

No. 00-____

IN THE
Supreme Court of the United States

CSU, L.L.C.,

Petitioner,

v.

XEROX CORPORATION,

Respondent.

**Petition for a Writ of Certiorari to the
United States Court of Appeals
for the Federal Circuit**

PETITION FOR A WRIT OF CERTIORARI

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QUESTION PRESENTED

Whether this Court should resolve the circuit conflict—expressly acknowledged by the Federal Circuit below—on whether a company with a monopoly in a market for products containing patented or copyrighted material is immune from antitrust liability and from a finding of patent or copyright misuse when that company selectively refuses to license or sell those products in order to monopolize a separate market.

**PARTIES TO THE PROCEEDINGS
AND RULE 29.6 STATEMENT**

CSU, L.L.C. was the appellant below and is the petitioner in this Court. CSU, L.L.C. has no parent corporation, and no publicly held company owns 10% or more of its stock.

Xerox Corporation, a publicly held company, was the appellee below and is the respondent in this Court.

TABLE OF CONTENTS

	Page
QUESTION PRESENTED.....	i
PARTIES TO THE PROCEEDINGS AND RULE 29.6 STATEMENT	ii
TABLE OF AUTHORITIES	vi
OPINIONS BELOW	1
JURISDICTION.....	2
STATUTORY PROVISIONS INVOLVED	2
INTRODUCTION.....	3
STATEMENT OF THE CASE.....	5
REASONS FOR GRANTING THE WRIT.....	12
I. THE DECISION BELOW CONFLICTS WITH THE DECISIONS OF OTHER CIRCUIT COURTS.....	12
II. THE DECISION BELOW CONFLICTS WITH THIS COURT’S DECISIONS	19
III. THIS CASE INVOLVES A RECURRING QUESTION OF NATIONAL IMPORTANCE	26
CONCLUSION	30

TABLE OF CONTENTS—Continued

	Page
APPENDICES	
Appendix A: Opinion of the Court of Appeals for the Federal Circuit, dated February 17, 2000	1a
Appendix B: Order of the District Court for the District of Kansas Directing Entry of Final Judgment, dated January 8, 1999	15a
Appendix C: Memorandum and Order of the District Court for the District of Kansas Denying CSU’s Motion for Reconsideration and Granting Xerox’s Motion for Reconsideration, dated December 22, 1997	21a
Appendix D: Memorandum and Order of the District Court for the District of Kansas Denying CSU’s Motion for Reconsideration and Granting Certification for Appeal, dated July 17, 1997	46a
Appendix E: Memorandum and Order of the District Court for the District of Kansas Granting Xerox’s Motions for Reconsideration and Summary Judgment, dated April 8, 1997	56a

TABLE OF CONTENTS—Continued

	Page
Appendix F: Memorandum and Order of the District Court for the District of Kansas Denying Xerox's and CSU's Motions for Summary Judgment, dated March 21, 1997....	78a
Appendix G: Memorandum and Order of the District Court for the District of Kansas Denying Xerox's Motion for Summary Judgment, dated March 19, 1997	97a
Appendix H: Order of the Court of Appeals for the Federal Circuit Denying Petition for Rehearing or Rehearing En Banc, dated April 13, 2000	125a

TABLE OF AUTHORITIES

	Page
CASES:	
<i>Aspen Skiing Co. v. Aspen Highlands Skiing Corp.</i> , 472 U.S. 585 (1985)	24
<i>Braxton v. United States</i> , 500 U.S. 344 (1991).....	15
<i>Carbice Corp. v. American Patents Development Corp.</i> , 283 U.S. 27 (1931).....	22
<i>Data General Corp. v. Grumman Systems Support Corp.</i> , 36 F.3d 1147 (1st Cir. 1994)	13, 14
<i>DSC Communications Corp. v. Pulse Communica- tions, Inc.</i> , 170 F.3d 1354 (Fed. Cir.), <i>cert. de- nied</i> , 120 S. Ct. 286 (1999)	15
<i>Eastman Kodak Co. v. Image Technical Services, Inc.</i> , 504 U.S. 451 (1992).....	<i>passim</i>
<i>Image Technical Services, Inc. v. Eastman Kodak Co.</i> , 125 F.3d 1195 (9th Cir. 1997), <i>cert. denied</i> , 523 U.S. 1094 (1998).....	<i>passim</i>
<i>In re Independent Service Organizations Antitrust Litigation</i> , 23 F. Supp. 2d 1242 (D. Kan. 1998).....	10
<i>Intergraph Corp. v. Intel Corp.</i> , 195 F.3d 1346 (Fed. Cir. 1999)	26
<i>Leitch Manufacturing Co. v. Barber Co.</i> , 302 U.S. 458 (1938).....	20, 22, 30
<i>Lorain Journal Co. v. United States</i> , 342 U.S. 143 (1951).....	24, 25
<i>MCI Communications Corp. v. American Tele- phone & Telegraph Co.</i> , 708 F.2d 1081 (7th Cir. 1982), <i>cert. denied</i> , 464 U.S. 891 (1983).....	24, 28
<i>Miller Insituform, Inc. v. Insituform of North America</i> , 830 F.2d 606 (6th Cir. 1987), <i>cert. de- nied</i> , 484 U.S. 1064 (1988)	27

TABLE OF AUTHORITIES—Continued

	Page
<i>Missouri ex rel. Baltimore & O. Telegraph Co. v. Bell Telephone Co.</i> , 23 F. 539 (C.C.E.D. Mo. 1885), <i>error dismissed</i> , 127 U.S. 780 (1888).....	25
<i>Northern Pacific Railway Co. v. United States</i> , 356 U.S. 1 (1958).....	20, 22
<i>Otter Tail Power Co. v. United States</i> , 410 U.S. 366 (1973).....	24
<i>Professional Real Estate Investors, Inc. v. Columbia Pictures Industries, Inc.</i> , 508 U.S. 49 (1993).....	23
<i>Quality King Distributors, Inc. v. L'anza Research International Inc.</i> , 523 U.S. 135 (1998).....	28
<i>SCM Corp. v. Xerox Corp.</i> , 645 F.2d 1195 (2d Cir. 1981), <i>cert. denied</i> , 455 U.S. 1016 (1982).....	27
<i>State ex rel. Postal Tel. Cable Co. v. Delaware & A. Tel. & Tel. Co.</i> , 47 F. 633 (C.C.D. Del. 1891), <i>aff'd</i> , 50 F. 677 (3d Cir. 1892)	25
<i>Times Picayune Publishing Co. v. United States</i> , 345 U.S. 594 (1953)	20
<i>Townshend v. Rockwell Int'l Corp.</i> , 2000 U.S. Dist. LEXIS 5070, 2000-1 Trade Cas. (CCH) ¶ 72,890 (N.D. Cal. Mar. 28, 2000).....	29
<i>United States v. Microsoft Corp.</i> , 87 F. Supp. 2d 30 (D.D.C. 2000).....	18, 25, 28
<i>United States v. Microsoft Corp.</i> , 1998 WL 614485, 1998-2 Trade Cas. (CCH) ¶ 72,261 (D.D.C. 1998).....	18
<i>United States v. Paramount Pictures, Inc.</i> , 334 U.S. 131 (1948).....	20
<i>W.L. Gore & Assocs., Inc. v. Carlisle Corp.</i> , 529 F.2d 614 (3d Cir. 1976)	8
<i>Zenith Radio Corp. v. Hazeltine Research, Inc.</i> , 395 U.S. 100 (1969)	23, 29

TABLE OF AUTHORITIES—Continued

	Page
<i>CONSTITUTIONAL AND STATUTORY PROVISIONS:</i>	
U.S. Const. amend I.....	23
15 U.S.C. § 2.....	<i>passim</i>
15 U.S.C. § 15(a).....	2
28 U.S.C. § 1254(1).....	2
28 U.S.C. § 1292(c)(2).....	10
28 U.S.C. § 1295	15
35 U.S.C. § 271(d)(4).....	14
<i>RULES:</i>	
Fed. R. Civ. P. 54(b).....	11
S. Ct. Rule 10(a).....	12
S. Ct. Rule 10(c).....	19
S. Ct. Rule 29.6	ii
<i>OTHER AUTHORITIES:</i>	
Agreement Containing Consent Order, <i>In re: Intel Corporation</i> , Docket No. 9288 (FTC March 17, 1999).....	17
<i>Antitrust Guidelines for the Licensing of Intellectual Property</i> , 4 Trade Reg. Rep. (CCH) ¶ 13,132 (1995).....	17, 18
James C. Burling, William F. Lee & Anita K. Krug, <i>The Antitrust Duty to Deal and Intellectual Property Rights</i> , 24 J. Corp. L. 527 (Spring 1999)	27
Ronald W. Davis, <i>The FTC's Intel Decision: What are the Limitations on "Throwing Your Weight Around" Using Intellectual Property Rights?</i> , 13 Antitrust 47 (Summer 1999)	27

TABLE OF AUTHORITIES—Continued

	Page
Charles L. Freed, <i>Antitrust and the Duty to License Intellectual Property—Can Manufacturers be Compelled to Deal With ISOs?</i> , 14 <i>Antitrust</i> 33 (Fall 1999).....	14
Ronald S. Katz, <i>Intellectual Property v. Antitrust: A False Dilemma</i> (American Law Institute 1999)....	
Jeff Loew, <i>In re Intel Corp.</i> , 15 <i>Berkeley Tech. L.J.</i> 333 (2000).....	14, 27
David McGowan, <i>Networks and Intention in Antitrust and Intellectual Property</i> , 24 <i>J. Corp. L.</i> 485 (Spring 1999).....	27, 28
Robert Pitofsky, <i>Challenges of the New Economy: Issues at the Intersection of Antitrust and Intellectual Property</i> (June 15, 2000), < http://www.ftc.gov/speeches/pitofsky/000615speech.htm >	18, 28, 29
Mark G. Schildkraut, <i>Using IP as a Basis for a Refusal to Deal: The Federal Circuit Decisions in Intel and Xerox</i> , in American Bar Ass’n, <i>Sections of Antitrust and Intellectual Property Law, Antitrust and Intellectual Property: The Crossroads</i> 304 (June 2000)	16
Plaintiffs’ Joint Reply to Microsoft’s Proposed Conclusions of Law, <i>United States v. Microsoft</i> , No. 98-1232 (D.D.C. filed Jan. 25, 2000).....	18

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PETITION FOR A WRIT OF CERTIORARI

CSU, L.L.C. (“CSU”) respectfully petitions for a writ of certiorari to review the judgment of the United States Court of Appeals for the Federal Circuit in this case.

OPINIONS BELOW

The opinion of the Court of Appeals for the Federal Circuit is reported at 203 F.3d 1322 and reproduced in the appendix hereto (“App.”) at 1a.

The December 22, 1997 Memorandum and Order of the District Court denying CSU’s motion for reconsideration and granting Xerox’s motion for reconsideration is reported at 989 F. Supp. 1131 and reproduced at App. 21a. The July 17, 1997 Memorandum and Order of the District Court denying

CSU's motion for reconsideration and granting certification for appeal is unreported and reproduced at App. 46a. The April 8, 1997 Memorandum and Order of the District Court granting Xerox's motions for reconsideration and summary judgment is reported at 964 F. Supp. 1479 and reproduced at App. 56a. The March 21, 1997 Memorandum and Order of the District Court denying Xerox's and CSU's motions for summary judgment is reported at 964 F. Supp. 1469 and reproduced at App. 78a. The March 19, 1997 Memorandum and Order of the District Court denying Xerox's motion for summary judgment is reported at 964 F. Supp. 1454 and reproduced at App. 97a.

JURISDICTION

The judgment of the Court of Appeals was entered on February 17, 2000. App. 1a. On April 13, 2000, that court denied a timely filed petition for rehearing or rehearing en banc. App. 125a. The jurisdiction of this Court is invoked pursuant to 28 U.S.C. § 1254(1).

STATUTORY PROVISIONS INVOLVED

Section 2 of the Sherman Antitrust Act, 15 U.S.C. § 2, provides:

Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a felony, and, on conviction thereof, shall be punished by fine not exceeding \$10,000,000 if a corporation, or, if any other person, \$350,000, or by imprisonment not exceeding three years, or by both said punishments, in the discretion of the court.

Section 15(a) of the Sherman Antitrust Act, 15 U.S.C. § 15(a), provides in pertinent part:

[A]ny person who shall be injured in his business or property by reason of anything forbidden in the antitrust

laws may sue therefor in any district court of the United States in the district in which the defendant resides or is found or has an agent, without respect to the amount in controversy, and shall recover threefold the damages by him sustained, and the cost of suit, including a reasonable attorney's fee.

INTRODUCTION

This petition calls upon the Court to resolve a direct conflict among the courts of appeals over a recurring question of national importance involving the intersection between antitrust and intellectual property law. In *Eastman Kodak Co. v. Image Technical Services, Inc.*, 504 U.S. 451 (1992) (“*Kodak*”), this Court held that a photocopier manufacturer with a monopoly over the replacement parts and diagnostic software for its machines violates Section 2 of the Sherman Act, 15 U.S.C. § 2, if it unilaterally refuses, without a valid business justification, to sell or license those items to independent service organizations (“ISOs”), thereby preventing them from competing in the separate market to service those machines. This case involves the same conduct, in the same industry. Like Kodak, respondent Xerox is a photocopier manufacturer with a monopoly over its replacement parts and diagnostic software. Like Kodak, Xerox attempted to eliminate competition in the separate service market by denying those items to ISOs, including petitioner CSU. Yet the Federal Circuit held that Xerox is immune from the antitrust laws as construed in *Kodak*, simply because it holds patents and copyrights over some of the items it has denied to CSU.

As the Federal Circuit itself expressly recognized, its decision directly conflicts with the decision of the Ninth Circuit in *Image Technical Services, Inc. v. Eastman Kodak Co.*, 125 F.3d 1195 (9th Cir. 1997) (“*Image Technical Services*”), *cert. denied*, 523 U.S. 1094 (1998). That decision arose after this Court's decision in *Kodak*, when the case was remanded for

trial on the plaintiff ISO's antitrust claims. A jury found Kodak liable under Section 2 based on the same conduct at issue here and Kodak appealed, arguing that patents and copyrights covering its replacement parts and software gave it absolute immunity from any antitrust liability based on a refusal to sell or license those items. The Ninth Circuit in *Image Technical Services* rejected that argument and upheld the jury's verdict. The Federal Circuit in this case, however, "decline[d] to follow *Image Technical Services*." App. 10a. Instead, the Federal Circuit held that ownership of patents or copyrights immunized conduct that would otherwise constitute an antitrust violation under this Court's decision in *Kodak*. This ruling not only conflicts with the Ninth Circuit's decision in *Image Technical Services*, but also with this Court's pronouncement in *Kodak* that "power gained through some natural and legal advantage *such as a patent [or] copyright* * * * *can give rise to [antitrust] liability if 'a seller exploits his dominant position in one market to expand his empire into the next.'*" *Kodak*, 504 U.S. at 479-480 n.29 (citation omitted; emphasis added).

This conflict—if allowed to stand—would foster chaos in the law, as sharply different interpretations of the Sherman Act would apply to the same conduct depending on whether an appeal would lie to the Ninth or Federal Circuit—a distinction turning on what ancillary claims or counterclaims might be raised, which cannot be determined in advance. This chaotic situation can even occur within a single action if infringement claims or counterclaims are asserted involving both copyrighted and patented property.

Moreover, the issue is recurring, and of national importance. Many of the Nation's critical economic resources involve patented or copyrighted items. The Federal Circuit has held that a patent or copyright owner, unlike any other property owner, has absolute immunity from antitrust liability based on a refusal to sell or license its intellectual property, regardless of whether that conduct is undertaken to

monopolize a separate market. That blanket immunity is contrary to decades of precedent from this Court—culminating in *Kodak*—holding that owners of intellectual property are not entitled to use that property in a manner that violates the antitrust laws. The Court should grant certiorari to resolve the conflict in the lower courts over the proper resolution of this important issue.

STATEMENT OF THE CASE

1. Xerox’s Use of Monopoly Power to “Stamp Out” CSU. Xerox manufactures, sells, and services photocopiers and printers. CSU is an ISO that specializes in servicing and refurbishing photocopiers and printers manufactured by Xerox. In 1984, CSU began competing with Xerox to service Xerox copiers and printers in metropolitan Kansas City, Missouri. By the end of 1988, CSU had plans to expand to four more cities by 1990, and to three or more additional cities in each of the next four years. In January 1989, CSU expanded to St. Louis. *See* App. 113a.

CSU’s success as a competitor did not go unnoticed at Xerox. An internal Xerox memorandum discussing CSU urged Xerox “to stamp out the ISOs once and for all.” Ct. App. J.A. 486. Other Xerox internal documents referred to a “war” with ISOs, used the acronym “PTFOOB”—for “Put Those ‘Fellas’ Out of Business”—and stated that Xerox’s goals were “to capture 100% of the Service Market on Xerox Equipment” and to “deliver a knock out punch” to ISO competition. *Id.* 562, 490, 487, 556.

To accomplish this objective, Xerox did not rely on any superior business expertise or ability to service its machines, but rather used its monopoly power over the replacement parts and diagnostic software needed for ISOs to compete in the Xerox service market. In 1984, Xerox introduced its “Parts Policy,” which declared that Xerox would refuse to sell certain replacement parts—both patented and unpatented—to an ISO unless the ISO was an end-user of the

product. *See id.* 476-478. In other words, Xerox would sell parts only if the buyer would not use those parts to compete with Xerox in the service market. In 1987, Xerox expanded the Parts Policy to apply to additional copiers and to all new Xerox products. *See App. 3a; Ct. App. J.A. 479-481; see also id.* 406-408 (1989 restatement).

Xerox did not enforce its Parts Policy in earnest until 1989, when CSU expanded to St. Louis. At that time, “Xerox representatives decided that the only way to stop the competitive threat posed by ISOs, such as CSU, was to cut off the parts availability to these parties.” *App. 100a.* In early 1989, Xerox cut off CSU’s direct purchase of covered parts and canceled CSU’s subscriptions to service manuals. *App. 3a, 114a.* In June 1989, Xerox stepped up enforcement of its Parts Policy by imposing an “on-site end-user verification” procedure on CSU and other ISOs, to assure itself that these entities were not purchasing parts to be used in providing service in competition with Xerox. *App. 3a, 100a.* Xerox also “unbundled” diagnostic and operating software, thereby preventing CSU from accessing critical diagnostic software previously embedded in the operating software sold with the machines. *App. 92a.*

Xerox *admitted* below that protection of its intellectual property rights was “not one of the reasons why [Xerox] adopted the parts policy.” *Ct. App. J.A. 588-589.* Rather, as the Court of Appeals noted, Xerox’s goal was to “eliminate ISOs in general and CSU in particular as competitors in the relevant service markets for high speed copiers and printers.” *App. 4a.*¹ In fact, the *only* relationship between the Parts

¹ *See, e.g., Ct. App. J.A. 505-507* (cover memorandum to 1987 Parts Policy stating that sale of parts and other materials to ISOs was contrary to Xerox’s objective of increasing service revenues); *id.* 503 (conclusion by Xerox representatives that “the only way really to stop the [ISO] problem is to simply cut off the parts availability to this third-party”); *id.* 547 (memorandum from Xerox executive relaying view that “identifying sources of unauthorized parts sales and eliminating them is the single most important step

Policy and Xerox's intellectual property was their use in tandem to defeat ISO competition. Xerox's decision to use patents and copyrights as a weapon to defeat ISO competition in the service market included use of copyrighted software to "lock customers to Xerox." Ct. App. J.A. 562; *see also id.* 520 (noting Xerox's intent to "[p]osition" diagnostic software as intellectual property to defeat ISO competition).

As a result of Xerox's actions, CSU lacked an assured source of supply of the parts necessary to engage in its business of servicing Xerox machines. App. 100a. Shortly after Xerox began enforcing its Parts Policy, CSU put its expansion plans on hold until 1994. App. 114a.

In 1994, Xerox settled a class action brought by ISOs alleging that the Parts Policy violated the antitrust laws. Xerox agreed to suspend its Parts Policy until the end of 2000, to license diagnostic software until the end of 1998, to distribute \$223 million in coupons to customers and \$2 million in coupons to ISOs, and to pay \$35 million in attorneys' fees and expenses. *See* App. 4a; Ct. App. J.A. 409-445. CSU opted out of that settlement.

Following the settlement, Xerox resumed selling parts to ISOs. But although it was required by the settlement agreement to sell parts to ISOs, Xerox knew that "it could achieve the same effect as not selling the product[s] by charging exorbitant prices for those products." App. 101a. It therefore "intensified its efforts to use price as a weapon to defeat ISO competition in the service market," and "intentionally

toward successfully competing with ISO's"); *id.* 553 (statement of Xerox manager that, because Xerox was the only manufacturer for a critical replacement part, the company should "focus on controlling this one critical part and virtually cripple the ISOs"); *id.* 591 at 216-217 (testimony of Xerox manager that a high ranking executive insisted on denying parts to ISOs because he wanted to "shut the bastards down"); *id.* 594-595 at 139-140 (testimony of Xerox Executive Vice President that objective of Parts Policy is for Xerox to provide all service for Xerox equipment).

set the prices of its patented parts at high levels to act as a weapon against ISOs and to maintain Xerox's monopoly of the service market." *Id.* There is evidence that since 1994 Xerox has charged ISOs about *four times* as much as it charges self-servicers for parts, and has imposed markups of *2000% or more* on parts its sells to ISOs. *Id.*

2. District Court Proceedings. In 1994, CSU filed a complaint against Xerox, alleging that Xerox violated Section 2 of the Sherman Act by monopolizing and attempting to monopolize markets for service of Xerox high-volume copiers and printers. Xerox filed counterclaims alleging, among other things, that CSU infringed various Xerox patents after the class action settlement and infringed Xerox's copyrights on diagnostic software. Following discovery, Xerox moved for summary judgment on both CSU's antitrust claims and its own counterclaims.

In March 1997, the District Court denied Xerox's motions for summary judgment. As to Xerox's patent infringement counterclaims, the court held that CSU may have a valid defense of patent misuse. App. 102a-109a.² Rejecting the argument "that patent and copyright holders can never be guilty of misuse based on their unilateral refusal to sell or license a product," App. 107a, the court observed that a monopolist's right to refuse to deal " 'is not absolute,' " but exists only " 'if there are legitimate competitive reasons for the refusal.' " App. 103a (citation omitted). The court reasoned:

² The misuse doctrine prevents a finding of patent or copyright infringement where (among other reasons) the patent or copyright has been used in violation of the antitrust laws. *See, e.g., W.L. Gore & Assocs., Inc. v. Carlisle Corp.*, 529 F.2d 614, 622 (3d Cir. 1976) ("Where a patent has been used in violation of the antitrust laws, the holder cannot then restrain infringement of the patent by others."). CSU's misuse defenses to Xerox's infringement claims are based on the same conduct underlying CSU's antitrust claims, and the Federal Circuit rejected both arguments for the same reasons. App. 10a n.2. This petition seeks review of both holdings.

In essence, Xerox suggests that an unlawful end (monopolization of the service market) cannot be accomplished by lawful means (refusal to sell or license its patented and copyrighted products). This proposition has been rejected in almost every area of the law, including antitrust law. [App. 109a (citation omitted).]

Likewise, the District Court found sufficient factual support for CSU's defense of copyright misuse. As the Court held, "CSU has presented evidence that Xerox unbundled its diagnostic software from its operating system software and refused to license diagnostic software to ISOs specifically as a tool to defeat ISO competition in the copier and printer service market." App. 92a-93a. Thus, the court found "sufficient evidence for a jury to find that Xerox misused its copyrights by expanding the scope of its copyrights beyond the parts market into the service market." App. 93a.

The court then denied Xerox's motion for summary judgment on CSU's antitrust claims for the same reasons, App. 115a, holding in addition that CSU's claim of exclusionary pricing stated a valid claim. The court rejected Xerox's argument that it had an absolute "right to charge as high a price as it sees fit" for patented parts, noting that pricing "can be subject to antitrust scrutiny in certain circumstances." App. 115a, 116a (citation omitted). It held that "Xerox's pricing scheme must be viewed in light of all of CSU's allegations of Xerox's anticompetitive conduct and attempt to monopolize the copier and printer service markets." App. 117a.

Xerox moved for reconsideration, and on April 8, 1997—less than three weeks after denying Xerox's motions for summary judgment—the District Court reversed itself. It granted the motion for reconsideration, rejecting most of its just-issued rulings, and granted partial summary judgment for Xerox on the antitrust claims and patent infringement counterclaims. *See* App. 56a-77a.

As to CSU's antitrust claims, the District Court noted that Xerox, for purposes of its motion, did not dispute that it has monopoly power in both the parts and service markets. App. 68a. The court held, however, that "Xerox's unilateral refusal to sell or license its patented parts cannot give rise to antitrust liability," App. 74a, regardless of whether that conduct was part of an effort to obtain or maintain a monopoly in the separate service market. Reversing its own previous position, *see* App. 104a, the court dismissed as inapplicable dicta this Court's express statement that "power gained through some natural and legal advantage such as a patent [or] copyright * * * can give rise to [antitrust] liability if 'a seller exploits his dominant position in one market to expand his empire into the next.'" *Kodak*, 504 U.S. at 479-480 n.29 (citations omitted). *See* App. 72a-73a. The court then held that "if Xerox could lawfully refuse to sell its patented parts, it certainly could price its parts at a price as high as it sees fit." App. 75a. On July 17, 1997, the District Court denied CSU's motion for reconsideration. App. 46a.

CSU then filed a second motion for reconsideration, in light of the Ninth Circuit's intervening decision in *Image Technical Services*. The District Court, however, squarely rejected the Ninth Circuit's decision. *See* App. 25a ("[W]e decline to follow the Ninth Circuit's holding in *Kodak*"). The court reiterated its view that "where a patent or copyright has been lawfully acquired, subsequent conduct permissible under the patent or copyright laws cannot give rise to any liability under the antitrust laws." *Id.* *See also* App. 40a ("The key to our * * * rulings * * * is that Xerox's refusal to license is expressly authorized by patent law and therefore immune from antitrust scrutiny."). The court also extended this reasoning to Xerox's copyright claims. App. 42a-45a.

After a trial to determine damages on Xerox's copyright infringement counterclaim, *see In re Independent Serv. Orgs. Antitrust Litig.*, 23 F. Supp. 2d 1242 (D. Kan. 1998), the District Court directed entry of final judgment in favor of

Xerox. App. 15a. The court directed entry of judgment of liability on Xerox's patent claims, reserving the issues of willful infringement and damages for trial after appeal of that judgment, as is expressly permitted by 28 U.S.C. § 1292(c)(2). The court also directed entry of judgment in favor of Xerox on its copyright claim and CSU's antitrust claims, certifying those dispositions as final judgments under Fed. R. Civ. P. 54(b). App. 19a. On January 11, 1999, the Clerk entered final judgment on all claims. Ct. App. J.A. 1.

3. The Court of Appeals Decision. CSU appealed to the Federal Circuit, arguing that Xerox's right to decide how it will license its intellectual property did not include the right to leverage its patents and copyrights to monopolize the separate service market. CSU relied, in part, on *Image Technical Services*. Xerox responded by arguing that its right "to refuse to license is absolute and inviolable," and urging the Federal Circuit to "reject the Ninth Circuit's [*Image Technical Services*] decision." Ct. App. Br. 8, 45.

The Federal Circuit did just that. The crux of the court's holding was the following statement:

In the absence of any indication of illegal tying, fraud in the Patent and Trademark Office, or sham litigation, the patent holder may enforce the statutory right to exclude others from making, using, or selling the claimed invention *free from liability under the antitrust laws*. [App. 10a (emphasis supplied).]

Applying this rule, the court affirmed the dismissal of CSU's antitrust claims and misuse defenses to Xerox's counterclaims because, in the court's view, the case involved only a unilateral refusal to deal rather than concerted tying behavior, and did not involve allegations of fraud upon the Patent Office or sham litigation.³

³ The Federal Circuit did not separately consider CSU's claims that Xerox violated the Sherman Act and engaged in patent and copyright misuse after the 1994 class action settlement by selling

In adopting this absolute immunity from antitrust liability for any unilateral exercise of otherwise valid patent rights, the Federal Circuit expressly declared its holding to be in conflict with that of the Ninth Circuit. As the court stated, “[w]e decline to follow *Image Technical Services*.” App. 10a.

CSU filed a timely petition for rehearing or rehearing en banc, which the court denied on April 13, 2000. App. 125a.

REASONS FOR GRANTING THE WRIT

I. THE DECISION BELOW CONFLICTS WITH THE DECISIONS OF OTHER CIRCUIT COURTS

The petition should be granted because the Federal Circuit’s decision directly conflicts with the decisions of other circuit courts. *See* S. Ct. Rule 10(a). As a result of that conflict, as explained below, the legality of the conduct at issue in this case now depends not only on where a case might be brought, but also on such factors as whether such a case might involve a claim within the appellate jurisdiction of the Federal Circuit, whether it also involves copyright claims, and whether the conduct might be the subject of a Federal Government enforcement action. The Court should not allow this confusion to persist, and should grant certiorari.

The conflict between the decision below and the Ninth Circuit’s decision in *Image Technical Services* could hardly be more stark. The cases involve the same claim (a violation of Section 2 of the Sherman Act) arising out of the same conduct (a unilateral refusal to sell or license parts and diag-

parts and related materials to ISOs only at exorbitant prices in order to monopolize the service market. It appears that the court adopted the District Court’s view that because Xerox had the absolute right to refuse to sell or license such items, it had the right to charge as much for them as it wished. This petition challenges the Federal Circuit’s ruling rejecting CSU’s claims and defenses based on Xerox’s exclusionary pricing, as well as those based on Xerox’s outright refusals to sell or license.

nostic software to ISOs) in the same markets (photocopier parts and service). In *Image Technical Services*, the Ninth Circuit rejected the contention that Kodak's patents and copyrights immunized it from Section 2 liability based on a unilateral refusal to sell or license parts and software. Relying on this Court's decision in *Kodak* and the First Circuit's decision in *Data General Corp. v. Grumman Systems Support Corp.*, 36 F.3d 1147 (1st Cir. 1994), the Ninth Circuit held that " 'exclusionary conduct can include a monopolist's unilateral refusal to license a [patent or] copyright,' or to sell its patented or copyrighted work," although a patent or copyright holder's " 'desire to exclude others from its [protected] work is a presumptively valid business justification for any immediate harm to consumers.' " *Image Tech. Servs.*, 125 F.3d at 1218 (bracketed material in original) (quoting *Data General*, 36 F.3d at 1187). The Ninth Circuit found that the presumption had been rebutted by evidence that Kodak's purported intellectual property justifications were pretextual, given that Kodak (like Xerox here) denied ISOs both patented *and* unpatented parts. *Id.* at 1219-20.

In this case, by contrast, the Federal Circuit "decline[d] to follow *Image Technical Services*." App. 10a. Instead, the court held that any unilateral refusal to sell or license valid intellectual property rights is immunized from both antitrust liability and a finding of misuse, regardless of whether such a refusal has the effect of monopolizing a secondary market. As the Federal Circuit explained, absent illegal tying, fraud on the Patent Office, or sham litigation, a "patent holder may enforce the statutory right to exclude others from making, using, or selling the claimed invention free from liability under the antitrust laws." *Id.* See also App. 11a ("Xerox was under no obligation to sell or license its patented parts and did not violate the antitrust laws by refusing to do so."); App. 14a ("Xerox's refusal to sell or license its copyrighted works was squarely within the rights granted by Congress to the

copyright holder and did not constitute a violation of the antitrust laws.”); App. 10a n.2 (rejecting misuse defenses).

The conflict is thus clear and direct.⁴ One interpretation of Section 2 of the Sherman Act applies to cases within the jurisdiction of the Ninth Circuit, while a radically different interpretation applies to the same conduct in cases within the jurisdiction of the Federal Circuit.⁵

Moreover, the decision below also conflicts with the view of the First Circuit. As noted above, *Image Technical Services* followed the First Circuit’s holding that unlawful “exclusionary conduct *can* include a monopolist’s unilateral refusal to license a copyright.” *Data General*, 36 F.3d at 1187 (emphasis added). The Federal Circuit rejected this view, holding that so long as a patent or copyright was not

⁴ Following the District Court’s decision in this case, commentators noted the conflict between that decision and *Image Technical Services*. See, e.g., Jeff Loew, *In re Intel Corp.* [hereinafter, “Loew”], 15 Berkeley Tech. L.J. 333, 342 (2000) (District Court in this case “explicitly rejected the *Image Technical Services* reasoning”); Charles L. Freed, *Antitrust and the Duty to License Intellectual Property—Can Manufacturers be Compelled to Deal With ISOs?*, 14 Antitrust 33, 34 (Fall 1999) (District Court “directly challenged and rejected the Ninth Circuit’s holding in *Kodak*”); Ronald S. Katz *et al.*, *Intellectual Property v. Antitrust: A False Dilemma* (American Law Inst. 1999) (District Court decision in this case was “plainly contrary” to *Image Technical Services*). The Federal Circuit has now extended that recognized conflict to the circuit court level.

⁵ The Federal Circuit also found that its decision was “further supported” by a provision of the Patent Act, 35 U.S.C. § 271(d)(4), but did not hold that this statute expressly precluded CSU’s claims and defenses. App. 7a. To the extent the patent statute was necessary to the court’s holding—which it clearly was not, at least on the copyright claims—the Federal Circuit’s interpretation directly conflicts with the Ninth Circuit’s decision in *Image Technical Services*. In that case, the court squarely held that Section 271(d)(4) does not apply to claims of the sort at issue in this case. *Image Tech. Servs.*, 125 F.3d at 1214 n.7.

acquired fraudulently, a unilateral refusal to license that property can *never* violate the Sherman Act.⁶

The direct conflict among the lower courts is itself sufficient grounds for a grant of certiorari in this case. *See, e.g., Braxton v. United States*, 500 U.S. 344, 347 (1991) (a “principal purpose” of certiorari jurisdiction “is to resolve conflicts among the United States courts of appeals”). But the conflict engendered by the decision below is particularly pernicious. In light of the unusual claim-based jurisdiction of the Federal Circuit, the legality of a monopolist’s refusal to sell or license products involving intellectual property now depends not only on where an antitrust claim might be brought, but also on what type of ancillary claims or counterclaims could be brought in the case.

The Federal Circuit’s jurisdiction over civil actions involving private parties extends to actions involving non-frivolous patent claims. *See* 28 U.S.C. § 1295; *DSC Communications Corp. v. Pulse Communications, Inc.*, 170 F.3d 1354, 1359 (Fed. Cir.), *cert. denied*, 120 S. Ct. 286 (1999). As demonstrated by *Image Technical Services* and *Data General*—both of which involved antitrust claims and intellectual property defenses, but no affirmative patent claims—there is no necessary correlation between an antitrust claim based on a unilateral refusal to sell or license intellectual property and a claim for patent infringement. Thus, as occurred in those cases, an antitrust claim that is not accompanied by a non-frivolous patent claim or counterclaim will be appealed to the appro-

⁶ In *Data General*, the court found that the plaintiff had not overcome the presumption of a valid business justification, but made clear that it “[did] not hold that an antitrust plaintiff can never rebut this presumption * * * .” *Id.* at 1187 n.64. The Federal Circuit, contrary to the Ninth Circuit, interpreted *Data General* as holding that a unilateral refusal to license copyrighted material can violate the Sherman Act *only* if the copyright were fraudulently obtained. *See* App. 12a-13a. The *Data General* decision contains no such limitation. But in any event, the confusion on this point only heightens the conflict among the circuits.

priate regional circuit rather than the Federal Circuit. As a result, a party seeking guidance as to whether a monopolist's refusal to license or sell items involving intellectual property violates the Sherman Act faces the nearly impossible task of determining not only in which circuit or circuits a case might be brought, but also whether a non-frivolous patent claim could conceivably be asserted.

The decision below also creates perverse incentives for putative antitrust defendants to assert questionable patent claims or refuse to settle others, simply for the purpose of manufacturing Federal Circuit jurisdiction. As one attorney has noted, “[g]iven the clear holdings of the Federal Circuit, many defendants will want to make certain that the appeal of the district court decision lies in that forum” and “one might attribute the difference in the outcome between the *Xerox* case and the *Image Technical* case to Xerox’s strategy of counterclaiming for patent infringement.” Mark G. Schildkraut, *Using IP as a Basis for a Refusal to Deal: The Federal Circuit Decisions in Intel and Xerox* 10, in American Bar Ass’n, Sections of Antitrust and Intellectual Property Law, *Antitrust and Intellectual Property: The Crossroads* 304 (June 2000). The specter of such forum-shopping is yet another reason why this Court should resolve the conflict.

The confusion in the law, moreover, is exacerbated because the interpretation of the Sherman Act will vary depending not only on whether a case might involve a patent claim, but also on whether the case might involve other forms of intellectual property. In the decision below, the Federal Circuit made clear that it will apply its own understanding of antitrust law and the misuse doctrine to claims implicating patent law, but will apply the law of the regional circuit where the case arose to identical claims implicating copyright law. Thus, the court applied Federal Circuit law to Xerox’s refusal to sell or license its patented parts, yet applied the law of the Tenth Circuit to Xerox’s refusal to sell or license its copyrighted material. App. 6a. In this case, the court adopted the same

holding on both claims only after predicting that the Tenth Circuit would reject the Ninth Circuit's holding on copyright issues. App. 13a. But if an identical case were to be filed in the Ninth Circuit involving both patent and copyright claims, a district court (and the Federal Circuit on appeal) would have to apply different interpretations of the Sherman Act and the misuse doctrine in the *same case*.

Finally, anyone seeking to understand the law in this important area must also attempt to determine whether an enforcement action could be brought by the Federal Trade Commission or the Department of Justice, which have parallel jurisdiction to enforce the Nation's antitrust laws. Those agencies have clearly stated that "for the purpose of antitrust analysis," intellectual property is "essentially comparable to any other form of property." *Antitrust Guidelines for the Licensing of Intellectual Property* [hereinafter "*Guidelines*"] § 2.0, 4 Trade Reg. Rep. (CCH) ¶ 13,132 at 20,734 (1995). Thus, it is the enforcement agencies' position that

[a]n intellectual property owner's rights to exclude are similar to the rights enjoyed by owners of other forms of private property. As with other forms of private property, certain types of conduct with respect to intellectual property may have anticompetitive effects against which the antitrust laws can and do protect. *Intellectual property is thus neither particularly free from scrutiny under the antitrust laws, nor particularly suspect under them.* [*Id.* § 2.1 at 20,735 (emphasis added).]

Both the FTC and the Department of Justice have taken enforcement actions predicated on their view—contrary to that of the court below—that unilateral conduct involving patented or copyrighted items is *not* immunized from antitrust scrutiny.⁷ And only recently, the Chairman of the FTC

⁷ See Agreement Containing Consent Order, *In re: Intel Corporation*, Docket No. 9288 (FTC March 17, 1999) (consent decree imposing obligations to license patented and copyrighted works in action alleging antitrust violation based on refusal to license such

strongly criticized the Federal Circuit's decision in this very case, calling it an "unwise and unfortunate departure from the traditional approach in this area [of the law]." Robert Pitofsky, *Challenges of the New Economy: Issues at the Intersection of Antitrust and Intellectual Property* 8 (June 15, 2000), <<http://www.ftc.gov/speeches/pitofsky/000615speech.htm>> [hereinafter "Pitofsky"].⁸

It is unlikely that a federal antitrust enforcement action would ever come within the jurisdiction of the Federal Circuit, because such an action almost certainly would not include patent infringement claims or counterclaims. Thus, even if a case brought by a private party would be subject to the law of the Federal Circuit, an action by the Federal

property); Plaintiffs' Joint Reply to Microsoft's Proposed Conclusions of Law at 23, *United States v. Microsoft*, No. 98-1232 (D.D.C. filed Jan. 25, 2000) (DOJ statement that "[e]ven in the context of refusals to license, * * * intellectual property defenses to conduct that violates the antitrust laws have been rejected"). The district court has accepted DOJ's position in *Microsoft*. See *United States v. Microsoft Corp.*, 87 F. Supp. 2d 30, 40-41 (D.D.C. 2000) ("It is * * * well settled that a copyright holder is not by reason thereof entitled to employ the perquisites in ways that directly threaten competition.") (citing, *inter alia*, *Image Technical Services*, *Data General*, and *Kodak*); *United States v. Microsoft Corp.*, 1998 WL 614485, at *15, 1998-2 Trade Cas. ¶ 72,261 at 82,678 (D.D.C. 1998) ("[C]opyright law does not give Microsoft blanket authority to license (or refuse to license) its intellectual property as it sees fit. A copyright does not give its holder immunity from laws of general applicability, including the antitrust laws.").

⁸ The Federal Circuit misconstrued the position of the Federal Government, incorrectly citing a section of the *Guidelines* as support for its position. See App. 6a-7a. The cited section merely states the uncontroversial point that "[i]f a patent or other form of intellectual property does confer market power, that market power does not *by itself* offend the antitrust laws" or impose licensing obligations. *Guidelines* § 2.2, at 20,735 (emphasis added). CSU urged the Federal Circuit, if it had any doubt that the Federal Government supported CSU's position, to invite the Government to submit a brief setting forth its views. See Reply Br. for Plaintiff-Appellant CSU, L.L.C. 12 n.5. The court did not do so.

Government challenging the same conduct would not be. Given the divergent positions of the Federal Circuit, on the one hand, and the Federal Government and the Ninth and First Circuits, on the other, it is now nearly impossible to know whether a monopolist's refusal to sell or license material containing intellectual property violates the Sherman Act and constitutes misuse, or is instead merely an exercise of the monopolist's absolute rights. This confusion in the law is intolerable and should be resolved by this Court.

II. THE DECISION BELOW CONFLICTS WITH THIS COURT'S DECISIONS

As shown above, certiorari is warranted in this case in light of the conflict among the circuits. But certiorari is also warranted because the decision below conflicts with *Kodak* and other precedents of this Court. *See* S. Ct. Rule 10(c).

In *Kodak*, the Court held that a policy that "limit[s] the availability of parts to ISOs and * * * make[s] it more difficult for ISOs to compete with Kodak in servicing Kodak equipment," 504 U.S. at 455, will violate both Section 1 and Section 2 of the Sherman Act if undertaken without a legitimate business justification. There can be no serious dispute that, absent the absolute intellectual property defense created by the Federal Circuit, Xerox's conduct would violate Section 2 of the Sherman Act as interpreted by this Court in *Kodak*. Just like Kodak, Xerox has obtained a monopoly over parts and related materials necessary for any entity to compete in the Xerox service market. *See* App. 24a ("Xerox does not contest that it has monopoly power in the relevant parts and service markets"); App. 68a (same). And just like Kodak, Xerox "took exclusionary action to maintain its parts monopoly and used its control over parts to strengthen its monopoly share of the [Xerox] service market." *Kodak*, 504 U.S. at 483. Indeed, the evidence of such a violation is even

clearer here, as Xerox has conceded that its Parts Policy was unrelated to intellectual property concerns. *See supra* at 6.⁹

Yet the Federal Circuit held Xerox absolutely immune from the antitrust laws as construed by this Court because some of the property which it refused to sell or license to ISOs included patented or copyrighted material. In *Kodak*, however, this Court expressly rejected this proposition. As noted by the *Kodak* majority, the dissenting Justices in that case took the position that because Kodak had an “inherent” monopoly in parts for its own equipment, “the antitrust laws do not apply to its efforts to expand that power into other markets.” 504 U.S. at 479-480 n.29. The Court expressly rejected that view, holding that it had “no support * * * in our jurisprudence” because

[t]he Court has held many times that power gained through some natural and legal advantage *such as a patent, copyright, or business acumen* can give rise to liability if “a seller exploits his dominant position in one market to expand his empire into the next.” *Times Picayune Publishing Co. v. United States*, 345 U.S. 594, 611 (1953); *see, e.g., Northern Pacific R. Co. v. United States*, 356 U.S. 1 (1958); *United States v. Paramount Pictures, Inc.*, 334 U.S. 131 (1948); *Leitch Mfg. Co. v. Barber Co.*, 302 U.S. 458 (1938). [*Id.* (emphasis supplied).]

Thus, in rejecting the notion that a monopoly obtained through legitimate means confers immunity from antitrust liability for the conduct challenged in this case, the Court expressly confirmed that no such immunity exists even where

⁹ Moreover, there is evidence that Xerox, unlike Kodak, has a monopoly in the market for high volume copiers of *all* brands, in addition to a monopoly in the parts for its own machines. The evidence before the District Court showed that Xerox controlled 80-90% of the original equipment market for all high volume copiers (compared to approximately 10% for Kodak). Ct. App. J.A. 473.

such an inherent monopoly is gained through “a patent [or] copyright.” *Id.*

The Federal Circuit held that this rather direct language was inapplicable because “*Kodak* was a tying case when it came before the Supreme Court, and no patents had been asserted in defense of the antitrust claims against Kodak.” App. 8a. The court’s main point is simply wrong—this Court in *Kodak* considered *both* a tying claim under Section 1 *and* an unlawful monopolization claim under Section 2. *See* 504 U.S. at 459. Moreover, as the Ninth Circuit has held, although the Court’s discussion of patents and copyrights was located within its discussion of the tying claim,

the § 2 discussion frequently refers back to the § 1 discussion, and the Court’s statement that “exploit[ing] [a] dominant position in one market to expand [the] empire into the next” is broad enough to cover monopoly leveraging under § 2. By responding in this fashion, *the Court in Kodak supposed that intellectual property rights do not confer an absolute immunity from antitrust claims. [Image Technical Servs., 125 F.3d at 1216 (footnote omitted; emphasis supplied).]*

Finally, regardless of whether Kodak specifically relied on its patents before this Court, the Court’s rejection of the immunity argument was necessary to the outcome of that case, and therefore not dicta, because the *Kodak* majority was responding directly to an argument that Kodak’s natural or inherent monopoly in its own parts shielded it from liability based on its refusal to deal.

More fundamentally, the Court in *Kodak*—and in the earlier cases which *Kodak* followed—rejected the formalistic distinction between a unilateral refusal to sell parts to ISOs in order to monopolize the service market and “agreements” with ISOs or other customers that prevent ISOs from using such parts. The Court found sufficient evidence of a Section 2 violation (which does not require concerted action) for

the same reasons it found sufficient evidence of a Section 1 violation (which does). *Compare* 504 U.S. at 461-479, *with id.* at 480-486. The same is true here. Xerox's conduct is in all material respects identical to Kodak's, and therefore violates Section 2 for the same reasons. Indeed, as noted above, *supra* note 9, Xerox's conduct is even more egregious given its monopoly over the market for equipment of all brands.

Moreover, *Kodak* simply followed longstanding precedent in reaching this conclusion. In its footnote addressing patents and copyrights, the Court cited *Leitch Manufacturing Co. v. Barber Co.*, 302 U.S. 458 (1938), a case involving purely *unilateral* conduct. In *Leitch*, the Court held that a company's unilateral conduct in penalizing those who used a patented process without buying unpatented materials from it was the "practical equivalent" of an illegitimate tie, and that the prohibition against extending the patent monopoly "applies *whatever the nature of the device* by which the owner of the patent seeks to effect such unauthorized extension of the monopoly." *Id.* at 460-461, 463 (emphasis supplied). *See also Northern Pacific*, 356 U.S. at 11 ("the vice of tying arrangements lies in the use of economic power in one market to restrict competition on the merits"); *Carbice Corp. v. American Patents Dev. Corp.*, 283 U.S. 27, 32 n.3 (1931) ("[t]he patent grant is inherently limited" by legal requirements requiring access to essential facilities).

The Federal Circuit's decision in this case conflicts with these decisions. By selling replacement parts only to end users—enforced through an on-site verification program—Xerox's policy allows use of its patented parts only on the condition that the licensee not use the parts to provide competing service. Any entity that cannot accept these conditions (*e.g.*, CSU) will not be able to use Xerox parts in conducting its business. Thus, Xerox has improperly attempted to use its lawful patent monopoly over its parts as leverage to monopolize the separate market for service—a market *not* covered by any patent. Contrary to the Federal

Circuit's holding, there is no legal or logical difference between this behavior and the clearly prohibited practice of "condition[ing] the right to use [a] patent on the licensee's agreement to purchase, use, or sell, or not to purchase, use, or sell, another article of commerce not within the scope of [the] patent monopoly." *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 136 (1969). As in *Kodak*, just as the antitrust laws prohibit Xerox from licensing its patented parts on the condition that the parts not be used to provide competing, unpatented service, so those same laws prohibit Xerox from refusing to sell parts to anyone who uses those parts to provide such service.

The Federal Circuit's attempts to explain its deviation from this Court's holdings cannot withstand scrutiny. The Federal Circuit dismissed the Ninth Circuit's understanding of this Court's precedents in large part because the Federal Circuit disagreed with the purportedly "subjective" analysis employed in *Image Technical Services*. Analogizing to claims that the mere *filing* of a lawsuit violates the antitrust laws, the court found "no more reason to inquire into the subjective motivation of Xerox in refusing to sell or license its patented works than we found in evaluating the subjective motivation of a patentee in bringing suit to enforce that same right." App. 10a. The cases relied on by the court, however, involve the *Noerr-Pennington* doctrine, which permits parties to engage in protected First Amendment activity (including filing lawsuits) without fear that those actions will themselves lead to antitrust liability. That doctrine extends only to the act of filing the lawsuit—conduct not at issue here—and does not immunize conduct not involving such First Amendment activity.¹⁰ That First Amendment concerns protect certain

¹⁰ See *Professional Real Estate Investors, Inc. v. Columbia Pictures Indus., Inc.*, 508 U.S. 49, 75 (1993) (Stevens & O'Connor, JJ., concurring) ("[O]bjectively reasonable lawsuits may still break the law. For example, a manufacturer's successful action enforcing resale price maintenance agreements, restrictive provisions in a license to use a patent or a trademark, or an equip-

limited behavior against antitrust liability is not grounds under this Court's precedents for creating a different, blanket immunity for any exercise of intellectual property rights.

The disdain expressed by the Federal Circuit for analyzing whether Xerox had a legitimate business justification for its refusal to deal is nothing but a disdain for this Court's precedents. If Xerox enjoyed a monopoly over its parts because it controlled the metal necessary to make them, a refusal to sell the parts would be subject to antitrust scrutiny, and the established inquiry would ask whether Xerox had "legitimate competitive reasons" for its actions.¹¹ Thus, following the precedents of this Court, the Ninth Circuit in *Image Technical Services* based its decision on *objective* considerations showing a lack of business justification. For example, the court found Kodak's proffered justification that it had withheld parts from ISOs to protect its intellectual property inconsistent with the objective fact that it withheld both patented *and* unpatented parts. *See* 125 F.3d at 1218-19. The lack of a legitimate justification is even more clear here, as Xerox has *admitted* that protection of intellectual property was *not* why it adopted its Parts Policy. *See supra* at 6.

The courts long ago rejected the notion that intellectual property rights override all other laws requiring access to monopoly resources. For example, more than 100 years ago

ment lease, may evidence, or even constitute, violations of the anti-trust laws.") (footnotes omitted); *MCI Communications Corp. v. AT&T*, 708 F.2d 1081, 1159 (7th Cir. 1982) ("The *Noerr-Pennington* doctrine is concerned solely with the right to attempt to influence government action."), *cert. denied*, 464 U.S. 891 (1983).

¹¹ *See, e.g., Kodak*, 504 U.S. at 483 n.32 (right to refuse to deal "is not absolute; it exists only if there are legitimate competitive reasons for the refusal"); *Aspen Skiing Co. v. Aspen Highlands Skiing Corp.*, 472 U.S. 585, 601 (1985) ("[t]he high value that we have placed on the right to refuse to deal with other firms does not mean that the right is unqualified"); *Otter Tail Power Co. v. United States*, 410 U.S. 366 (1973); *Lorain Journal Co. v. United States*, 342 U.S. 143 (1951).

courts rejected the argument advanced by companies with monopolies over the nascent telephone industry that they had the absolute right under the patent laws to deny competitors in the telegraph market access to patented telephone systems. *See State ex rel. Postal Tel. Cable Co. v. Delaware & A. Tel. & Tel. Co.*, 47 F. 633 (C.C.D. Del. 1891), *aff'd*, 50 F. 677 (3d Cir. 1892); *Missouri ex rel. Baltimore & O. Tel. Co. v. Bell Tel. Co.*, 23 F. 539, 540 (C.C.E.D. Mo. 1885), *error dismissed*, 127 U.S. 780 (1888). As future Justice Brewer explained in one of those cases:

I believe fully in the sacredness of property; but I think that all property stands upon an equal basis, whether that property consists of gold dollars in your pocket, real estate, or the ownership of a patent. There is no particular sanctity hovering over or attaching to the ownership of a patent. It is simply a property right, to be protected as such. Starting from that as a basis, while every property owner may determine for himself to what he will devote his property, yet the moment he puts that property into * * * the channels of commerce, that moment he subjects that property to the laws which control commercial transactions * * * . [*Missouri*, 23 F. at 540.]

The analysis is the same here. While patents and copyrights are important property rights deserving of full legal protection, they are for this purpose no more and no less important than other property rights, and should be treated no differently under the antitrust laws.¹²

¹² Indeed, this Court has held that even the First Amendment right of a publisher to determine the content of a newspaper did not override the proscription against unilaterally refusing access to that newspaper in order to maintain a monopoly in violation of the Sherman Act. *See Lorain Journal*, 342 U.S. at 155-156; *Microsoft*, 87 F. Supp. 2d at 41 (“Even constitutional privileges confer no immunity when they are abused for anticompetitive purposes.”). Intellectual property rights—while important—are certainly no more deserving of antitrust immunity than are First Amendment rights.

The Federal Circuit has held that Xerox is immune from antitrust liability expressly recognized by this Court in a case involving identical facts. Such a rejection of this Court's authority plainly warrants this Court's review.

III. THIS CASE INVOLVES A RECURRING QUESTION OF NATIONAL IMPORTANCE

The Federal Circuit has established an unprecedented immunity from the antitrust laws, holding that any refusal to license or sell material subject to a valid patent or copyright is absolutely immune from antitrust scrutiny. Under such a rule, a company with a monopoly in the market for an item critical to commerce may refuse to sell or license that item to competitors in a different market in order to monopolize that second market—a course of conduct this Court has squarely held violates the antitrust laws—merely because the primary monopoly happens to involve patented or copyrighted items rather than some other form of property. Thus, the Federal Circuit upheld such immunity in this case even though the evidence is undisputed that Xerox refused to sell parts and related materials (both patented and unpatented) with the express goal of capturing 100% of the service market. The Court should grant certiorari to review this holding, which involves a recurring issue of national importance.

The question whether the antitrust laws prohibit a monopolist from refusing to license or sell patented or copyrighted material in order to obtain monopoly in a secondary market has been a recurring one. As noted above, in addition to this case, the question has been squarely addressed by the Ninth Circuit. The question has also come before the Federal Circuit in another recent case, *Intergraph Corp. v. Intel Corp.*, 195 F.3d 1346 (Fed. Cir. 1999), and has been implicated in the FTC's parallel enforcement action against Intel, as well as the ongoing *Microsoft* litigation, *see supra* note

7.¹³ Likewise, many commentators have recently noted that the intersection between antitrust and intellectual property law, specifically including in the context of refusals to deal, remains an unsettled area of the law.¹⁴

As the Ninth Circuit noted in *Image Technical Services*, “[a]t the border of intellectual property monopolies and antitrust markets lies a field of dissonance yet to be harmonized by statute or the Supreme Court.” 125 F.3d at 1217. The Federal Circuit has now increased this dissonance to intolerable levels, making it impossible for businesses to understand the law.

¹³ The lower courts have also frequently addressed the related question of whether a patent owner, by refusing to license such property, unlawfully gained or maintained a monopoly in the primary market for the patented items. *See, e.g., SCM Corp. v. Xerox Corp.*, 645 F.2d 1195 (2d Cir. 1981), *cert. denied*, 455 U.S. 1016 (1982); *Miller Insituform, Inc. v. Insituform of North Am.*, 830 F.2d 606 (6th Cir. 1987), *cert. denied*, 484 U.S. 1064 (1988). Those cases are different from this case because there were no allegations that a patent holder used its legitimate patent monopoly to gain a secondary monopoly in a separate market. Nevertheless, they demonstrate the recurring nature of antitrust claims involving refusals to license intellectual property.

¹⁴ *See, e.g., Loew, supra* note 4, at 349 (“[W]hether antitrust concerns can ever remove core IP rights solely because their exercise causes excessive harm to competition, and under what circumstances, remains an unsettled question.”); David McGowan, *Networks and Intention in Antitrust and Intellectual Property* [hereinafter “McGowan”], 24 J. Corp. L. 485, 486 (Spring 1999) (“much dissatisfaction remains” with lower courts’ resolution of antitrust/intellectual property intersection); James C. Burling, William F. Lee & Anita K. Krug, *The Antitrust Duty to Deal and Intellectual Property Rights*, 24 J. Corp. L. 527, 552 (Spring 1999) (“there remain many questions to be resolved”); Ronald W. Davis, *The FTC’s Intel Decision: What are the Limitations on “Throwing Your Weight Around” Using Intellectual Property Rights?*, 13 Antitrust 47, 52 (Summer 1999) (settlement of FTC’s *Intel* case “leave[s] open for resolution * * * general questions of great potential interest” including “what really are the limits, if any, to a monopolist’s right to refuse to let others use its intellectual property”).

The Federal Circuit's absolute immunity rule will have widespread and serious consequences for the Nation's economy if left unreviewed. Our modern economy is increasingly reliant on monopoly "networks" and other critical technology which include patented items or copyrighted works. See, e.g., McGowan, *supra* note 14; Pitofsky, *supra*, at 3. The immunity created by the Federal Circuit would permit the owner of such technology to refuse competitors in other markets access to a critical network—or threaten to do so—in order to monopolize those secondary markets. For example, a company with a monopoly over software that is critical to commerce could lawfully deny that software to any entity that competes with the company in a different market, or to others who do business with such competitors, simply because the software is copyrighted or patented. Cf. *Microsoft*, *supra*. The owner of intellectual property incorporated into a telecommunications network could deny competitors in other markets access to its monopoly network simply because some of the components of the network involve copyrighted or patented technology. Cf. *MCI*, 708 F.2d at 1131-53. And because virtually every product could have a copyrighted label, the decision below gives *carte blanche* for a monopolist to refuse to sell such products in order to gain other monopolies. Cf. *Quality King Distributors, Inc. v. L'anza Research Int'l Inc.*, 523 U.S. 135 (1998).

In the words of the Chairman of the FTC, the absolute immunity created by the Federal Circuit has upset the balance between antitrust and intellectual property law long ago struck by this and other courts "in a way that has disturbing implications for the future of antitrust in high technology industries." Pitofsky, *supra*, at 5. As he stated, the Federal Circuit's "sweeping language that exalts patent and copyrights over other considerations * * * throws into doubt the validity of previous lines of authority that attempted to strike a balance between intellectual property and antitrust." *Id.* at 6. As noted by the Chairman, the decision below upsets this

balance by potentially permitting, among other things, a monopolist's refusal to sell products incorporating patented elements except on condition that the purchaser not buy from a potential competitor, and the selective termination of patent licensees in retaliation for price-cutting activity. *Id.* at 7.

Indeed, there is already evidence that the decision below will have such detrimental effects. In *Townshend v. Rockwell Int'l Corp.*, 2000 U.S. Dist. LEXIS 5070, 2000-1 Trade Cas. (CCH) ¶ 72,890 (N.D. Cal. Mar. 28, 2000), the court dismissed a claim that a patent holder with a monopoly over computer modem technology violated the Sherman Act by, among other things, refusing to license that technology except on the condition that the licensee cross-license other technology. Relying on the Federal Circuit's decision in this case, the court held that

[g]iven that a patent holder is permitted under the anti-trust laws to completely exclude others from practicing his or her technology, the Court finds that [the patent holder's] submission of proposed licensing terms with which it was willing to license does not state a violation of the antitrust laws. [*Id.* at *23.]

The *Townshend* decision demonstrates the far-reaching impact of the Federal Circuit's ruling in this case. Virtually any agreement that would otherwise be prohibited under this Court's precedents forbidding unlawful tying can be recast as an exercise of the "unilateral" refusal to license. For example, an illegal agreement by a monopolist conditioning a patent license on the purchase of unpatented items, *see, e.g., Zenith*, 395 U.S. at 135, can always be recast as a "unilateral" refusal to deal with those who will not make the demanded purchase. By ignoring the Court's statement in *Kodak* that patents and copyrights do not immunize the conduct at issue here, 504 U.S. at 479-480 n.29, as well as the Court's holding that the prohibition against expanding the patent monopoly "applies whatever the nature of the device by which the owner of the patent seeks to effect such unauthorized exten-

sion of the monopoly,” *Leitch*, 302 U.S. at 463, the Federal Circuit has opened a gaping loophole in the enforcement of the Nation’s antitrust laws.

The Federal Circuit has exempted the actions of patent and copyright holders from the antitrust scrutiny that is applied to all other property owners. Like the owner of any other property, the owner of intellectual property will ordinarily be able to decide freely how to use its property, because where there are legitimate business reasons to do so, even monopolists may refuse to deal with others. The decision below, however, disregards this Court’s precedents balancing antitrust law and property rights, and instead accords absolute immunity to any unilateral refusal to deal that happens to involve valid intellectual property rights. Such an unprecedented immunity from antitrust scrutiny in this important area of the law clearly warrants this Court’s review.

CONCLUSION

For the foregoing reasons, the petition should be granted and the judgment below reversed.

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