

IN THE  
**United States Court of Appeals for the Federal Circuit**

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IN RE INDEPENDENT SERVICE ORGANIZATIONS ANTITRUST LITIGATION

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CSU, L.L.C. (previously CSU HOLDINGS, INC., COPIER SERVICES UNLIMITED, INC., and  
COPIER SERVICE UNLIMITED OF ST. LOUIS, INC.),

*Plaintiff-Appellant,*

and

CREATIVE COPIER SERVICES, INC.,

*Plaintiff,*

and

ACQUISITION SPECIALISTS, INC., TECSPEC, INC., CONSOLIDATED PHOTOCOPY,  
INC., COPIER REBUILD CENTER, INC., CPO, LTD., GRADWELL COMPANY, INC.,  
GRAPHIC CORPORATION OF ALABAMA, INTERNATIONAL BUSINESS EQUIPMENT,  
INC., LASER RESOURCES, INC., LASER RESOURCES OF MINNESOTA, INC., LASER  
SOLUTIONS, INC., LASER SUPPORT AND ENGINEERING, INC., MARATHON COPIER  
SERVICE, INC., NATIONWIDE TECHNOLOGIES, INC., TECHNICAL DUPLICATION  
SERVICES, INC., X-TECH SYSTEMS, INC., XER-DOX INC., and XEROGRAPHIC COPIES  
SERVICES, INC.,

*Plaintiffs,*

v.

XEROX CORPORATION,

*Defendant-Appellee.*

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APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF  
KANSAS IN 94-MC-1021, JUDGE KATHRYN H. VRATIL

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**BRIEF OF DEFENDANT-APPELLEE XEROX CORPORATION**

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July 14, 1999

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## CERTIFICATE OF INTEREST

Counsel for the appellee, Xerox Corporation, certifies the following:

1. The full name of every party or amicus represented by me is: Xerox Corporation.
2. The name of the real party in interest represented by me is: Xerox Corporation
3. All parent corporations and any publicly held companies that own 10 percent or more of the stock of the party represented by me are: None.
4. The names of all law firms and the partners or associates that appeared for the party or amicus now represented by me in the trial court or agency or are expected to appear in this court are:

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## STATEMENT OF RELATED CASES

1. On September 8, 1997, a panel of this Court denied appellant's petition for permission to appeal pursuant to 28 U.S.C. § 1292(b) and 28 U.S.C. § 1292(c)(1). *CSU Holdings, Inc. v. Xerox Corp.*, Misc. No. 523, 1997 WL 632785 (Fed. Cir. Sept. 8, 1997). The panel that authored the opinion consisted of Judges Michel, Lourie, and Bryson.

2. Counsel knows of no other case pending in this Court or in any other court that may directly affect, or be directly affected by, the Court's decision in this appeal.

Appeal No. 99-1323

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IN THE  
**United States Court of Appeals for the Federal Circuit**

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IN RE INDEPENDENT SERVICE ORGANIZATIONS ANTITRUST LITIGATION

---

CSU, L.L.C. (previously CSU HOLDINGS, INC., COPIER SERVICES UNLIMITED, INC., and COPIER SERVICE UNLIMITED OF ST. LOUIS, INC.),

*Plaintiff-Appellant,*

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CREATIVE COPIER SERVICES, INC.,

*Plaintiff,*

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ACQUISITION SPECIALISTS, INC., TECSPEC, INC., CONSOLIDATED PHOTOCOPY, INC., COPIER REBUILD CENTER, INC., CPO, LTD., GRADWELL COMPANY, INC., GRAPHIC CORPORATION OF ALABAMA, INTERNATIONAL BUSINESS EQUIPMENT, INC., LASER RESOURCES, INC., LASER RESOURCES OF MINNESOTA, INC., LASER SOLUTIONS, INC., LASER SUPPORT AND ENGINEERING, INC., MARATHON COPIER SERVICE, INC., NATIONWIDE TECHNOLOGIES, INC., TECHNICAL DUPLICATION SERVICES, INC., X-TECH SYSTEMS, INC., XER-DOX INC., and XEROGRAPHIC COPIES SERVICES, INC.,

*Plaintiffs,*

v.

XEROX CORPORATION,

*Defendant-Appellee.*

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APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF KANSAS IN 94-MC-1021, JUDGE KATHRYN H. VRATIL

---

**BRIEF OF DEFENDANT-APPELLEE XEROX CORPORATION**

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## **STATEMENT OF THE ISSUE**

Is the owner of a patent or copyright subject to antitrust liability or guilty of misuse when it exercises the right to exclude others from use of its inventions afforded by the Patent Act or Copyright Act?

## **INTRODUCTION**

Until 1994 Xerox Corporation (“Xerox”) unilaterally refused to share its inventions – patented parts and patented and copyrighted diagnostic software – with its competitors. Xerox did not agree with any person to deny its competitors access, and there is no claim that Xerox unlawfully tied the sale of its patented inventions or copyrighted works to the purchase of any other good or service. End users of Xerox’s copiers and printers were able to and did buy parts from Xerox while purchasing service from Xerox’s competitors. Xerox’s conduct was a unilateral exercise of its rights under the Patent Act and Copyright Act to select the licensees who may use its intellectual property.

Appellant CSU, L.L.C. (“CSU”) attacks the fundamental principle rooted in the Constitution that the owner of intellectual property has the right unilaterally to determine to whom it will license its inventions and works. CSU’s attack on this right runs counter to ninety years of precedent from the Supreme Court and the courts of appeals, including this Court, that exercise of the right to exclude granted by the Patent Act or Copyright Act cannot violate the antitrust laws or constitute misuse. Faced with this precedent, CSU asks that the Court create an exception under the law and limit an intellectual property owner’s rights to what it calls the

“primary market” for the patented inventions or copyrighted works. Lest there be any doubt that CSU seeks nothing less than to wreak havoc upon intellectual property rights, CSU would also permit a jury to find an antitrust violation or misuse where the jury found that an intellectual property owner charged an “exorbitant” price for its invention or work.

Under CSU’s proposed exception, no owner of intellectual property could exercise its rights under the Patent Act or Copyright Act without the risk of time-consuming, burdensome, and costly litigation. *Every* dispute over a refusal to license and *every* dispute over the terms of a license would raise a question for the jury, dependent upon the vagaries of antitrust market definition, the subjective intent of the intellectual property owner, and some “expert” opinion regarding whether a price was exorbitant. The District Court properly rejected CSU’s invitation to destroy the incentives for invention created by the intellectual property laws. The opinion of the District Court should be affirmed.

### **STATEMENT OF THE CASE**

**The parties.** Xerox invents, manufactures, sells, and services document processing equipment, including photocopiers and laser printers, and the parts for those products. It is one of the great innovators of the Twentieth Century. Xerox’s scientists, engineers, and technicians were awarded more than 1,000 patents in 1998.

Appellant CSU is an independent service organization (“ISO”) that services copiers and printers manufactured by Xerox. Started and staffed by former Xerox

employees who brought with them confidential Xerox customer information, CSU has built its business upon a base that includes parts, manuals, software, and trade secrets that CSU's employees and others stole from Xerox. A650-52, A661, A670-71, A697, A699-700, A755-59, A761, A850, A854-56, A881-82. CSU's service technicians utilized infringing repair parts and, until Xerox obtained preliminary injunctive relief in this case, relied on pirated copies of Xerox's manuals and diagnostic software. A662, A665-76, A689-91, A693-749, A750-51. The District Court found that CSU decided to "construct its business around its infringement" of Xerox's intellectual property rights by "thumbing its nose at the Copyright Act." A192-193.

**Xerox's "Parts Policy."** In 1984 Xerox unilaterally determined that it would sell parts to authorized resellers and service providers and to end users of its equipment, but that it would not sell parts to its competitors. End users remained free to supply the parts they purchased to any service provider, including ISOs. The 1984 policy applied only on a *prospective* basis because it applied only to parts on recently introduced equipment. Xerox recognized that "this new policy w[ould] not change any existing relationships with third party service organizations, since the limitations on sale apply only to recently introduced products on which we have not established a relationship on sale of parts." A477-478.

Xerox's policy was reiterated in 1987 and 1989. A479-481, A406-408. These new policies simply restated the fundamental principle underlying Xerox's prior parts policy; Xerox's policy was "to deal with ISOs fairly while recognizing

that they are our competitors.” A406. Xerox’s “first priority” was its “own customers, service personnel, Authorized Service providers, and other end-users” of its products. *Id.* Although Xerox would not sell parts directly to ISOs, end users were always free to purchase parts for use by an ISO servicing their equipment:

End-users who choose to have their Xerox equipment serviced by ISOs, as well as ISOs who qualify as users of Xerox equipment, may obtain spare parts and other generally available resources from Xerox in quantities reasonably necessary to support their needs as users and on the same terms and conditions offered to other users. Such users are not considered “disfavored” customers in any sense, and their orders receive the same level of attention as do those from users who choose Xerox service.

A407. There was thus no agreement to deny ISOs access to parts, merely Xerox’s unilateral selection of its customers.

In 1994, as part of a settlement of litigation, Xerox changed its parts policy. Xerox agreed to sell parts directly to ISOs (including providing them with quantity discounts) and to license diagnostic software to copier and printer end users, who could utilize ISOs as their agents to order and use the software. A409-445. Since 1994, Xerox has not refused to sell parts or license diagnostic software. Nor, despite CSU’s unsupported claim (Appellant’s Brief at 7), has Xerox discriminated against ISOs in pricing or other terms of sale. All ISOs and all end users pay the same prices (and receive the same quantity discounts), with the exception of the U.S. Navy, which receives some parts at a somewhat larger discount as part of a

unique cooperative servicing agreement, pursuant to which Xerox technicians service shipboard copiers while the ships are in port and Xerox-trained Navy technicians service the copiers while the ships are at sea. A890-92.

**Xerox's inventions and works and its intellectual property rights.** Many of the key parts used in Xerox's photocopiers and laser printers are protected by Xerox patents. A796-804. These patents disclose inventions that provide a competitive advantage in the service of copiers and printers:

- Xerox's Sleeved Organic Rubber Pressure Roll patent (No. 4,149,797) notes that invention provides the advantage of "less down-time required for replacing pressure rolls," *i.e.*, the need for less frequent copier and printer service. A318, at col. 14, line 56.
- Xerox's patent for a Long Life Fuser Roll (No. 4,196,256) states that the object of this invention is to provide a new fuser roll with a longer lasting coating, a goal that is desirable because it "is expensive to . . . install fuser rolls." A333, at col. 2, lines 13-20
- Xerox's patent for its Corona Wire Mounting Device (No. 4,258,258) provides that "a major advantage of the present invention resides in the fact that the inserts are easily and economically replaceable if they become damaged." A364, at col. 5, lines 40-43.
- Xerox's patent for document handler belts (No. 4,314,006) discloses a belt with "good document handling performance without requiring the intermittent or periodic adjustment required" by servicemen for proper operation of the prior art belt. A372, at Col. 7, lines 20-24.

CSU admits deliberate infringement of these and other patents. A135-136.

Xerox has also invented highly sophisticated diagnostic software used to anticipate and identify faults in copiers and printers and to repair those problems. This software is protected by patents and by valid, registered copyrights. A826-45.

The software for Xerox's Model 5090 family of copiers is "far more sophisticated software than previous models," utilizing "a color touch screen to display the copier fault codes and is capable of diagnosing 'almost jams' to project future failures and avoid future service calls." A9. CSU knowingly infringed Xerox's copyrights in this software by obtaining disks stolen from Xerox, reproducing the disks and distributing them to the various CSU offices, and using the disks to install upgraded software on the copiers CSU serviced, as well as by using the software installed on the copiers. A665-77, A701-749. CSU's Rule 30(b)(6) corporate designee on the service of Model 5090 copiers testified that he believed CSU's conduct was illegal. A695, A703.<sup>1</sup>

**This Litigation.** CSU filed suit against Xerox in 1994 asserting that Xerox's refusal before 1994 to sell parts and license software and its current pricing of such parts and software constituted unlawful monopolization under Section 2 of the Sherman Act, 15 U.S.C. § 2. Xerox counterclaimed for patent infringement, copyright infringement, trademark infringement, tortious conversion, and theft of trade secrets.<sup>2</sup>

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<sup>1</sup> Although not a subject of the pending appeal (because the claim was settled), CSU also admitted that "just about everybody" who joined CSU from Xerox brought service manuals with them, A761, that CSU photocopied these service manuals for distribution to its technicians, and that *every* service manual CSU used was an unlawful photocopy. A689.

<sup>2</sup> Xerox's trademark infringement claim was settled; Xerox's claims for tortious conversion and theft of trade secrets were voluntarily dismissed.

CSU attempted to cover up evidence of its wrongdoing by deliberately altering documents produced in discovery to remove serial numbers that would allow Xerox to trace stolen software, by obstructing Xerox's depositions, and through perjurious testimony. A169-73, A647-9, A650-52. The District Court characterized CSU's conduct during discovery as "sticking its head in the sand and refusing to look for the answers." A171.

Nevertheless, Xerox was able to adduce evidence that CSU was engaged in a scheme of piracy of Xerox's intellectual property. Xerox sought, and on December 11, 1995 the District Court granted, a preliminary injunction barring CSU from obtaining Xerox's copyrighted software and manuals from unlicensed sources or from reproducing these works, and requiring CSU to return to Xerox all infringing copies. A194-195. CSU failed, however, to comply with the injunction. A165 ("CSU admits that it failed to [return to Xerox] all of the disks it identified in discovery."); A166 ("CSU management failed to take reasonable steps to inform its employees of its policy and the necessity of complying with the court's order."); A653-54; A655-57.

Xerox was granted summary judgment on CSU's antitrust claims and partial summary judgment on its own patent and copyright infringement counterclaims in 1997. A81-162. After this Court denied permission for an interlocutory appeal, A66-68, CSU moved for reconsideration of the District Court's rulings, which was denied by the District Court in a comprehensive opinion. A34-65. The District Court conducted a bench trial on Xerox's copyright infringement damages in 1998,

awarding Xerox in excess of \$1 million in damages, plus attorneys' fees. A6-33. Judgment was entered on January 11, 1999, A1, A2-A5, and this appeal followed.

### **SUMMARY OF ARGUMENT**

The law has been clear for more than ninety years that an owner of intellectual property is under no obligation to permit others to use its inventions. The Supreme Court has recognized that this right is the “essence” of the Patent Act and Copyright Act, which, pursuant to Constitutional authorization, “secur[e] for limited times to authors and inventors the exclusive right to their respective writings and discoveries.” Xerox’s refusal to share its intellectual property with its competitors – its unilateral exercise of the fundamental right to exclude – cannot violate the antitrust laws or constitute misuse. As the Supreme Court has recognized, our nation’s intellectual property laws are “*in pari materia* with the antitrust laws and modify them *pro tanto*.” Accordingly, the Supreme Court has recognized that an intellectual property owner’s decision “to exclude others from the use of the invention . . . is not an offense against the Anti-Trust Act.”

This right unilaterally to refuse to license is absolute and inviolable. It is not lost if an antitrust plaintiff or an infringement defendant can find an economist who will argue that the intellectual property owner has a monopoly in some relevant market, or an accountant who will opine that the prices charged for rights to the intellectual property are “exorbitant.” Nor is the right to exclude lost because a few of the intellectual property owner’s 100,000 employees wrote documents with aggressive marketing language about its competitors or because they expressed a

desire to “capture 100%” of some market. As long as an intellectual property owner acts unilaterally, as Xerox has done here, it may refuse to share its inventions and works with its competitors without fear that it will face antitrust treble damages or render its patents and copyrights unenforceable because of alleged misuse. Xerox has done nothing more than exercise its rights under the Patent Act and Copyright Act to prevent others from using its patented parts and using and reproducing its patented and copyrighted software.

The District Court’s decision is consistent with precedent from the Supreme Court and this Court, and with the 1988 Amendment to the Patent Act, which provides that a unilateral refusal to deal may constitute neither misuse nor an antitrust violation. As the leading treatise on antitrust law concluded in its extensive discussion of the opinion below, “the district court’s conclusion seems indisputably correct, and appears to be compelled by the explicit language of the Patent Act.” Philip E. Areeda & Herbert Hovenkamp, *Antitrust Law* ¶ 704.31, at 151 (1998 Supp.). The opinion below should be affirmed.

## **ARGUMENT**

### **I. THE PATENT ACT AND COPYRIGHT ACT PERMIT XEROX TO REFUSE TO SELL AND LICENSE ITS INTELLECTUAL PROPERTY WITHOUT ANTITRUST LIABILITY.**

#### **A. The Patent Act and Copyright Act Authorize Xerox To Exclude Competitors From Using Its Intellectual Property.**

The right of inventors to control the use of their inventions is enshrined in the Constitution. Congress is granted the power “to promote the progress of

science and the useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries.” U.S. Const. art. I, § 8, cl. 8. Pursuant to this Constitutional authority, a patent affords the holder the right to exclude all other persons from making, using, or selling the disclosed inventions for twenty years. 35 U.S.C. §§ 154, 271(a). The Copyright Act similarly grants copyright owners a 75-year exclusive right to reproduce and distribute their copyrighted works. 17 U.S.C. §§ 106, 302. It is well-established that inherent in these exclusive rights is the right to *refuse* to license or sell.

The Supreme Court has consistently held that the owner of intellectual property is under no obligation to provide that property to others. A copyright owner need not sell copyrighted materials or license rights under its copyright, including the right to use – and hence reproduce – computer software.<sup>3</sup> *See, e.g., Stewart v. Abend*, 495 U.S. 207, 228-29 (1990) (“[N]othing in the copyright statutes would prevent an author from hoarding all of his works during the term of the copyright. In fact, this Court has held that a copyright owner has the capacity arbitrarily to refuse to license one who seeks to exploit the work.”); *Fox Film Corp. v. Doyal*, 286 U.S. 123, 127 (1932) (“The owner of a copyright, if he pleases, may refrain from vending or licensing and content himself with simply

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<sup>3</sup> As the District Court properly recognized, CSU’s use of Xerox’s copyrighted diagnostic software constitutes unlawful reproduction under the Copyright Act because “transferring a computer program from a storage device to a computer’s RAM constitutes a copy for purposes of copyright law.” A181 (citing, *e.g., NLFC, Inc. v. Devcom Mid-America, Inc.*, 45 F.3d 231, 235 (7th Cir. 1995); *MAI Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 511, 519 (9th Cir. 1993)).

exercising the right to exclude others from using his property.”); *see also Edward B. Marks Music Corp. v. Colorado Magnetics, Inc.*, 497 F.2d 285, 288 (10th Cir. 1974) (copyright owner has “absolute control” over who can make reproductions of his or her work).

Similarly, a patent owner is not required to allow others to use its patented inventions. The “essence” of the patent grant is the “right to exclude others from profiting by the patented invention.” *Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 215 (1980). The Supreme Court has recognized that “[a] patent owner is not in the position of a quasi-trustee for the public or under any obligation to see that the public acquires the free right to use the invention. He has no obligation either to use it or to grant its use to others.” *Hartford-Empire Co. v. United States*, 323 U.S. 386, 432-33 (1945). *See also Ethyl Gasoline Corp. v. United States*, 309 U.S. 436, 457 (1940) (holding that a patent owner has a legal “right to refuse to sell . . . [its] patented products.”); *United States v. United Shoe Mach. Co.*, 247 U.S. 32, 57 (1918) (holding that the owner of intellectual property “necessarily has the power of granting [a license] to some and withholding it from others.”).

This Court has recognized the same principle many times. A patentee is under no obligation to license its patents because the “patentee may, if it wishes, do nothing with the subject matter of the patent.” *Cygnus Therapeutics Sys. v. ALZA Corp.*, 92 F.3d 1153, 1160, 39 U.S.P.Q.2d 1666, 1671 (Fed. Cir. 1996). *Accord Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1547, 35 U.S.P.Q.2d 1065, 1071 (Fed. Cir. 1995) (“There is no requirement in this country that a patentee

make, use, or sell its patented invention.”). It is left to Xerox to determine whether it best maximizes the reward granted by the Patent Act by selling parts to CSU, for a “court should not presume to determine how a patentee should maximize its reward for investing in innovation. . . . The market may well dictate that the best use of a patent is to exclude infringing products, rather than market the invention.” *King Instruments Corp. v. Perego*, 65 F.3d 941, 950, 36 U.S.P.Q.2d 1129, 1135 (Fed. Cir. 1995). *Accord Carborundum Co. v. Molten Metal Equip. Innovations, Inc.*, 72 F.3d 872, 880, 37 U.S.P.Q.2d 1169, 1174 (Fed. Cir. 1995) (“A patentee is generally entitled to determine how it wishes to commercialize its invention in order to optimize its economic benefit from the patent grant.”).

The Patent Act, Copyright Act, and caselaw are thus clear that the owner of intellectual property need not share that property with others. The alternative is compulsory licensing, a “rarity in our patent system,” *Dawson*, 448 U.S. at 215, and a remedy expressly rejected by Congress in drafting the Patent Act. *Hartford Empire*, 323 U.S. at 432-33 (“Congress has repeatedly been asked, and has refused, to change the statutory policy by imposing a forfeiture or by a provision for compulsory licensing if the patent is not used within a specified time.”).

**B. Conduct Authorized By The Patent Or Copyright Laws Cannot Violate the Antitrust Laws.**

**1. Courts have consistently held that a refusal to sell or license intellectual property does not violate the antitrust laws.**

It is axiomatic that exercise of the patent or copyright grant cannot constitute an antitrust violation. “The patent laws which give a 17-year monopoly on ‘making, using, or selling the invention’ are *in pari materia* with the antitrust laws

and modify them *pro tanto*.” *Simpson v. United Oil Co. of California*, 377 U.S. 13, 24 (1964). See also *Precision Instrument Mfg. Co. v. Automotive Maintenance Mach. Co.*, 324 U.S. 806, 816 (1945) (“[A] patent is an exception to the general rule against monopolies and to the right to access to a free and open market.”); *United States v. United Shoe Mach. Co.*, 247 U.S. at 57 (patentee’s decision “to exclude others from the use of the invention . . . is not an offense against the Anti-Trust Act.”).

With the exception of the Ninth Circuit’s decision in *Image Technical Servs., Inc. v. Eastman Kodak Co.*, 125 F.3d 1195 (9th Cir. 1997), *cert. denied*, 118 S. Ct. 1560 (1998), discussed *infra* at 42-45, the lower courts have consistently held that a refusal to sell or license intellectual property cannot violate the antitrust laws. See, e.g., *Miller Insituform, Inc. v. Insituform of North America, Inc.*, 830 F.2d 606, 609 (6th Cir. 1987) (“A patent holder who lawfully acquires a patent cannot be held liable under Section 2 of the Sherman Act for maintaining the monopoly power he lawfully acquired by refusing to license the patent to others.”); *United States v. Westinghouse Elec. Corp.*, 648 F.2d 642, 647 (9th Cir. 1981) (refusing to find antitrust liability based on refusal to license because, “[t]he right to . . . refuse to license at all is the untrammelled right of the patentee.”) (internal citation and quotation omitted); *SCM Corp. v. Xerox Corp.*, 645 F.2d 1195, 1209 (2d Cir. 1981) (“Xerox’s . . . refusal to license the [xerography] patents . . . was permissible under the patent laws and, therefore, did not give rise to any liability under § 2.”); *United States v. Studiengesellschaft Kohle, m.b.H.*, 670 F.2d 1122, 1129 (D.C. Cir. 1980) (refusing to find antitrust liability because the defendant

“sought nothing beyond what the patent . . . gave it. The patent gives it the unlimited right to exclude others from utilizing its process.”); *W.L. Gore & Assocs. v. Carlisle Corp.*, 529 F.2d 614, 623 (3d Cir. 1976) (“The right to refuse to license is the essence of the patent holder’s right under the patent law which rewards invention disclosure by the grant of a limited monopoly in the exploitation of the invention.”).

Although it has not directly addressed the antitrust implications of a refusal to license a copyrighted work, the Supreme Court has recognized the similarity between the goals of the Patent Act and Copyright Act, suggesting no basis for any conclusion other than that the copyright laws also modify the antitrust laws “*pro tanto*.” See, e.g., *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 439 (1984) (looking to patent cases and the Patent Act to determine standard for contributory infringement under copyright law “because of the historic kinship between patent law and copyright law.”).<sup>4</sup> Consistent with this principle, courts except for the Ninth Circuit in *Kodak* have found that a unilateral refusal to license a copyrighted work cannot violate the antitrust laws. See, e.g., *Data General Corp. v. Grumman Sys. Support Corp.*, 36 F.3d 1147, 1182 (1st Cir. 1994); *Service & Training, Inc. v. Data General Corp.*, 963 F.2d 680, 690 (4th Cir. 1992);

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<sup>4</sup> See also William C. Holmes, *Intellectual Property and Antitrust Law* § 11.02, at 11-17 (1997) (the logic of patent cases “would apply with equal force to a unilateral refusal to grant a copyright license.”); Department of Justice and Federal Trade Commission, *Antitrust Guidelines for the Licensing of Intellectual Property* § 2.1, 1995 WL 229332, \*2 (“[T]he governing antitrust principles are the same” for patents and copyrights.).

*Advanced Computer Servs. of Mich. v. MAI Sys. Corp.*, 845 F. Supp. 356, 369 (E.D. Va. 1994).

**2. The federal antitrust enforcement authorities are in accord with this precedent.**

The *Antitrust Guidelines for the Licensing of Intellectual Property*, published by the Department of Justice and Federal Trade Commission, establish that even where intellectual property conveys market power, that market power does not “impose on the intellectual property owner an obligation to license the use of that property to others.” *Guidelines* § 2.2, 1995 WL 229332, \*3.<sup>5</sup> Accordingly, when the Department of Justice sued General Electric, challenging GE’s policies for the licensing of diagnostic software, it did *not* claim that GE’s refusal to license the software to ISOs violated the antitrust laws. The Department’s Competitive Impact Statement discussing the settlement of the case noted that, “[t]he Complaint did not allege that GE’s refusal to license its intellectual property to any or all persons who might seek such licenses violated the antitrust laws, and the Final Judgment is silent as to that conduct.” *United States v. General Electric Co.*, 63 Fed. Reg. 40,737, 40,740 (1998) (Proposed Final Judgment and Competitive

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<sup>5</sup> CSU is simply wrong when it claims that the consent decree resolving the Federal Trade Commission’s recent action against Intel Corporation required Intel to license patents and copyrights. The Commission’s Analysis to Aid Public Comment does not recognize that the information Intel withheld was “intellectual property,” let alone was protected by patent or copyright, and notes that the proposed consent “does not impose any kind of broad ‘compulsory licensing’ regime upon Intel.” *In re Intel Corporation*, No. 9288, (FTC Mar. 17, 1999) (Analysis to Aid Public Comment).

Impact Statement). *See also In re E.I. duPont de Nemours & Co.*, 96 F.T.C. 653, 748 (1980) (FTC decision affirming right to refuse to license technology because “imposition of a duty to license might serve to chill the very kind of innovative process that led to duPont’s cost advantage.”).

**3. The leading treatises agree that a unilateral refusal to license intellectual property cannot violate the antitrust laws.**

The leading treatises are similarly in accord that a unilateral refusal to license intellectual property cannot violate the antitrust laws. *Antitrust Law Developments*, a comprehensive two-volume treatise published by the Antitrust Section of the American Bar Association notes, “It has long been held that a unilateral refusal to use or license a patent or copyright cannot form the basis of an antitrust claim.” 2 ABA Section of Antitrust Law, *Antitrust Law Developments* 972 (4th ed. 1997). Professors Areeda and Hovenkamp agree. “Whether or not the patent or patents at issue create monopoly power, the Patent Act gives the patentee the exclusive right to practice the patent, to license or refuse to license the patent at its will, to restrict production of the patented product, or not to practice the patent at all.” III Phillip E. Areeda & Herbert Hovenkamp, *Antitrust Law* ¶ 705c at 157 (1996). *See also* 6 Donald F. Chisum, *Chisum on Patents* § 19.04[3] at 19-334 (1997) (“[T]he patent owner has discretion whether and to whom he will . . . license.”).

**4. Because Xerox may sue for infringement without question of motive and without regard to competitive effects, it may refuse to license its intellectual property.**

The reason for the rule that exercise of rights granted by the Patent Act or Copyright Act cannot violate the antitrust laws is plain. The owner of lawfully

acquired valid intellectual property has a right to file suit to prevent others from using its inventions and works, and exercise of the right to file suit cannot result in antitrust liability. See *Professional Real Estate Investors, Inc. v. Columbia Pictures Indus., Inc.*, 508 U.S. 49, 56-60 (1993) (filing of meritorious copyright infringement lawsuit cannot violate the antitrust laws); *Walker Process Equip., Inc. v. Food Mach. & Chem. Corp.*, 382 U.S. 172, 177 (1965) (antitrust plaintiff must prove patent was obtained by fraud “to strip [a patentee] of its exemption from the antitrust laws” for bringing suit for infringement). This right to bring a meritorious suit for infringement is inviolable, even though the result – barring an infringer from use of the invention – may be anticompetitive. As this Court recently noted in *Glass Equip. Dev., Inc. v. Besten, Inc.*, 174 F.3d 1337, 1343, 50 U.S.P.Q.2d 1300, 1304 (Fed. Cir. 1999), “A patent owner who brings a lawsuit to enforce the statutory right to exclude others from making, using, or selling the claimed invention is exempt from the antitrust laws, even though such a suit may have an anticompetitive effect . . .”

Thus, if CSU purchased infringing parts or software from a third party, there is no doubt that Xerox could sue that third party for infringement and enjoin further sales to CSU and to others, as well as sue CSU for direct infringement. Similarly, if CSU manufactured its own infringing parts or wrote its own infringing software, Xerox could sue CSU to enjoin the infringement. The only difference here is that rather than exercise its right to exclude by suing an infringer, Xerox has exercised its right to exclude by refusing to permit CSU to use parts and software it

sought to buy or license from Xerox, though CSU remained free to use parts it obtained elsewhere or that its customers purchased from Xerox.

This conduct is lawful because the Patent Act grants Xerox the right to exclude others from *using* its inventions, not just making or selling them. 35 U.S.C. §§ 154, 271(a). The Copyright Act similarly grants Xerox the right to prevent others from reproducing (*i.e.* using) its software, not just distributing it. 17 U.S.C § 106. Requiring Xerox to sell or license its intellectual property to CSU would read the right to exclude *use* of an invention out of the Patent Act and the right to exclude reproduction out of the Copyright Act. *Cf. Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 135 (1969) (“The heart of [the patentee’s] legal monopoly is the right to invoke the State’s power to prevent others from utilizing his discovery without his consent.”); *Miller Insituform*, 830 F.2d at 609 (6th Cir. 1987) (“[T]he holder of a patent retains the power to exclude others from manufacturing, using, and selling his inventions without running afoul of the antitrust laws.”).

**5. CSU’s reliance on *Aspen* and *Otter Tail* is misplaced.**

CSU cites two Supreme Court cases that imposed antitrust liability for unilateral refusals to deal, but neither is applicable here because neither involved a refusal to deal in patented inventions or copyrighted works. In *Aspen Skiing Co. v. Aspen Highlands Skiing Corp.*, 472 U.S. 585, 608 (1985), the Court required that a monopolist offer an “efficiency justification” for its refusal to deal, and held that the defendant’s change in policy – discontinuing a cooperative ticketing arrangement with a competitor – was unlawful. *Aspen* is not applicable to cases

involving intellectual property, however, because there is no requirement for an “efficiency justification” for exercise of a right under the Patent Act or Copyright Act. Rather the owner of intellectual property “has the capacity *arbitrarily* to refuse to license.” *Stewart v. Abend*, 495 U.S. at 228-29.<sup>6</sup>

Indeed, requiring a procompetitive reason for a refusal to license – by its very nature an exclusionary act – would be directly contrary to the Patent and Copyright Acts. “[C]ondition[ing] a copyright upon a demonstrated lack of anticompetitive intent would upset the notion of copyright as a limited grant of monopoly privileges intended simultaneously to motivate the creative activity of authors and to give the public appropriate access to their work product.”

*Professional Real Estate Investors*, 508 U.S. at 64 (internal quotation and citation omitted). As the Supreme Court has recognized, exclusion of competitors is “the very essence of the right conferred by the patent.” *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405, 429 (1908). As the Court noted in *United Shoe*:

Of course, there is restraint in a patent. Its strength is in the restraint, the right to exclude others from the use of the invention, absolutely or on the terms the patentee chooses to impose. This strength is the compensation which the law grants for the exercise of invention. Its

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<sup>6</sup> This result is consistent with Supreme Court caselaw establishing that exercise of statutorily protected rights does not violate the antitrust laws, regardless of the defendant’s motive. *See, e.g., United States v. Rock Royal Co-op.*, 307 U.S. 533, 560 (1939) (defendants’ activity authorized by statute did not violate the antitrust laws even “[i]f ulterior motives of corporate aggrandizement stimulated their activities . . .”).

exertion within the field covered by the patent law is not an offense against the Anti-Trust act.

247 U.S. at 57. *See also* 8 Ernest Lipscomb, *Walker on Patents* § 28:12 (1989) (“Owners of patents may license or refuse to license as they choose, and whether that refusal to license is based on a commendable or odious reason is immaterial.”).

Furthermore, the fact pattern in *Aspen* – a change in policy to exclude competitors – is not present here. Xerox’s refusal to sell parts to ISOs applied to parts for new equipment as the equipment was introduced and was prospective only. A477-78. Regardless, a prohibition on changes in licensing policy would be inconsistent with long-standing intellectual property precedent that permits an owner of intellectual property to license some and then change its policy and refuse to license others. *See, e.g., United Shoe Mach. Co.*, 247 U.S. at 58 (owner of intellectual property “necessarily has the power of granting [a license] to some and withholding it from others . . .”); *E. Bement & Sons v. National Harrow Co.*, 186 U.S. 70, 94 (1902) (lawful for patentee to grant license but agree to refuse to license others); *Service & Training*, 963 F.2d at 686 (may license software to some but not others without running afoul of antitrust laws); *Supermarket of Homes, Inc. v. San Fernando Bd. of Realtors*, 786 F.2d 1400, 1408 (9th Cir. 1986) (“differential treatment” in sale of copyrighted books was not misuse); *SCM*, 645 F.2d at 1197 (lawful for Xerox to license patents to makers of coated paper copiers but later refuse to license plain paper copier companies); *Extractol Process Ltd. v. Hiram Walker & Sons Inc.*, 153 F.2d 264, 268 (7th Cir. 1946) (“No legitimate attack can be made on

the patent or patent grant because the patentee chooses A and B as its licensees and refuses a license to X, Y, or Z.”). *Aspen* is thus of no assistance to CSU in this case.

CSU also cites *Otter Tail Power Co. v. United States*, 342 U.S. 143 (1951), an “essential facilities” case. But again, CSU cites no case, and there is none, for the proposition that the statutory patent or copyright grant can be vitiated if the intellectual property is found to constitute an essential facility. Such a conclusion would run directly counter to the right to exclude granted by the Patent Act and Copyright Act. Surely this Court would not have reached a different result in *Genentech* had the plaintiff added an allegation that the patent on recombinant DNA technology used to produce human growth hormone was an “essential facility” necessary for it to compete with Eli Lilly in the market for hGH. *Genentech, Inc. v. Eli Lilly & Co.*, 998 F.2d 931, 948, 27 U.S.P.Q.2d 1241, 1253 (Fed. Cir. 1993). Nor would the result in *Mallinckrodt* have differed had the infringer added a claim that rights under the inventor’s patents were an “essential facility” necessary for it to compete in a market for reconditioning the patented device. *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 708, 24 U.S.P.Q.2d 1173, 1179 (Fed. Cir. 1992)

In its lawsuit against Xerox almost twenty years ago, SCM, too, “contended that a unilateral refusal to license a patent should be treated like any other refusal to deal by a monopolist.” *SCM v. Xerox*, 645 F.2d at 1204 (noting that SCM had cited *Otter Tail*). The *SCM* court properly rejected this argument because “[w]here a patent holder . . . merely exercises his ‘right to exclude others from making, using, or selling the invention,’ by refusing unilaterally to license his patent for its

seventeen year term, such conduct is expressly permitted by the patent laws.” *Id.* (internal citations omitted).

**C. Xerox’s Patents And Copyrights Give It The Right To Exclude Others From Using Its Intellectual Property In Any Antitrust Market.**

CSU argues that all of the unilateral refusal to license cases are irrelevant because they involve only “monopoly in the *primary* market for the patented items.” Appellant’s Brief at 31 (emphasis in the original). This concept, invented by CSU out of whole cloth, reflects a misreading of the caselaw and a fundamental misunderstanding of the nature of the patent and copyright grant. Xerox’s patents do not claim inventions only for use in specific antitrust markets; rather, they set out the metes and bounds of the inventions in their claims without deference to use, sale, or manufacture in any one market to the exclusion of others. The rights of a copyright holder are similarly not restricted to any one antitrust market. Xerox may prevent CSU from using its inventions and works in a purported antitrust market for the service of copiers and printers, just as Xerox may exclude IBM, Hewlett-Packard, Kodak, and Canon from using its inventions and works in an antitrust market for the manufacture of copiers and printers.

CSU’s idea that the intellectual property owner’s right to exclude is limited to what it calls the “primary market” for the invention ignores repeated pronouncements from the Supreme Court and this Court that the right to exclude is limited only by the claims of the patent. *See, e.g., Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. at 221 (“[T]he boundary of a patent monopoly is to be limited

by the literal scope of the patent claims.”); *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d at 708 (misuse judged on whether restraint “relates to subject matter within the scope of the patent claims.”). When Xerox refused to sell patented parts or license patented and copyrighted diagnostic software, its conduct was limited to the patented inventions and copyrighted works themselves; it simply refused to sell or license its intellectual property to its competitors. By doing nothing more than excluding others from using its patented inventions or copyrighted works; Xerox has done nothing to extend the “‘physical or temporal scope’ of the patent grant . . .” *Windsurfing Int’l, Inc. v. AMF, Inc.*, 782 F.2d 995, 1001, 228 U.S.P.Q. 562, 566 (Fed. Cir. 1986) (quoting *Blonder-Tongue Lab., Inc. v. University of Ill. Found.*, 402 U.S. 313, 343 (1971)).

This Court rejected the notion that a patent affords a right to exclude in only a single antitrust market in *B. Braun Medical, Inc. v. Abbot Labs.*, 124 F.3d 1419, 43 U.S.P.Q.2d 1896 (Fed. Cir. 1997). There the patentee invented a valve used with intravenous lines, but the Court refused to limit the patentee’s right to exclude to a single economic market:

The two markets at issue are those for (i) a SafSite® valve alone, and (ii) an extension set incorporating a SafSite® valve. By virtue of its patent rights to the SafSite® valve, Braun has the right to exclude competition altogether in each of these markets.

124 F.3d at 1427 n.4, 43 U.S.P.Q.2d at 1902 n.4. By refusing to license, the patentee would not be guilty of unlawfully leveraging its valve monopoly into a separate market for extension sets that incorporated the valve. Rather, like Xerox,

the refusal to license would be nothing more than an exercise of the right to exclude all uses of the invention, regardless of the economic markets in which the uses occur.

CSU's argument that Xerox is leveraging its parts patents to maintain a monopoly in an alleged "service market" is indeed indistinguishable from SCM's claim twenty years ago that Xerox's refusal to license patents – including patents on the very parts at issue here like photoreceptors and dicorotrons – was an unlawful attempt to maintain a monopoly in an alleged "equipment market" for plain paper photocopiers. In *SCM v. Xerox*, 645 F.2d at 1209, however, the court properly rejected SCM's attack because "Xerox's . . . refusal to license the [xerography] patents . . . was permissible under the patent laws and, therefore, did not give rise to any liability under § 2."

Several recent cases involving ISOs reached the same conclusion as the District Court below. In *Triad Sys. Corp. v. Southeastern Express Co.*, 64 F.3d 1330, 1337 (9th Cir. 1995), the court rejected an ISO's copyright misuse defense based on its claim that a refusal to license copyrighted diagnostic software was an attempt to "leverage" the copyright into a service monopoly because the rights granted by a copyright "extend to the service market." Similarly, in *Data General*, 36 F.3d at 1189, the court affirmed summary judgment against an ISO claiming that DG leveraged its copyright "to maintain its monopoly in the aftermarket for service of DG computers" by refusing to license diagnostic software. *Accord Servicetrends, Inc. v. Siemens Medical Sys. Inc.*, 870 F. Supp. 1042, 1056-57 (N.D. Ga. 1994), *amended by* 1995-1 Trade Cas. (CCH) ¶ 70,901 (N.D. Ga. 1994)

(rejecting ISO’s claim that Siemens was “leverag[ing] its monopoly power in the ‘patented’ shocktube market into [a separate] service market by refusing to sell or make available components of the shocktube, effectively thwarting any effort to repair” because “Siemens AG’s lawful patent does give it the right to refuse to sell or license the patented device . . .”).

An intellectual property owner’s rights are not dependent upon the vagaries of antitrust market definition. Because intellectual property rights are limited only by the statutory grant, and because Xerox simply exercised its right to exclude others from using its intellectual property, Xerox’s conduct was lawful.

**D. Section 271(d)(4) of the Patent Act Bars Antitrust Claims Premised On Xerox’s Refusal to Sell or License Patented Parts and Software.**

Section 271(d)(4) of the Patent Act confirms that Xerox’s refusal to sell its patented parts or license its patented diagnostic software cannot violate the antitrust laws. Enacted in 1988, that section provides that:

No patent owner otherwise entitled to relief for infringement or contributory infringement shall be denied relief or deemed guilty of misuse *or illegal extension of the patent right* by reason of having . . . (4) refused to license or use any rights in the patent.

35 U.S.C. § 271(d)(4) (emphasis added). CSU’s arguments that this section does not bar its antitrust claims are unavailing; the plain language and the legislative history show that Xerox’s refusal to deal with CSU is absolutely protected.

### 1. The plain language of § 271(d) bars antitrust claims.

The first step in interpreting a statute is to examine its plain language. *See Bell v. Office of Personnel Management*, 169 F.3d 1383, 1389 (Fed. Cir. 1999). The language of § 271(d)(4) bars both misuse defenses and antitrust claims based on a refusal to license; it provides that patent holders should not be held guilty of misuse *or* illegal extension of the patent right by reason of their refusal to deal. *See* 35 U.S.C. § 271(d)(4). Although the language of § 271(d)(4) does not expressly refer to “antitrust” claims, it uses a phrase, “illegal extension of the patent right,” that is synonymous with the test for patentee antitrust violations. *See, e.g., Mercoïd Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 661, 666 (1944) (“The fact that the patentee has the power to refuse a license does not enable him to *enlarge the monopoly of the patent* by the expedient of attaching conditions to its use.”) (emphasis added); *W.L. Gore & Assoc. v. Carlisle Corp.*, 529 F.2d at 622 (“Thus an attempt *to extend a patent monopoly* beyond the patent claims or the limited period of the monopoly grant necessarily runs counter to the patent laws . . . .”) (emphasis added). It is, of course, well-established that “[w]here Congress uses terms that have accumulated settled meaning under . . . the common law, a court must infer, unless the statute otherwise dictates, that Congress means to incorporate the established meaning of these terms.” *NLRB v. Amax Coal Co.*, 453 U.S. 322, 329 (1981). Accordingly, the plain language of § 271(d)(4) gives patent holders immunity from both misuse defenses and antitrust claims stemming from refusals to license rights to a patent.

Moreover, reading the statutory language “illegal extension of the patent right” to mean nothing more than patent misuse would render the phrase a nullity; under CSU’s reading the statute would provide that a patent owner could not be guilty of “misuse or misuse.” Such a reading conflicts with the “elementary canon of construction that a statute should be interpreted so as not to render one part inoperative . . .” *Mountain States Tel. & Tel. Co. v. Pueblo of Santa Ana*, 472 U.S. 237, 249 (1985) (citation omitted). Indeed, reading § 271(d)(4) to apply solely to misuse claims would not only render part of the statute a nullity; it would render *all* of the benefits provided by the statute illusory. Of what value is the right to enforce a patent free of a misuse defense if the very act of enforcing the patent right can result in the imposition of treble damages under the antitrust laws?

## **2. Courts have interpreted § 271(d) to bar antitrust claims.**

The courts have recognized that the immunity against patent misuse provided by § 271(d) would be meaningless if the same conduct were subject to antitrust treble damages. *See Carpet Seaming Tape Licensing Corp. v. Best Seam, Inc.*, 616 F.2d 1133, 1143 (9th Cir. 1980) (citing § 271(d)(3) to conclude that “[a]ttempted enforcement of a patent does not amount to a violation of the antitrust laws.”); *Polysius Corp. v. Fuller Co.*, 709 F. Supp. 560, 576 (E.D. Pa. 1989) (finding, based on § 271(d)(1), that “Congress has mandated . . . [that] plaintiffs cannot be guilty of either antitrust violations or patent misuse . . .”); *Rohm & Haas Co. v. Dawson Chem. Co.*, 557 F. Supp. 739, 835 (S.D. Tex.) (§ 271 “necessarily extends into the antitrust arena” because “it would be superfluous to sanction and protect activity within one area of the law and concurrently prohibit and expose a

patentee to damages by reason of another body of law.”), *rev'd on other grounds sub nom. Rohm & Haas Co. v. Crystal Chem. Co.*, 722 F.2d 1556 (Fed. Cir. 1983).

**3. The legislative history provides further support that § 271(d) was intended to bar antitrust claims.**

To avoid the plain meaning of the statute, the interpretation mandated by elementary principles of statutory construction, and the interpretation of the statute found in the caselaw, CSU looks to the legislative history. But CSU looks to the *wrong* legislative history – that of the 1988 amendments (which added the refusal to license provisions) – rather than the legislative history of the original 1952 Act, which contains the “illegal extension” language. As the Supreme Court has stated, “it is well settled that ‘the views of a subsequent Congress form a hazardous basis for inferring the intent of an earlier one.’” *Russello v. United States*, 464 U.S. 16, 26 (1983) (citing *Jefferson County Pharmaceutical Assn. v. Abbot Labs.*, 460 U.S. 150, 165 n.27 (1983)). If a subsequent Congress does not alter the language of a statute when amending it, it also does not alter the purpose of the original language. *See United States v. Clark*, 445 U.S. 23, 32-33 (1980).

An examination of the legislative history of the 1952 enactment of § 271(d) shows that Congress indeed intended to bar antitrust claims based on conduct described in that provision. The Department of Justice specifically objected to the provision that became § 271(d) because “its effect might be to carve out an area in which the antitrust laws would not operate. . . . The proponents of the bill indicate that such a result is contemplated in the language of section [271(d)].” *Hearings before Subcommittee No. 3 of the Committee on the Judiciary, House of*

*Representatives, 82 Cong., 1<sup>st</sup> Sess. on H.R. 3760, June 13, 14, and 15, 1951, Serial No. 9, at 207. The late Judge Giles Rich of this Court, who as a representative of the New York Patent Law Association at the time was the principal author of § 271(d), agreed with Department of Justice that the bill would modify the antitrust laws; indeed he testified that the new provisions would “eliminate a lot of headaches and a lot of alleged violations of the antitrust laws.” Hearings before Subcommittee No. 4 of the Committee on the Judiciary, House of Representatives, 81<sup>st</sup> Cong., 1<sup>st</sup> Sess. on H.R. 3866, May 25 and June 3, 1949, Serial No. 17, at p. 30.<sup>7</sup>*

Moreover, even the legislative history of the 1988 amendments to § 271(d) that expressly immunized refusals to license supports a reading of the provision as barring antitrust claims. Representative Kastenmeier cited *SCM v. Xerox*, 645 F.2d at 1203-06, as a basis for the statute, *see* 134 Cong. Rec. H10646, H10648 (Oct. 20, 1988), but the *SCM* case involved *only* antitrust claims, not patent claims or a misuse defense. Thus, even if, as the Ninth Circuit claimed, “§ 271(d)(4) merely codified existing law,” *Image Technical Servs.*, 125 F.3d at 1214 n.7, it codified the law that a refusal to license could not violate the *antitrust* laws.

CSU ignores the relevant legislative history from the 1952 Act, and even the legislative history of the 1988 amendments adopted by the House, to focus on the

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<sup>7</sup> See generally Robert J. Hoover, *Is Activity Within The Subsections of 35 U.S.C. § 271(d) Protected From A Finding of Antitrust Violation?*, 74 J. Pat. & Trademark Off. Soc’y 221, 290 (1992) (discussing legislative history and concluding that § 271(d) bars antitrust liability).

Senate reports and debates. *See* Appellant’s Brief at 35-37. However, the bill debated by the Senate differed substantially from the one passed by the whole Congress; the Senate bill provided that patent licensing practices would not constitute patent misuse “unless such practices or actions or inactions . . . violate the antitrust laws.” S. 438, 100<sup>th</sup> Cong., tit. II, § 201 (1988), *reprinted in* S. Rep. No. 100-492, at 17-18 (1988). Given that the Senate debate and reports cited were directed at a vast overhaul of § 271(d), not the legislation that passed, those portions of the legislative history have no relevance to the task of interpreting the statute that actually was enacted and became § 271(d)(4).

**4. § 271(d)(4) is not limited to cases involving complete suppression of the patent.**

Next, CSU argues that § 271(d)(4) is inapplicable because it applies only where there is complete suppression of the patent, while here Xerox practices the patent itself and sold parts to end users (though not to ISOs). This argument ignores both the plain language and legislative history of the statute. First, § 271(d)(4) is stated in the disjunctive; it bars antitrust claims based on a refusal to “license *or* use” patent rights (emphasis added). 35 U.S.C. § 271(d)(4). It also applies where the patent owner refuses to license or use “*any*” rights to the patent, rather than “*all*” rights to the patent. *See id.* Moreover, as noted, Representative Kastenmeier pointed to *SCM v. Xerox*, 645 F.2d at 1203-06, as a basis for the new “refusal to license” provision, 134 Cong. Rec. H10646, H10648 (Oct. 20, 1988), but *SCM* did *not* involve complete suppression of the patent. Rather, in *SCM* the Second Circuit refused to impose antitrust liability based upon a unilateral refusal

to license patents, even though Xerox both used the patented inventions in its own photocopiers *and* licensed its patents, albeit only for certain uses. *See id.* at 1197 (noting that Xerox licensed the patents to manufacturers of coated paper photocopiers, not makers of plain paper copiers like SCM).

**5. Xerox’s reading of § 271(d)(4) does not conflict with § 271(d)(5).**

Finally, CSU’s argument that the District Court’s reading of § 271(d)(4) renders § 271(d)(5) meaningless is entirely without merit. Section 271(d)(5) bars certain tying arrangements, arrangements that already violate the antitrust laws, *e.g.*, *Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2 (1984), and constitute misuse, *e.g.*, *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488, 492-94 (1941). Section 271(d)(4), in contrast, applies to purely unilateral conduct. There is a difference. Tying contracts involving patented or copyrighted works are unlawful under the antitrust laws and constitute misuse; unilateral refusals to license intellectual property are neither. *See, e.g.*, *D.B. Cole v. Hughes Tool Co.*, 215 F.2d 924, 937 (10th Cir. 1954) (antitrust laws do “not prohibit [the patentee] from inhibiting the manufacture, use or sale . . . of the patented device by others,” but only “prohibits the patentee from making a contract which imposes limitations beyond his lawful patent monopoly on the right of his lessee or purchaser to use or deal in goods . . .”).

**6. § 271(d) bars antitrust claims based on conduct before the patentee sued for infringement.**

Amicus Creative Copier Services (“CCS”) raises one additional argument. CCS argues that because Xerox did not sue CSU for infringement until 1995,

Xerox was not, in the words of the statute, “otherwise entitled to relief for infringement” before that date, and hence § 271(d)(4) cannot immunize Xerox’s earlier conduct. CCS cites no caselaw or legislative history for its argument, and there is none. Rather, “otherwise entitled to relief” is simply a shorthand for ownership of a valid patent that could be enforced against *someone*. For example, § 271(d)(3) applies to bar misuse and antitrust claims premised on an attempt to enforce patent rights against infringement or contributory infringement. It applies even where the patent infringement claims against a particular party would *fail*, *i.e.*, where the court holds that the patentee is not “entitled to relief” against the party. *See Virginia Panel Corp. v. Mac Panel Corp.*, 133 F.3d 860, 870, 45 U.S.P.Q.2d 1225, 1234 (Fed. Cir. 1997) (where infringement notices were sent in good faith, § 271(d)(3) would bar a misuse claim even if patentee would not be entitled to injunctive relief because infringers were government contractors). Section 271(d)(4) thus bars even CSU’s antitrust claims based on conduct before Xerox filed suit for infringement.

**E. Xerox’s Alleged Supracompetitive Prices For Its Patented Inventions And Copyrighted Works Cannot Violate The Antitrust Laws.**

**1. Courts have consistently held that patentees and copyright holders are free to demand any royalty.**

If Xerox is free to refuse to sell or license its patented and copyrighted inventions and works, when it does choose to sell or license them, it must be free to charge whatever price it chooses, for “[a] royalty demand which is so high as to preclude acceptance . . . is, after all, not appreciably different from a refusal to

license upon any terms.” *W.L. Gore & Assocs.*, 529 F.2d at 623. As the Supreme Court recognized, “[a] patent empowers the owner to extract royalties as high as he can negotiate with the leverage of that monopoly.” *Brulotte v. Thys Co.*, 379 U.S. 29, 33 (1964). *See also Akzo, N.V. v. U.S. Int’l Trade Comm’n*, 808 F.2d 1471, 1488-89, 1 U.S.P.Q.2d 1241, 1252-532 (Fed. Cir. 1986) (patentee is free to charge higher prices for those uses of its patented process that have greater value).

In *Stewart v. Abend*, 495 U.S. at 228, the Supreme Court rejected the argument CSU makes here, namely that “excessive” pricing of the copyrighted work undermined the “policies underlying the Copyright Act.” The Court recognized that “[a]t heart, petitioners’ true complaint is that they will have to pay more for the use of works they have employed in creating their own works.” *Id.* at 229. But “such a result was contemplated by Congress and is consistent with the goals of the Copyright Act.” *Id.* Indeed, the Court refused to find it unlawful for the copyright holder to “make demands – like respondent’s demand for 50% of petitioners’ gross proceeds in excess of advertising expenses – which are so exorbitant that a negotiated economic accommodation will be impossible.” (internal quotation omitted). *Id.* at 228.

To the extent that Xerox’s intellectual property rights convey “monopolies,” they are lawful monopolies. There is no allegation that Xerox has obtained its patents and copyrights through anything other than “superior skill, foresight, and industry.” *United States v. Aluminum Co. of America*, 148 F.2d 416, 430 (2d Cir. 1945). The antitrust laws impose no limit on the price that such a lawful monopolist may charge. As the Seventh Circuit noted:

A natural monopolist that acquired and maintained its monopoly without excluding competitors by improper means is not guilty of ‘monopolizing’ in violation of the Sherman Act, and can therefore charge any price it wants, for the antitrust laws are not a price-control statute or a public-utility or common-carrier rate regulation statute.

*Blue Cross & Blue Shield United of Wis. v. Marshfield Clinic*, 65 F.3d 1406, 1412-13 (7th Cir. 1995) (internal citations omitted). *See also* III Phillip E. Areeda & Herbert Hovenkamp, *Antitrust Law* ¶ 720b at 107 (1996) (“Antitrust courts have rightly resisted undertaking the heavy, continuous and unguided burden of supervising the economic performance of business firms.”); 6 Donald F. Chisum, *Chisum on Patents* § 19.04[3] at 19-334-336 (1997) (patent owner “may set a price for a patented product or the royalty rate in a license at whatever level he feels will maximize the return on his lawful patent monopoly.”). *Accord Kartell v. Blue Shield of Mass., Inc.*, 749 F.2d 922, 947 (1st Cir. 1984) (a monopolist “is free to exploit whatever market power it may possess when that exploitation takes the form of charging uncompetitive prices”); *Continental Cablevision of Ohio v. American Elec. Power*, 715 F.2d 1115, 1124 (6th Cir. 1983) (high prices not unlawful even for monopolist); *Berkey Photo, Inc. v. Eastman Kodak Co.*, 603 F.2d 263, 274 n.12 (2d Cir. 1979) (“high prices, far from damaging competition, invite new competitors into the monopolized market”).

## **2. Cases cited by CSU do not justify a contrary result.**

None of the cases cited by CSU justify a contrary result. In *Eastman Kodak Co. v. Southern Photo Materials Co.*, 273 U.S. 359, 375 (1927), the Court did not

find that it was unlawful for a monopolist to charge high prices, only that under the circumstances those high prices were evidence of anticompetitive intent in a case that did not involve intellectual property. But Xerox's intent in setting the price of its parts and software is irrelevant here; Xerox need not have some "pure" intent when exercising its intellectual property rights. *Professional Real Estate Investors*, 508 U.S. at 60 ("[o]nly if challenged litigation is objectively meritless may a court examine the litigant's subjective motivation."); *Data General*, 36 F.3d at 1189 ("search for an overriding 'antisocial' motivation" behind copyright holder's conduct was "unilluminating"); *W.L. Gore & Assocs.*, 529 F.2d at 623 (holding that a licensor's motive in setting price which the infringer alleged to be "exorbitant" is "irrelevant"). *Virtual Maintenance, Inc. v. Prime Computer, Inc.*, 11 F.3d 660, 666-67 (6th Cir. 1993), was a case about tying arrangements, not the unilateral conduct at issue here. *American Photocopy Equip. Co. v. Rovico, Inc.*, 359 F.2d 745 (7th Cir. 1966), which denied a preliminary injunction because the patentee acted "inequitably" by charging high royalties, has never been followed and is inconsistent with both Supreme Court precedent, *Brulotte*, 379 U.S. at 33, and with later Seventh Circuit precedent, *Marshfield Clinic*, 65 F.3d at 1412-13.<sup>8</sup> Finally, the "Shrimp Peelers cases," *LaPeyre v. FTC*, 366 F.2d 117, 120-21 (5th Cir. 1966), and *Peelers Co. v. Wendt*, 260 F. Supp. 193 (W.D. Wash. 1966), are also inconsistent with precedent, have not been cited favorably in more than 20

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<sup>8</sup> See also *Chisum* § 19.04[3] at 19-337 ("The *Rovico* decision is of doubtful precedential value.").

years, and have been subject to substantial criticism. *See, e.g., USM Corp. v. SPS Tech., Inc.*, 694 F.2d 505, 512-513 (7th Cir. 1982); *Carter-Wallace, Inc. v. United States*, 167 U.S.P.Q. 667, 673 n.10 (Ct. Cl. 1970) (the Shrimp Peelers cases “stand[] the antimonopoly laws on their head”).

Even the Ninth Circuit’s decision in *Kodak*, relied upon so heavily by CSU, cannot aid it here. That court, recognizing the limits of judicial competence to set prices, overturned an injunction requiring Kodak to sell at “reasonable” prices and permitted Kodak to charge “any nondiscriminatory price the market will bear.” 125 F.3d at 1225-26.

The potential for mischief in a requirement that intellectual property owners charge “reasonable” prices for their inventions and works is laid bare by the record in this case. Paul Lyon, the Chairman of CSU, offered his opinion of “reasonable prices”:

We’re prepared to give [Xerox] 200 to 300 percent markup . . . We would ask a Court to say that a 200 percent to 300 percent markup over an objective standard with respect to cost is a sufficient margin for anybody, including ladies’ dresses.

A786. CSU, not surprisingly, was able to find an expert who shared Mr. Lyon’s view. CSU’s damages expert, in his own words, “picked a number,” and determined that a reasonable price was 2.6x Xerox’s manufacturing cost – regardless of Xerox’s R&D costs – a number right in the middle of Mr. Lyon’s range. A807-8.

If any infringer can get its misuse defense and antitrust counterclaims to a jury based on a so-called expert who will “pick a number” showing the demanded license fee to be “unreasonable” and “exorbitant,” no owner of intellectual property will be able to enforce its rights without the burden of a full-blown antitrust trial. “To say that the mere amount of money due and payable for the grant of a license is subject to judicial review would render each and every agreement made subject to court approval.” *Stearns v. Tinker & Rasor*, 252 F.2d 589, 605 (9th Cir. 1957).

**F. The Cases Cited By CSU Involving Tying Or Other Concerted Conduct Are Irrelevant.**

CSU implies in its brief in this Court that Xerox engaged in concerted conduct. Appellant’s Brief at 5, 25. These arguments were not raised below, and are therefore waived. *See CEMEX, S.A. v. United States*, 133 F.3d 897, 902 (Fed. Cir. 1998) (“Ordinarily, when a party fails to make an argument in proceedings below, the argument is waived, and we will not hear it on appeal.”). CSU’s new arguments are, in any event, entirely lacking in merit. CSU’s suggestion (Appellant’s Brief at 5) that Xerox conspired with its subsidiaries, Rank Xerox and Xerox Canada, to deny CSU parts is foreclosed by *Copperweld Corp. v. Independence Tube Corp.*, 467 U.S. 752, 769 (1984), which held that a company is incapable, as a matter of law, of conspiring with its subsidiaries. CSU also suggests (Appellant’s Brief at 25), that “Xerox will grant a license to use its patented parts only on the condition that the licensee will not use the parts to provide competing service.” There is no record support for this assertion, and it is

indeed false. Xerox unilaterally determined to whom it would sell parts. Once the purchaser received the part it was free to use it for whatever purpose it desired; there was no contractual obligation not to use the part to compete with Xerox or not to provide it to someone who did. *See, e.g.*, A477-78 (Xerox policy provides that end users may supply parts to ISOs).

CSU's reliance upon cases that involve tying, price fixing, and other forms of concerted conduct is therefore misplaced. Those cases are irrelevant here because Xerox's refusal to license was purely unilateral. CSU's antitrust claims are all based on Section 2 of the Sherman Act, 15 U.S.C. § 2, which prohibits monopolization. *None* of CSU's claims is based on Section 1 of the Sherman Act, 15 U.S.C. § 1, which "reaches unreasonable restraints of trade effected by a 'contract, combination . . . or conspiracy' between *separate* entities. It does not reach conduct that is 'wholly unilateral.'" *Copperweld*, 467 U.S. at 767-68 (quoting *Albrecht v. Herald Co.*, 390 U.S. 145, 149 (1968)).

This distinction between concerted and unilateral conduct is crucial, but CSU ignores it. A unilateral refusal to deal differs from a tying arrangement. "The difference is clear and vital between the exclusive right to use the machine, which the law gives to the inventor, and the right to use it exclusively with prescribed materials . . ." *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 512 (1917). As this Court noted in *Genentech, Inc. v. Eli Lilly & Co.*, 998 F.2d at 949, 27 U.S.P.Q.2d at 1254, an intellectual property owner's "right to select its licensees" is unilateral conduct, and not a "restraint of trade" outside the grant of the Patent Act.

Other courts have similarly recognized the difference between unilateral conduct and concerted conduct involving intellectual property. In *Data General*, the First Circuit refused to find antitrust liability for a unilateral refusal to license diagnostic software to ISOs, but recognized in a footnote that “concerted and contractual behavior that threatens competition is not immune from antitrust inquiry simply because it involves the exercise of copyright privileges.” 36 F.3d at 1186 n.63. In *Service & Training*, the Fourth Circuit held that, “[p]rovided it does so unilaterally, Data General may permissibly restrict MV/ADEX licenses to a particular class of customers.” 963 F.2d at 686 n.12. Similarly, in *SCM v. Xerox*, the court distinguished between “a concerted refusal to license patents,” which it characterized as “attempting to enlarge . . . [a] monopoly beyond the scope of the patent,” and “refusing unilaterally to license” a patent, which is “expressly permitted by the patent laws.” 645 F.2d at 1204. *See also D.B. Cole*, 215 F.2d at 937 (stating that the antitrust laws do “not prohibit [the patentee] from inhibiting the manufacture, use or sale of the patented device by others,” but only “prohibit the patentee from *making a contract* which imposes limitations beyond his lawful patent monopoly on the right of his lessee or purchaser to use or deal in goods.”) (emphasis added); *In re E.I. duPont de Nemours & Co.*, 96 F.T.C. 653, 748 (1980) (affirming right to refuse to license technology where there was no evidence that DuPont used “unreasonable means to acquire its know-how, or that it *joined with others* in preventing access by competitors.”) (emphasis added).

The most important example of CSU’s confusion between unilateral and concerted conduct is its heavy reliance on footnote 29 in the Supreme Court’s

*Kodak* decision, a discussion of concerted conduct in a case that did *not* involve intellectual property rights. *Eastman Kodak Co. v. Image Technical Servs, Inc.*, 504 U.S. 451, 480 n.29 (1992). While the case that ultimately was tried did involve patent issues, when the case went to the Supreme Court on appeal of the summary judgment granted to Kodak, there was no evidence before the Court that any of the Kodak parts in question were protected by intellectual property rights. Indeed, the only evidence in the record was that *none* of the parts were patented. *See* Respondent’s Brief, 1991 WL 530838 at \*45 (“Kodak has produced no evidence of exclusive patent rights over OEM-made parts for Kodak equipment (even though such information was sought by interrogatory).”).<sup>9</sup> The Supreme Court decided the case as if there were no intellectual property rights implicated, and Kodak raised patent rights as a defense only after remand.

Regardless, nothing in footnote 29 changes the long-standing right of the owner of intellectual property *unilaterally* to refuse to share that property with a competitor. The footnote is found in the *Kodak* Court’s discussion of the ISOs’ tying claims under Section 1 of the Sherman Act., 15 U.S.C. § 1, not the ISOs’ monopolization claims under Section 2 of the Act, 15 U.S.C. § 2. The footnote characterizes its discussion as one of Kodak’s “tying policy” and “tying in derivative aftermarkets.” 504 U.S. at 480, n.29. The cases upon which the

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<sup>9</sup> The rights of intellectual property owners were not discussed in the briefs or at oral argument before the Supreme Court in *Kodak* either. *See* 1991 WL 636270 (oral argument); 1991 WL 530837 (Petitioner’s Brief); 1991 WL 530838 (Respondent’s Brief); 1991 WL 530839 (Petitioner’s Reply Brief).

footnote relies all involve concerted conduct: tying or price fixing. *See Northern Pac. Ry. v. United States*, 356 U.S. 1 (1958) (tying arrangement and exclusive dealing contract); *Times-Picayune Pub. Co. v. United States*, 345 U.S. 594 (1953) (tying); *United States v. Paramount Pictures, Inc.*, 334 U.S. 131 (1948) (price fixing conspiracy); *Leitch Mfg. Co. v. Barber Co.*, 302 U.S. 458, 463 (1938) (tying).

*Kodak* simply does not address Xerox's conduct here – a *unilateral* refusal to deal. *See Data General*, 36 F.3d at 1186 n.63 (footnote 29 is a discussion of “concerted and contractual behavior”). The Supreme Court explicitly credited allegations that Kodak's refusal to sell parts to ISOs was *not* a unilateral refusal to deal, but rather involved a Section 1 agreement with customers that they would use the parts only for self-service and would not provide them to an ISO. *See* 504 U.S. at 463 n.8 (citing *Image Technical Servs. v. Eastman Kodak Co.*, 903 F.2d 612, 619 (9th Cir. 1990) (“Kodak entered into agreements with its equipment owners, expressly set out in its ‘Terms of Sale,’ that it will sell parts only to users ‘who service only their own Kodak equipment.’”)). It is undisputed that no such conditioned sale is present here; Xerox's customers were free to permit ISOs to use parts they purchased.

The other Section 1 and misuse cases involving concerted action cited by CSU are similarly inapplicable. *Broadcast Music, Inc. v. CBS*, 441 U.S. 1 (1979), *United States v. Loews, Inc.*, 371 U.S. 38 (1962), *United States v. Paramount Pictures, Inc.*, 334 U.S. 131 (1948), *Mercoird Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 661 (1944), *Morton Salt Co. v. G.S. Suppiger*, 314 U.S. 488 (1942), *Motion*

*Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502 (1917), and *Senza-Gel Corp. v. Seiffhart*, 803 F.2d 661, 231 U.S.P.Q. 363 (Fed. Cir. 1986), were all tying cases (also called package licensing or block booking cases). *Interstate Circuit, Inc. v. United States*, 306 U.S. 208 (1939), and *Straus v. American Publishers Ass’n*, 231 U.S. 222 (1913), were both price fixing cases. *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 136 (1969), involved a contractual obligation to pay royalties on unpatented goods. *Practice Management Info. Corp. v. American Med. Ass’n*, 121 F.3d 516 (9th Cir.), *cert. denied*, 118 S. Ct. 339 (1997), *Lasercomb America, Inc. v. Reynolds*, 911 F.2d 970 (4th Cir. 1990), and *United States v. Microsoft Corp.*, No. 98-1232, 1998 WL 614485 (D.D.C. Sept. 14, 1998), all addressed express exclusive dealing requirements in license agreements. Finally, *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 24 U.S.P.Q.2d 1173 (Fed. Cir. 1992), involved a restrictive provision in a licensing agreement, and this Court in any event found the provision lawful. *None* of these cases stand for the proposition that a unilateral refusal to deal may be unlawful.

## **II. THIS COURT SHOULD REJECT THE NINTH CIRCUIT’S DEPARTURE FROM LAW AND PRECEDENT IN *KODAK*.**

CSU is able to cite only a single case that imposed antitrust liability for a unilateral refusal to license intellectual property, *Image Technical Service v. Eastman Kodak Co.*, 125 F.3d 1195 (9th Cir. 1997), *cert. denied*, 118 S. Ct. 1560 (1998). The *Kodak* court itself recognized that it could “find no reported case in which a court has imposed antitrust liability for a unilateral refusal to sell or license a patent or copyright” and that “[c]ourts do not generally view a

monopolist's unilateral refusal to license a patent as 'exclusionary conduct.'" *Kodak*, 125 F.3d at 1216. This Court should reject the Ninth Circuit's dangerous and unsupported departure from precedent. Because it is left to this Court to resolve conflicts between the Patent Act and the antitrust laws, *Midwest Indus., Inc. v. Karavan Trailers, Inc.*, 175 F.3d 1356, 1358, 50 U.S.P.Q.2d 1672, 1676 (Fed. Cir. 1999) (*en banc*), a clear rejection of the Ninth Circuit will serve to protect all patent owners.

The Ninth Circuit acknowledged that, "without bounds," antitrust claims based on a unilateral refusal to license would "reduce the patent holder's 'incentive . . . to risk the often enormous costs in terms of time, research and development.'" *Kodak*, 125 F.3d at 1218 (quoting *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 480 (1974)). Nevertheless, the *Kodak* court, without citation to any authority, held that an intellectual property owner may be held liable under the antitrust laws for exercising its intellectual property rights based on "evidence of pretext." 125 F.3d at 1219. This rule is inconsistent with precedent from the Supreme Court and this Circuit, none of which, as demonstrated above, has ever conditioned the exercise of an intellectual property owner's rights on its motivation or subjective intent.

The Ninth Circuit's departure from precedent appears to have been based at least in part on a misreading of the First Circuit's *Data General* opinion – a decision that *upheld* Data General's refusal to license copyrighted diagnostic software to an ISO and recognized that, in the case of patented inventions, the Patent Act bars all antitrust claims based on a unilateral refusal to license. 36 F.3d at 1186-87. The First Circuit in *Data General* never looked to whether Data

General's policy was motivated by the fact that its software was protected by copyright. Indeed, the First Circuit assumed that Data General's refusal to license was motivated not by the fact that the software was copyrighted, but by "the goal of maximizing its [service] revenues" and by Data General's desire "to maintain its monopoly in the aftermarket for service of DG computers." 36 F.3d at 1154 and 1188. Rather than inquiring into the motivation underlying Data General's refusal to deal or searching for evidence of "pretext," the First Circuit criticized any "search for an overriding 'antisocial' motivation" as unilluminating." *Id.* at 1189. Because its software was *in fact* protected by the exclusive rights afforded the Copyright Act, the First Circuit concluded that Data General's mere "desire . . . to be the exclusive user of its original work" was sufficient to establish a "presumptively legitimate business justification." *Id.* at 1182.

Rather than creating a broad exception to an intellectual property owner's rights based on a factual investigation of its subjective intent as the Ninth Circuit and CSU have suggested, the First Circuit in *Data General* held that antitrust liability could be imposed for a copyright holder's refusal to license only in "rare cases in which imposing antitrust liability is unlikely to frustrate the objectives of the Copyright Act." 36 F.3d at 1187 n.64. But the First Circuit provided only a single example of such a "rare" circumstance – a refusal to license a copyright that was *unlawfully* acquired. 36 F.3d at 1188. It is indeed difficult to imagine any other circumstance in which requiring the owner of intellectual property to license its property would be consistent with the objectives of the Copyright Act.

Under the Ninth Circuit’s *Kodak* standard, no owner of intellectual property can safely refuse to license its work without incurring the risk of expensive and burdensome antitrust litigation. Questions of subjective intent behind a refusal to license are necessarily fact-specific. Accordingly, under the Ninth Circuit’s standard, it would be impossible for an owner of intellectual property to obtain dismissal of an antitrust challenge to its refusal to license without the burdens imposed by discovery designed to permit a plaintiff to identify evidence of “pretext” undercutting any proffered basis for the refusal to deal. Under the Ninth Circuit’s *Kodak* standard, an inventor could not refuse to license a patent on a new drug to a generic pharmaceutical house without permitting an antitrust plaintiff to examine the files of hundreds of its employees in search of a “smoking gun” showing that the refusal to license was motivated not by the patent protecting the new drug, but by some “antisocial” anticompetitive intent – keeping for itself the fruits of its innovation.

The Ninth Circuit’s subjective standard is logically flawed and inconsistent with controlling precedent. Worse, it is an invitation to chaos, destructive of the incentives to innovate protected by the Patent Act and Copyright Act.<sup>10</sup> This Court should reject the Ninth Circuit’s *Kodak* decision.

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<sup>10</sup> See, e.g., Tonya Trumm, *Comment, Expansion of the Compulsory Licensing Doctrine? Image Technical Services, Inc. v. Eastman Kodak Co.*, 24 J. Corp. L. 157, 167 (1998) (“[T]he Ninth Circuit’s subjective intent standard, exposing patentees to litigation for a determination of intent in refusals to license, will detrimentally affect the patent system and patent holders.”); Brian F. Ladenburg, *Unilateral Refusals to Deal in Intellectual Property After Image Technical Services, Inc. v. Eastman Kodak Co.*, 73 Wash. L. Rev. 1079, 1104 (1998) (“*Kodak*

### **III. MISUSE DOES NOT BAR XEROX FROM OBTAINING RELIEF FOR INFRINGEMENT OF ITS PATENTS AND COPYRIGHTS.**

CSU's brief does not address the District Court's patent infringement and copyright infringement judgments. Because CSU does not argue that the court below erred in finding infringement or in its rejection of CSU's misuse defense, the infringement judgments should be affirmed. *See Engel Indus., Inc. v. Lockformer Co.*, 166 F.3d 1379, 1383, 49 U.S.P.Q.2d 1618, 1621 (Fed. Cir. 1999) ("An issue that falls within the scope of the judgment appealed from but is not raised by the appellant in its opening brief on appeal is necessarily waived."); *cf. Laborers' Int'l Union v. Foster Wheeler Corp.*, 26 F.3d 375, 398 (3d Cir. 1994) ("[A] passing reference to an issue . . . will not suffice to bring that issue before this court.").

Regardless, it is clear that CSU's misuse defense lacks any merit. Of course, because Xerox's refusal to license its intellectual property was a lawful exercise of its rights under the Patent Act and Copyright Act, Xerox cannot be guilty of either an antitrust violation *or* misuse. But even if, contrary to precedent, Xerox's refusal to license violate did the antitrust laws, misuse would not bar Xerox's enforcement of its intellectual property rights.

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II's weakening of the exclusionary powers of the intellectual property laws with an intent-based test makes one wonder whether the possession of intellectual property in aftermarket products is an asset or a liability.").

**A. Any Misuse Has Been Purged.**

“Patent misuse arises in equity, and a holding of misuse renders the patent unenforceable until the misuse is purged; it does not, of itself, invalidate the patent.” *C.R. Bard v. M3 Sys., Inc.*, 157 F.3d 1340, 1372, 48 U.S.P.Q.2d 1225, 1249 (Fed. Cir. 1998) (citing *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488 (1942); *Senza-Gel Corp. v. Seiffhart*, 803 F.2d 661, 668 n. 10, 231 U.S.P.Q. 363, 368 n.10 (Fed.Cir. 1986)). It is undisputed that Xerox began selling all parts and licensing its diagnostic software for use by ISOs in 1994. Xerox is seeking damages only for the period after this policy change. Accordingly, even if Xerox’s prior refusal to deal were misuse – which of course it is not – any such misuse was purged five years ago. *See generally United States Gypsum Co. v. National Gypsum Co.*, 352 U.S. 457, 465 (1957) (misuse is purged by abandonment of practice and the passage of time).

**B. CSU’s Copyright Misuse Defense Is Barred By Its Unclean Hands.**

CSU cannot assert the defense of copyright misuse because its own conduct – which began with the outright theft of Xerox’s copyrighted software and ended with the alteration of evidence – prevents it from seeking equitable relief. Although the District Court treated Xerox’s motion to strike CSU’s misuse defense as a motion for sanctions, and declined to strike that defense, Xerox reasserts it in this Court for what it is, a bar to CSU’s request for equitable relief.

Copyright misuse is solely an equitable doctrine. *See Atari Games Corp. v. Nintendo of America*, 975 F.2d 832, 846, 24 U.S.P.Q.2d 1015, 1026 (Fed. Cir. 1992). Accordingly, CSU, as a party seeking equity, “must come with clean

hands.” *Keystone Driller Co. v. General Excavator Co.*, 290 U.S. 240, 241 (1933). As the Supreme Court stated in *Precision Instrument Mfg. Co. v. Automotive Maintenance Mach. Co.*, 324 U.S. 806, 814 (1945), “one tainted with inequitableness or bad faith relative to the matter in which he seeks relief” is barred from a court of equity, “however improper may have been the behavior of the defendant.” It has been established in this Court and others that unclean hands bar the assertion of a copyright misuse defense. *See Atari*, 975 F.2d at 846, 24 U.S.P.Q.2d at 1026; *Data General*, 36 F.3d at 1170 n.43; *Leo Feist, Inc. v. Young*, 138 F.2d 972 (7th Cir. 1943); 4 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* § 13.09[B] at 13-293 (1996).

CSU’s inequitable conduct is manifest. The record establishes that the diagnostic software disks CSU reproduced were stolen from Xerox, A650-52, A691-2, A699-700, A755-59, that CSU tried to cover up its wrongdoing by engaging in discovery fraud – the alteration of documents produced in discovery and perjurious deposition testimony, A647-49, and that CSU violated the preliminary injunction by failing to return its infringing software to Xerox, indeed by obtaining additional unlicensed diagnostic software, A653-54, A655-57. Any *one* of these inequitable acts would bar CSU’s copyright misuse defense; certainly the presence of all three bars CSU from equity.

In *Atari*, 975 F.2d at 841, 24 U.S.P.Q.2d at 1022, the party asserting misuse violated Copyright Office regulations to obtain the source code for a copyrighted computer program, and then used that source code to create an infringing work. This Court held that the party could not invoke the misuse defense because it had

lied to obtain the copyrighted program, and therefore had unclean hands. *Id.* at 846, 24 U.S.P.Q.2d at 1026. CSU's conduct in this case – outright theft of the diagnostic software disks it unlawfully reproduced – is plainly even more severe than the conduct condemned in *Atari*. CSU's inequitable conduct thus bars its copyright misuse defense.

There is similarly no doubt that CSU violated the preliminary injunction by obtaining unlicensed software from brokers after the injunction barred it from doing so and by failing, as required by the District Court's order, to return to Xerox all misappropriated and infringing copies of Xerox's software. A653-54, A655-57. This inequitable conduct also bars CSU's misuse defense. *See Data General Corp.*, 36 F.3d at 1170 n.43 (ISO's "violation of a valid injunction against further infringement issued pursuant to a court's equitable powers would constitute blatantly inequitable behavior," and ISO thus "would not necessarily be entitled to raise a defense of copyright misuse.").

Finally, CSU's misconduct in discovery – its alteration of documents produced in discovery to remove incriminating serial numbers and its perjurious testimony on the subject – constitutes inequitable discovery abuse. This, too, would be enough even standing alone to prevent CSU from asserting a misuse defense. *See Keystone Driller Co.*, 290 U.S. at 244 (affirming denial of equitable relief on grounds that the complainant suppressed evidence because one who seeks equitable relief "must be frank and fair with the court."); *C.C.S. Communication Control, Inc. v. Sklar*, No. 86 Civ. 7191, 1987 WL 12085 (S.D.N.Y. June 2, 1987) ("Having committed perjury, the plaintiff cannot expect to obtain an equitable

remedy from this Court.”). *Cf.* A171 (ruling, in response to Xerox’s motion for sanctions, that “CSU cannot meet its discovery obligations by sticking its head in the sand and refusing to look for the answers and then saying that it does not know the answer. Xerox is entitled to a more thorough investigation and attempt to comply than it appears CSU has made to date.”).

## CONCLUSION

Judge Markey of this Court perceptively noted more than twenty years ago that “[i]t is not uncommon for an infringer-contemnor to wrap itself in the mantle of public defender against ‘monopoly,’ in reliance on an unthinking monopolophobia it mistakenly hopes to find in the courts.” *Panduit Corp. v. Stahlin Bros. Fibre Works, Inc.*, 575 F.2d 1152, 1160 n.8 (6th Cir. 1978) (Markey, J., sitting by designation). Judge Markey recognized that unchecked, this “monopolophobia” will “destroy the constitutional and statutory scheme reflected in the patent system.” *Id.*

The law is clear. Xerox was entitled to refuse to sell patented parts or license copyrighted software, to price those parts and software as it saw fit, and to enforce its intellectual property rights despite those practices. The judgment of the District Court should be affirmed.

Respectfully submitted,

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July 14, 1999

**CERTIFICATE OF COMPLIANCE WITH  
FEDERAL RULE OF APPELLATE PROCEDURE 32(a)(7)**

I hereby certify that this brief was produced using the Times New Roman  
14-point typeface and contains 13,953 words.

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Peter K. Bleakley

## **ADDENDUM**

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**15 U.S.C. § 1      Trusts, etc., in restraint of trade illegal; penalty**

Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is hereby declared to be illegal. Every person who shall make any contract or engage in any combination or conspiracy hereby declared to be illegal 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.

**15 U.S.C. § 2      Monopolizing trade a felony; penalty**

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.

## **17 U.S.C. § 106 Exclusive rights in copyrighted works**

Subject to sections 107 through 120, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:

- (1) to reproduce the copyrighted work in copies or phonorecords;
- (2) to prepare derivative works based upon the copyrighted work;
- (3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending;
- (4) in the case of literary musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, to perform the copyrighted work publicly; and
- (5) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work, to display the copyrighted work publicly.

**17 U.S.C. § 302. Duration of copyright: Works created on or after January 1, 1978**

(a) **In General.**—Copyright in a work created on or after January 1, 1978, subsists from its creation and, except as provided by the following subsections, endures for a term consisting of the life of the author and fifty years after the author’s death.

(b) **Joint Works.**—In the case of a joint work prepared by two or more authors who did not work for hire, the copyright endures for a term consisting of the life of the last surviving author and fifty years after such last surviving author’s death.

(c) **Anonymous Works, Pseudonymous Works, and Works Made for Hire.**—In the case of an anonymous work, a pseudonymous work, or a work made for hire, the copyright endures for a term of seventy-five years from the year of its first publication, or a term of one hundred years from the year of its creation, whichever expires first. If, before the end of such term, the identity of one or more of the authors of an anonymous or pseudonymous work is revealed in the records of a registration made for that work under subsections (a) or (d) of section 408, or in the records provided by this subsection, the copyright in the work endures for the term specified by subsection (a) or (b), based on the life of the author or authors whose identity has been revealed. Any person having an interest in the copyright in an anonymous or pseudonymous work may at any time record, in records to be maintained by the Copyright Office for that purpose, a statement identifying one or more authors of the work; the statement shall also identify the person filing it, the nature of that person’s interest, the source of the information recorded, and the particular work affected, and shall comply in form and content with requirements that the Register of Copyrights shall prescribe by regulation.

(d) **Records Relating to Death of Authors.**—Any person having an interest in a copyright may at any time record in the Copyright Office a statement of the date of death of the author of the copyrighted work, or a statement that the author is still living on a particular date. The statement shall identify the person filing it, the nature of that person’s interest and the source of the information recorded, and shall comply in form and content with requirements that the Register of Copyrights shall prescribe by regulation. The Register shall maintain current

records of information relating to the death of authors of copyrighted works, based on such recorded statements and, to the extent the Register considers practicable, on data contained in any of the records of the Copyright Office or in other reference sources.

(e) **Presumption as to Author's Death.**—After a period of seventy-five years from the year of first publication of a work, or a period of one hundred years from the year of its creation, whichever expires first, any person who obtains from the Copyright Office a certified report that the records provided by subsection (d) disclose nothing to indicate that the author of the work is living, or died less than fifty years before, is entitled to the benefit of a presumption that the author has been dead for at least fifty years. Reliance in good faith upon this presumption shall be a complete defense to any action for infringement under this title.

### **35 U.S.C. § 154    Contents and term of patent**

Every patent shall contain a short title of the invention and a grant to the patentee, his heirs or assigns, for the term of seventeen years, subject to the payment of fees as provided for in this title, of the right to exclude others from making, using, or selling the invention throughout the United States, referring to the specification for the particulars thereof. A copy of the specification and drawings shall be annexed to the patent and be a part thereof.

### **35 U.S.C. § 271    Infringement of patent**

(a) Except as otherwise provided in this title, whoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor, infringes the patent.

.....

(c) Whoever offers to sell or sells within the United States or imports into the United States a component of a patented machine manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.

(d) No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: (1) derived revenue from acts which if performed by another without his consent would constitute contributory infringement of the patent; (2) licensed or authorized another to perform acts which if performed without his consent would constitute contributory infringement of the patent; (3) sought to enforce his patent rights against infringement or contributory infringement; (4) refused to license or use any rights to the patent; or (5) conditioned the license of any rights to the patent or the sale of the patented product on the acquisition of a license to rights in another patent or purchase of a separate product, unless, in view of the circumstances, the patent owner has market power in the relevant market for the patent or patented product on which the license or sale is conditioned.

## **CERTIFICATE OF SERVICE**

I hereby certify that on this 14th day of July, 1999, two copies of the foregoing Brief of Defendant-Appellee Xerox Corporation were served by first-class mail, postage prepaid, on:

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