

**BRIEF FOR *AMICUS CURIAE* NEW YORK INTELLECTUAL PROPERTY
LAW ASSOCIATION IN SUPPORT OF DEFENDANT-APPELLEE**

United States Court of Appeals
for the
Federal Circuit

Appeal No. 99-1323

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,

– and –

CREATIVE COPIER SERVICES, INC.,

Plaintiff,

– and –

ACQUISITION SPECIALISTS, INC., TECSPEC, INC., CONSOLIDATED
PHOTO COPY, 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., REPROGRAPHICS
RESOURCES SYSTEMS, INC., SUNTONE INDUSTRIES, INC., TECHNICAL
DUPLICATION SERVICES, INC., X-TECH SYSTEMS INC., XER-DOX INC.,
and XEROGRAPHIC COPIES SERVICES, INC.,

Plaintiffs,

– v. –

XEROX CORPORATION,

Defendant-Appellee.

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

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July 16, 1999

CERTIFICATE OF INTEREST

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1. The full name of every party or amicus represented by me is: New York Intellectual Property Law Association.
2. The party represented by me as amicus curiae is the real party in interest.
3. The parent companies, subsidiaries (except wholly owned subsidiaries), and affiliates that have issued shares to the public, of the party or amicus represented by me are: None.
4. The names of all law firms and the partners or associates that appeared for the parties now represented by me in the trial court or agency or are expected to appear in this court are:

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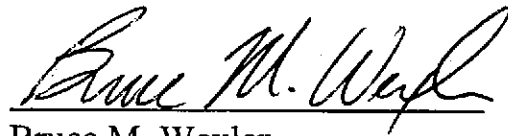

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TABLE OF CONTENTS

	<u>Page</u>
TABLE OF CONTENTS	ii
TABLE OF AUTHORITIES	iii
STATEMENT OF INTEREST OF AMICUS CURIAE	1
SUMMARY OF THE ARGUMENT	2
ARGUMENT	7
I. UNILATERAL REFUSALS TO LICENSE OR SELL VALIDLY PATENTED GOODS ARE LAWFUL UNDER SECTION 2 OF THE SHERMAN ACT	7
II. SEVERAL IMPORTANT POLICY CONSIDERATIONS SHOULD PRECLUDE ADOPTION OF THE KODAK II RULE .	14
III. THE MISUSE DOCTRINE CANNOT BE INVOKED TO BAR THE PATENT AND COPYRIGHT INFRINGEMENT CLAIMS .	18
CONCLUSION	20
CERTIFICATE OF COMPLIANCE WITH FEDERAL RULES OF APPELLATE PROCEDURE 29(d) AND 32(A)(7)	21

TABLE OF AUTHORITIES

<u>Cases</u>	<u>Page</u>
<u>Aspen Skiing Co. v. Aspen Highlands Skiing Corp.</u> , 472 U.S. 585 (1985)	4
<u>Brulotte v. Thys Co.</u> , 378 U.S. 29 (1964)	3
<u>California Motor Transport Co. v. Trucking Unlimited</u> , 404 U.S. 508 (1972)	12
<u>Continental Paper Bag Co. v. Eastern Paper Bag Co.</u> , 210 U.S. 405 (1908)	13
<u>Data General Corp. v. Grumman Systems Support Corp.</u> , 36 F.3d 1147 (1st Cir. 1994)	10
<u>Eastern R.R. Presidents Conference v. Noerr Motor Freight, Inc.</u> , 365 U.S. 127 (1961)	12
<u>Eastman Kodak Co. v. Image Technical Services, Inc.</u> , 504 U.S. 451 (1992)	2-4, 7-10
<u>Image Technical Services, Inc. v. Eastman Kodak Co.</u> , 125 F.3d 1195 (9th Cir. 1997)	3-5, 9-11, 13-15, 17
<u>In re Independent Serv. Org. Antitrust Litig.</u> , 989 F. Supp. 1131 (D. Kan. 1997)	3, 12, 14-15, 17
<u>Kewanee Oil Co. v. Bicron Corp.</u> , 416 U.S. 470 (1974)	16
<u>Professional Real Estate Investors, Inc. v. Columbia Pictures Indus., Inc.</u> , 508 U.S. 49 (1993)	4, 6, 11-13, 15
<u>SCM Corp. v. Xerox Corp.</u> , 645 F.2d 1195 (2d Cir. 1981)	17

<u>Sears, Roebuck & Co. v. Stiffel Co.</u> , 376 U.S. 225 (1964)	16
<u>United Mine Workers v. Pennington</u> , 381 U.S. 657 (1965)	3, 12
<u>United States v. Westinghouse Elec. Corp.</u> , 648 F.2d 642 (9th Cir. 1981)	3
<u>USM Corp. v. SPS Technologies, Inc.</u> , 694 F.2d 505 (7th Cir. 1982)	3
<u>W.L. Gore & Assocs. v. Carlisle Corp.</u> , 529 F.2d 614 (3d Cir. 1976)	3

Statutes

15 U.S.C. §§ 1 and 2	7-9
35 U.S.C. § 154(a)	18
35 U.S.C. § 271(d)(3)	19
35 U.S.C. § 271(d)(4)	6, 19
35 U.S.C. § 271(d)(5)	7, 19

STATEMENT OF INTEREST OF AMICUS CURIAE

The New York Intellectual Property Law Association ("NYIPLA") is an association of more than 1,100 attorneys whose interest and practice lies in the areas of patent, copyright, trademark, trade secret and related areas of intellectual property law. Unlike attorneys in many other areas of practice, NYIPLA members, whether in private practice or employed by corporations, typically represent both plaintiffs and defendants in litigation. NYIPLA attorneys also regularly assist their clients with respect to licensing of intellectual property.

Since its founding in 1922, the NYIPLA has been committed to maintaining the integrity of United States patent law, and to the proper interpretation and application of that law. Because of the practical experience of its members, and its non-partisan status, the NYIPLA believes that its views will aid this Court in the resolution of the issues raised in this appeal concerning the important area of the interface between intellectual property law and the antitrust laws.

The parties have consented to the filing of this brief.

SUMMARY OF THE ARGUMENT

A. Alleged Sherman Act Section 2 Violation

The facts at issue here are different from those in Eastman Kodak Co. v. Image Technical Services, Inc., 504 U.S. 451 (1992) ("Kodak I"), as the District Court recognized. (ADD101-02.) First, unlike Kodak I, this appeal involves only the issue of unilateral refusals to license or sell patented parts and copyrighted software and manuals.^{1/} Based upon concessions made by CSU in the District Court, no unpatented parts are at issue on this appeal.^{2/} Second, the alleged conduct of Xerox challenged by CSU involved neither tie-ins nor tie-outs of the type at issue in Kodak I, but

^{1/}In Kodak I, no argument was made to the Supreme Court that Kodak's conduct was justified by the patent statute.

^{2/}To the extent CSU initially may have challenged any refusal by Xerox to sell unpatented products, it eventually conceded that it could not establish that it had suffered any antitrust injury "by reason of" such refusals as recovery under Section 4 of the Clayton Act requires. (ADD5-6.) Based upon that separate concession, the District court granted summary judgment dismissing those alleged claims (ADD5-6). That dismissal has not been appealed. The District Court also found that these allegations were separate from and irrelevant to the issue in this appeal. (ADD61-64.) CSU has not appealed that aspect of the District Court's holding either. This brief therefore does not consider CSU's statements in its appeal brief implying that Xerox refused to deal in parts that were not patented or copyrighted. E.g., Xerox "holds patents and copyrights over some of the items it has denied to CSU" (Br. 3); "Xerox holds patents and copyrights over some of the materials it has denied to CSU". (Br. 14)

only refusals by Xerox to sell or license its own patented and copyrighted materials.^{3/}

Despite countless invitations over the years from infringement defendants and Clayton Act plaintiffs, neither Section 2 of the Sherman Act nor the misuse doctrine has ever been applied to unilateral refusals to sell or license one's own patented or copyrighted materials. To the extent the Court of Appeals for the Ninth Circuit may have departed from this well-settled body of precedent in Image Technical Services, Inc. v. Eastman Kodak Co., 125 F.3d 1195, 1219 (9th Cir. 1997) ("Kodak II"), the District Court in this case correctly refused to follow that decision. See In re Independent Serv. Org. Antitrust Litig., 989 F. Supp. 1131, 1134 (D. Kan. 1997).^{4/}

^{3/}CSU also alleges that Xerox priced some of the patented parts at such unreasonable levels as to be deemed tantamount to a refusal to sell. As the District Court correctly held (ADD103-04), the legal analysis applicable to a charge of unreasonable or discriminatory pricing by a patentee is no different from that employed in respect of a patentee's unilateral refusal to deal. See W.L. Gore & Assocs. v. Carlisle Corp., 529 F.2d 614, 623 (3d Cir. 1976); Brulotte v. Thys Co., 378 U.S. 29, 33 (1964); United States v. Westinghouse Elec. Corp., 648 F.2d 642, 647 (9th Cir. 1981); USM Corp. v. SPS Technologies, Inc., 694 F.2d 505, 512-13 (7th Cir. 1982).

^{4/}The ostensible holding of the Ninth Circuit is apparently grounded upon an unwarranted extension to patented subject matter of certain Supreme Court dicta in Kodak I regarding unusual circumstances in a non-patent context:

(continued...)

Moreover, to the extent the Ninth Circuit's decision in Kodak II can be read as permitting a jury to find that a patentee's unilateral refusal to license or deal is "pretextual", it appears inconsistent conceptually with the Supreme Court's decision in Professional Real Estate Investors, Inc. v. Columbia Pictures Indus., Inc., 508 U.S. 49 (1993) ("PRE"). In a very real and practical sense refusals to sell or license patented goods have the same effect as infringement suits in implementing a decision by an owner of intellectual property to reserve to itself the limited exclusive rights granted by the United States Government in return for the contribution it has made to the "progress of science and useful arts"^{5/}.

(...continued)

It is true that as a general matter a firm can refuse to deal with its competitors. But such a right is not absolute; it exists only if there are legitimate competitive reasons for the refusal. See Aspen Skiing Co., 472 U.S., at 602-605.

504 U.S. at 483 n. 32. Kodak I provides no warrant for narrowing the ambit of traditionally protected refusals to sell or license by a patentee or copyright holder to proscribe the unilateral refusals to license or deal at issue in this case.

^{5/}Indeed, CSU had alleged below that the filing by Xerox of its patent and copyright infringement counterclaims represented an independent ground of misuse. The District Court held that this alleged defense was "precluded as a matter of law" based in part on the authority of PRE. (ADD89.)

B. Policy Implications Of The Kodak II Rule

The District Court correctly noted that the imposition of Section 2 liability predicated solely upon a patentee's refusal to sell or license patented and copyrighted goods "would frustrate the purposes of the Patent and Copyright Acts". 989 F.Supp at 1140 n.3. Despite recognizing that it was breaking new ground, the Ninth Circuit in Kodak II provided no explanation of why it viewed its departure from settled law as consistent with the purposes of those statutes.

Quite apart from the legal deficiencies of the Ninth Circuit's ruling in Kodak II, the evidentiary complications engendered by adoption of that rule would be enormous. The Ninth Circuit in Kodak II first purported to distinguish between a desire to protect one's intellectual property which it deemed legitimate and a desire to exclude competition which it deemed illegitimate. It then held that the jury could conclude, based solely on subjective evidence, that even the former is improper if it is a "pretext" for the latter. But distinguishing between (improper) desire to exclude competition and (proper) desire to protect intellectual property and deciding whether a refusal to license or deal is in fact one or the other or a "pretext"

for the latter may very well be impossible from a practical standpoint. CSU provides no suggestion for doing so in its brief.

In the analogous area of "sham" infringement suits, the Supreme Court in PRE ruled that no examination of a plaintiff's subjective intent in an infringement suit can be undertaken in the absence of a threshold determination that "the litigation is objectively baseless". PRE, 508 U.S. at 51. The Supreme Court thus recognized the need to protect intellectual property owners against the threat of treble damages based upon untrammelled jury determinations of comparable subjective intent.

C. Alleged Patent Misuse

The unilateral refusals to license or deal at issue here involve solely the temporally limited right to exclude which lies at the very core of the constitutionally authorized and Congressionally sanctioned patent grant. Thus, the District Court correctly held that there has been no showing of any improper extension of any patent or copyright monopoly.

If there could be any doubt concerning the legitimacy of a patentee's unilateral refusals to sell or license, they were put to rest when Congress enacted Section 271(d)(4) of the patent statutes which expressly precludes a finding of patent misuse based on a refusal to license. At the

same time Section 271(d)(4) was enacted, Congress also added Section 271(d)(5) which concerned the enforceability of patents employed in connection with tying arrangements. In Section 271(d)(5), unlike in Section 271(d)(4), Congress included "market power" as a necessary factor for determining whether such a tying arrangement was improper. By failing to employ similar "market power" language in Section 271(d)(4), Congress necessarily determined that refusals to license remain permissible irrespective of market share -- that is, even when the limited statutory monopoly can be shown to be coextensive with some economically significant relevant market.

ARGUMENT

I. UNILATERAL REFUSALS TO LICENSE OR SELL VALIDLY PATENTED GOODS ARE LAWFUL UNDER SECTION 2 OF THE SHERMAN ACT

A. The Supreme Court's Holding In Kodak I

Unilateral refusals to license or sell validly patented goods have never been held an independent basis for a finding that Section 1 or 2 of the Sherman Act, 15 U.S.C. §§ 1 and 2, has been violated. Contrary to CSU's suggestions, Eastman Kodak Co. v. Image Technical Services, Inc., 504 U.S.

451 (1992) ("Kodak I"), did not involve this issue. In Kodak I the Supreme Court sustained the Ninth Circuit's reversal of the trial court's grant of a summary judgment dismissing claims against Kodak under both Sections 1 and 2 of the Sherman Act. In respect of Section 1, the Court found "sufficient evidence of a tie between service and parts" in proof of record "that Kodak would sell parts to third parties only if they agreed not to buy service from ISO's." 504 U.S. at 463. Alternatively, the Court held that:

Assuming, arguendo, that Kodak's refusal to sell parts to any company providing service can be characterized as a unilateral refusal to deal, its alleged sale of parts to third parties on condition that they buy service from Kodak is not.

Id. at n.8.

In ruling that the grant of summary judgment in Kodak's favor had been improper under Section 2 as well, the Court noted that the same evidence of tying had established

that Kodak took exclusionary action to maintain its parts monopoly and used its control over parts to strengthen its monopoly share of the Kodak service market. Liability turns, then, on whether "valid business reasons" can explain Kodak's actions.

Id. at 483.

Kodak I did not involve a claim by Kodak that intellectual property rights provided the justification for the arrangements found

presumptively unlawful by the Supreme Court. Unlike this case, in Kodak I the Court found substantial evidence to show that Kodak had engaged in tying and that its conduct was not properly characterized as a presumptively lawful refusal to deal.^{6/}

B. The Rule Set Forth In Kodak II Was Incorrect

On remand from Kodak I, judgment was entered on a jury verdict of \$78.1 million and the Ninth Circuit affirmed. Image Technical Services, Inc. v. Eastman Kodak Co., 125 F.3d 1195 (9th Cir. 1997) ("Kodak II"). The Section 1 tying and conspiracy claims had been withdrawn prior to closing argument, 125 F.3d at 1201, but the ISO's apparently were permitted to argue to the jury that the tying provisions of Kodak's OEM and end-user agreements also supported the Section 2 claim:

At trial the ISO's asserted that Kodak controls the entire parts market for its high volume photocopier and micrographics equipment by refusing to sell the parts it manufactures, 30% of the total parts needed, and by imposing restrictions on both the independent original-equipment manufacturers and end users.

^{6/} A legitimate unilateral refusal to license or deal should not be deemed transmutable into a presumptively predatory tying or leveraging arrangement under Section 2 simply because the same patented articles may possess utility in two arguably separate antitrust markets.

Id. at 1206 (emphasis added).^{2/}

On remand, Kodak had stressed its intellectual property rights as putative justification for its exclusionary conduct and the Ninth Circuit recognized that in Kodak I the Supreme Court "did not specifically address the question of antitrust liability based upon a unilateral refusal to deal in a patented or copyrighted product" Id. at 1216. Indeed, the Ninth Circuit observed that:

We find no reported case in which a court has imposed antitrust liability for a unilateral refusal to sell or license a patent or copyright. Courts do not generally view a monopolist's unilateral refusal to license a patent as "exclusionary conduct".

Id. (citations omitted).

For these and related reasons, the Ninth Circuit announced its willingness to accept a modified version of the presumption created by the First Circuit in Data General Corp. v. Grumman Systems Support Corp., 36 F.3d 1147, 1187 (1st Cir. 1994), under which a desire to exclude others from using a protected work would be deemed to represent "a presumptively valid

^{2/}The Ninth Circuit ruled that Kodak had failed to preserve this issue for appeal by failing to object to Jury Instruction No. 27. See id. at 1206.

business justification" for exclusionary conduct involving patents or copyrights. Id. at 1218.

Because the District Court had refused a proposed instruction in respect of Kodak's intellectual property rights, the Ninth Circuit was forced to fall back upon the "harmless error" doctrine in order to sustain the treble damage award:

Given this presumption, the district court's failure to give any weight to Kodak's intellectual property rights in the jury instructions constitutes an abuse of discretion. This error was, however, harmless. The ISO's maintain that Kodak argued protection of intellectual property as a business justification to the jury, which rejected this justification as pretextual. An error in instructing the jury in a civil case does not require reversal if it is more probable than not harmless.

Id. (emphasis added) (citation omitted).

The Ninth Circuit's readiness to infer that the Kodak II jury had properly considered and rejected as "pretextual" the presumption of business legitimacy based upon Kodak's intellectual property rights without benefit of any instructions would appear highly unrealistic.

The Ninth Circuit's Kodak II rule also appears inconsistent conceptually with the Supreme Court's decision in Professional Real Estate Investors, Inc. v. Columbia Pictures Industries, Inc., 508 U.S. 49, 60 (1993)

("PRE"). In PRE, the Supreme Court narrowly construed the "sham" exception to the presumption in antitrust law that an infringement lawsuit has been brought in good faith by the owner of intellectual property and announced an objective standard that must be met before any antitrust claim predicated upon an allegation of improper subjective intent will be allowed to proceed:

[T]he lawsuit must be objectively baseless in the sense that no reasonable litigant could realistically expect success on the merits. If an objective litigant could conclude that the suit is reasonably calculated to elicit a favorable outcome, the suit is immunized under Noerr, and an antitrust claim premised on the sham exception must fail.

Id. at 60-61.^{8/} An inquiry into the litigant's subjective motivation can be undertaken only "if [the] challenged litigation is objectively meritless". Id. at 61.

As the District Court thus correctly pointed out, the "Supreme Court has held that a patent holder's subjective motivation for excluding others from use of an invention is irrelevant". 989 F. Supp. at 1140. This

^{8/}The rule of immunity was developed in the so-called Noerr-Pennington line of cases. Eastern R.R. Presidents Conference v. Noerr Motor Freight, Inc., 365 U.S. 127 (1961); United Mine Workers v. Pennington, 381 U.S. 657 (1965); California Motor Transport Co. v. Trucking Unlimited, 404 U.S. 508 (1972).

principle applies equally to infringement suits, PRE, 508 U.S. at 59 ("Whether applying Noerr as an antitrust doctrine or invoking it in other contexts, we have repeatedly reaffirmed that evidence of anticompetitive intent or purpose alone cannot transform otherwise legitimate activity into a sham"), and unilateral refusals to sell or license patented goods, Continental Paper Bag Co. v. Eastern Paper Bag Co., 210 U.S. 405, 429 (1908) ("As to the suggestion that competitors were excluded from the use of the new patent, we answer that such exclusion may be said to have been of the very essence of the right conferred by the patent, as it is the privilege of any owner of property to use or not use it, without question of motive").

The Ninth Circuit's determination of antitrust illegality in Kodak II springs from the notion that, based upon an evaluation of subjective evidence, a trier of fact can distinguish between situations where a patentee's refusal to deal involves the presumptively legitimate purpose of "protection of intellectual property" and those where such an alleged purpose for the very

same refusal to deal is merely "pretextual".^{2/} As the District Court correctly pointed out, however, the controlling precedents establish that:

A patent holder's intent in exercising its exclusionary power is irrelevant because the right to exclude competitors from using an invention is expressly authorized by law.

989 F. Supp. at 1140.

II. SEVERAL IMPORTANT POLICY CONSIDERATIONS SHOULD PRECLUDE ADOPTION OF THE KODAK II RULE

A. Subjective Issues Of Motivation Should Be Avoided

The evidentiary complications that would be engendered by adoption of the Kodak II rule are potentially enormous. CSU's brief nowhere provides any workable means of differentiating between legitimate "protection of intellectual property" rights which a patentee reserves to itself by refusals to deal, and illegitimate "exclusion of competition" by the very same refusals to deal. As the District Court observed:

The standard articulated by the Ninth Circuit in Kodak [II] makes it very difficult for a jury, a judge, or even the patent holder, to distinguish between a permissible refusal to deal

^{2/}As developed below, adoption of the Ninth Circuit's Kodak II rule also presents very important policy and practical difficulties in its implementation.

(based on a desire to profit from and protect patent rights) and an impermissible refusal to deal (apparently based on a desire to obtain a competitive advantage by excluding competitors).

989 F. Supp. at 1141.

Moreover, since "nearly all commercial research is based on mixed motivations," id., whose subjective intent should be examined as representative of the corporate patentee? Perhaps the researchers are primarily interested in developing the corporate patent portfolio, protecting their intellectual property and becoming "inventor of the month"; the marketing people want to obtain an advantage over the competition; and the executives are only interested in maximizing corporate profits. How can a patentee determine how a trier of fact will perceive intent? Will a self-serving file-memo guarantee avoidance of an \$80 million jury verdict?

In Kodak II itself the Ninth Circuit was willing to speculate that the jury had rejected the presumptively valid business justification argued by Kodak as "pretextual" based upon subjective evidence of intent. 125 F.3d at 1218. In the analogous area of "sham" infringement suits, however, the Supreme Court in PRE has drastically limited the circumstances in which resort to evidence of a patentee's subjective intent will be permitted.

Irrespective of whether the rule of PRE ultimately should be extended to a patentee's refusal to sell or license patented goods, this Court should reject the rule of Kodak II on the separate but important ground that it would create nightmarish problems of uncertainty in the application of the law, judicial administration and jury control.

B. The Potential In Terrorem Effect Of The Kodak II Rule

Finally, the Supreme Court time and again has emphasized the central role of the patent system as a stimulus to invention. E.g., Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470, 480 (1974) ("The patent laws promote this progress [of science and useful arts] by offering a right of exclusion for a limited period as an incentive to inventors to risk the often enormous costs in terms of time, research, and development"); Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225, 229 (1964)("Patents are not given as favors . . . but are meant to encourage invention by rewarding the inventor with the right, limited to a term of years fixed by the patent, to exclude others from the use of his invention").

The right to exclude and to reserve to the patentee the exploitation of a patented invention are key incentives to devote time and resources to research and development. In considering proposed limitations

on the patentee's right to exclude under the antitrust laws, courts have been sensitive to the prospect that such limitations would result in concomitant limitations on the incentive to invent. For example, in SCM Corp. v. Xerox Corp., 645 F.2d 1195, 1206 (2d Cir. 1981), the Court of Appeals said:

Where a patent in the first instance has been lawfully acquired, a patent holder ordinarily should be allowed to exercise his patent's exclusionary power even after achieving commercial success; to allow the imposition of treble damages based on what a reviewing court might later consider, with the benefit of hindsight, to be too much success would seriously threaten the integrity of the patent system.

The District Court was correct when it perceived that adoption of the Ninth Circuit's Kodak II rule would present significant policy implications and might well reduce incentives to invent:

Although most patented inventions likely will be marketed in a single antitrust market, some inventions may be useful in multiple markets. The Ninth Circuit's holding would discourage the invention of such products. Inventors rarely could refuse to license their products without fear that they had not properly defined the relevant antitrust market or considered how the relevant markets may be defined in the future.

989 F. Supp. at 1136. As the District Court recognized, "imposing liability in this case likely would frustrate the purposes of the Patent and Copyright Acts". Id. at 1140 n.3.

III. THE MISUSE DOCTRINE CANNOT BE INVOKED TO BAR THE PATENT AND COPYRIGHT INFRINGEMENT CLAIMS

A. There Has Been No Extension Of Any "Monopoly"

This case involves no allegation that any patent or copyright monopoly has been extended by tying intellectual property rights to unprotected goods or services. Nor is there any claim that a legitimate intellectual property monopoly arising in one product market has been improperly leveraged into some derivative secondary market.

As the District Court astutely pointed out, the claims of the patents relating to the critical parts are not limited to use of those parts in any specific market segment. Indeed, the patented parts and copyrighted software possess inherent utility in both the OEM and service markets. Both these "uses" of the patented parts fall squarely within the scope of the patent grant. 35 U.S.C. § 154(a).

The ISO's, moreover, never possessed any independent right to employ the patented and copyrighted materials. Thus, their entry into the service aftermarket by infringement would be illegitimate in the first instance.

B. Section 271(d)(4) Of The Patent Code

By its terms, Section 271(d)(4) of the patent statute expressly excludes the challenged conduct from the operation of the misuse doctrine. CSU nevertheless asserts that refusals to deal by a patentee in concentrated aftermarkets can give rise to the equitable defense of unenforceability. This approach runs afoul of the principle of "expressio unius est exclusio alterius", perhaps the most basic of all maxims of statutory construction.

In enacting the provisions of Section 271(d)(5) relating to tying arrangements, Congress determined that the statutory exemption from unenforceability should be limited to situations where the patentee lacked "market power". By failing to include comparable language in Sections 271(d)(3) and (4), Congress necessarily determined that the exemptions for infringement suits and unilateral refusals to deal are applied irrespective of the patentee's "market power", and are thus absolute.

CONCLUSION

The judgment of the District Court should be affirmed.

Respectfully submitted,

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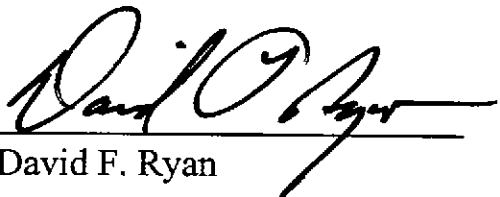
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**CERTIFICATE OF COMPLIANCE WITH
FEDERAL RULES OF APPELLATE PROCEDURE 29(d) AND 32(A)(7)**

I hereby certify that this brief was produced using the Times New Roman 14 point typeface and contains 4531 words.


David F. Ryan

PROOF OF SERVICE

The undersigned hereby certifies that two copies of the foregoing
BRIEF FOR AMICUS CURIAE NEW YORK INTELLECTUAL PROPERTY
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