent Claims** whether or not issued and whether or not the applications therefor exist at the time such right is exercised. The effective date of said license agreement shall be a date determined by the requesting Other FSP, as early as the date on which the Other FSP first used the subject matter of the patent or patent application. **Other FSPs are intended third party beneficiaries of this Section 8.2, with the power to enforce it directly.** [Order at 4-5 n.2 (emphasis added)]

Footnote 3 of Judge Gardephe's decision further provides the LTO-7 Agreement's definition of "Essential Patent Claims" as follows:

Section 1.6

"Essential Patent Claims" shall mean those patent claims, regardless of when or where the patents are filed for or issued, which related directly to the LTO7 Format, as set forth in the LTO7 Format Document, and **which must of necessity be practiced for compliance with the LTO7 Format** in the making, using, or selling of an LTO7 Tape Product or an LTO7 Tape Product Component. [Order at 5 n.3 (emphasis added)]

Judge Gardephe's decision also provides the text for the Section 11.11 forum selection provision of the LTO-7 Agreement as follows:

Section 11.11

This Agreement shall be construed and the legal relations between the parties hereto shall be determined in accordance with the laws of State of New York, United States of America as such law applies to contracts signed and fully performed in New York. The parties consent to the exclusive jurisdiction of courts located in New York, New York for all claims arising under or in connection with this Agreement. **THE PARTIES AGREE TO WAIVE THEIR RIGHT TO A TRIAL BY JURY IN ANY DISPUTE ARISING OUT OF OR RELATING TO THIS AGREEMENT.** [Order at 5-6]

In September 2015, both Sony and Fujifilm signed the LTO-7 Agreement. They also entered licensing negotiations, but could not reach an agreement. In May 2016,

Fujifilm filed the ITC investigation that is the subject of this instant blog post. Fujifilm also sued Sony in Tokyo.

Preliminary Anti-Suit Injunction Decision

Sony filed an anti-suit injunction in this New York case that sought to enjoin Fujifilm from continuing its ITC and Tokyo actions, arguing that Fujifilm's infringement claims in those cases are based on Sony's use of patents that Fujifilm is required to license to Sony under the LTO-7 Agreement. Sony apparently focused its argument on the forum selection clause requiring Fujifilm's infringement claim to be litigated in a New York court.

Fujifilm replied that Sony was a third-party beneficiary of only one provision in the LTO-7 Agreement (the Section 8.2 License provision above) and not the Section 11.11 forum selection provision. Further, the forum selection clause only applies to disputes under the LTO7 Agreement and not the ITC or Tokyo infringement actions, which are not "in connection with" the LTO7 Agreement. Further, the injunction would lead to an "absurd result" that this New York court would determine infringement of a foreign patent.

Judge Gardephe decided to apply Federal Circuit law regarding anti-suit against the ITC litigation (noting that Federal Circuit law might not apply, but the parties agreed it does) and to apply Second Circuit law regarding anti-suit against the Tokyo action. The preliminary injunction standard under both Federal Circuit and Second Circuit law includes considering the likelihood of success on the merits—i.e., the likelihood that Sony will prevail on its claim that the forum selection clause requires litigating in New York court. (Order at 9)

Judge Gardephe then considered Sony's arguments that it was entitled to enforce the Section 11.11 forum selection clause because (1) it was a third-party beneficiary of that clause and (2) the LTO7 Agreement is part of a "global transaction". In response, Fujifilm essentially argued that Sony was not a third-party beneficiary, because some sections of the LTO7 Agreement specifically granted third-party beneficiary rights, which implies that such rights are not granted for other provisions that do not mention third-party beneficiary rights. Judge Gardephe noted arguments on either side of the issue and ultimately ruled that "The Court cannot find — at this stage of the litigation — that Sony has shown a likelihood of success on the merits of its claim that third-party

beneficiaries of the licensing section are also implied third-party beneficiaries of the forum selection clause.” (Order at 15).

Judge Gardephe also rejected Sony’s “global transaction” argument, which generally argues that several documents that are part of the same transaction should be read and interpreted together as though there were a single legal instrument. In this case, Sony would apply the global transaction argument to (1) Sony’s LTO7 Agreement with the TPCs and (2) Fujifilm’s LTO7 Agreement with the TPCs. Judge Gardephe found this argument did not apply, because the parties to the two contracts are not the same and there would have been no need for the Agreements to identify other LTO-7 Agreement licensees as third-party beneficiaries if those Agreements were part of the same “global transaction.”

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