

No. 12-873

In the Supreme Court of the United States

LEXMARK INTERNATIONAL, INC.,
Petitioner,

v.

STATIC CONTROL COMPONENTS, INC.,
Respondent.

*On Writ of Certiorari to the United States
Court of Appeals for the Sixth Circuit*

JOINT APPENDIX

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RELEVANT DOCKET ENTRIES

**United States District Court for the
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5:02-cv-00571-GFVT-JBT

***Lexmark International, Inc. v. Static Control
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Date Filed	#	Docket Text
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**United States District Court for the
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5:04-cv-00084-GFVT-REW

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**United States Court of Appeals
for the Sixth Circuit**

09-6287, -6288, -6449

***Static Control Components, Inc v. Lexmark
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03/07/2011	Second Brief of Defendant-Appellee Cross-Appellant (Lexmark)
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**UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF KENTUCKY
AT LEXINGTON**

CASE NO. 02-571-KSF

[Filed December 23, 2003]

LEXMARK INTERNATIONAL, INC.)
PLAINTIFF)
v.)
)
STATIC CONTROL COMPONENTS, INC.)
DEFENDANT)

**SECOND AMENDED ANSWER AND
COUNTERCLAIM
(Jury Trial Demanded)**

Defendant Static Control Components, Inc. ("SCC") hereby answers Plaintiff Lexmark International, Inc.'s ("Lexmark") Complaint as follows:

1. SCC admits that the Complaint in this action purports to seek injunctive relief based upon allegations under the Copyright Act, 17 U.S.C. § 101 *et seq.*, and the Digital Millennium Copyright Act, 17 U.S.C. § 1201 *et seq.* Except as expressly admitted, SCC denies the averments contained in Paragraph 1.
2. SCC does not have knowledge or information sufficient to form a belief as to the truth of Paragraph 2, and therefore denies the averments contained therein.

3. SCC admits that it is a North Carolina corporation with a principal place of business in Sanford, North Carolina, and that SCC manufactures and sells components for remanufactured toner cartridges in numerous jurisdictions. SCC denies the remaining averments contained in Paragraph 3.

4. Lexmark's averments in Paragraph 4 in support of the Court's jurisdiction and venue are legal conclusions, and as such are not subject to denial or admission.

5. SCC does not have knowledge or information sufficient to form a belief as to the truth of Paragraph 5, and therefore denies the averments contained therein.

6. SCC does not have knowledge or information sufficient to form a belief as to the truth of Paragraph 6, and therefore denies the averments contained therein.

7. SCC does not have knowledge or information sufficient to form a belief as to the truth of Paragraph 7, and therefore denies the averments contained therein.

8. SCC does not have knowledge or information sufficient to form a belief as to the truth of Paragraph 8, and therefore denies the averments contained therein.

9. SCC does not have knowledge or information sufficient to form a belief as to the truth of Paragraph

9, and therefore denies the averments contained therein.

10. SCC does not have knowledge or information sufficient to form a belief as to the truth of Paragraph 10, and therefore denies the averments contained therein.

11. SCC does not have knowledge or information sufficient to form a belief as to the truth of Paragraph 11, and therefore denies the averments contained therein.

12. SCC admits that Lexmark distributes toner cartridges for use in its installed base of laser printers, and that Lexmark currently is the exclusive source for new printer toner cartridges for the printers it manufactures. SCC does not have knowledge or information sufficient to form a belief as to the truth of the remaining averments contained in Paragraph 12, and therefore denies same.

13. SCC admits that in 1997, Lexmark announced its "Prebate" program. SCC denies the remaining averments contained in Paragraph 13.

14. SCC denies that Lexmark's Prebate program is a "discount" program. SCC does not have knowledge or information sufficient to form a belief as to the truth of the remaining averments contained in Paragraph 14, and therefore denies same.

15. SCC denies the averments contained in Paragraph 15.

16. SCC denies that in acquiring a Prebate toner cartridge, a customer agrees to certain license/agreement terms in return for a lower price or upfront rebate. SCC does not have knowledge or information sufficient to form a belief as to the truth of the remaining averments contained in Paragraph 16, and therefore denies same.

17. SCC does not have knowledge or information sufficient to form a belief as to the truth of whether the Prebate program has significantly increased toner cartridge returns to Lexmark, and therefore denies same. SCC denies the remaining averments contained in Paragraph 17.

18. SCC denies the averments contained in Paragraph 18.

19. SCC denies the averments contained in Paragraph 19.

20. SCC does not have knowledge or information sufficient to form a belief as to the truth of Paragraph 20, and therefore denies the averments contained therein.

21. SCC does not have knowledge or information sufficient to form a belief as to the truth of Paragraph 21, and therefore denies the averments contained therein.

22. SCC admits that Lexmark markets T520/522 and T620/622 laser printers and toner cartridges. SCC denies the remaining averments contained in Paragraph 22.

23. SCC denies the averments contained in Paragraph 23.

24. SCC does not have knowledge or information sufficient to form a belief as to the truth of Paragraph 24, and therefore denies the averments contained therein.

25. SCC denies the averments contained in Paragraph 25.

26. SCC admits that Lexmark obtained Certificates of Registration from the Register of Copyrights. SCC denies the remaining averments contained in Paragraph 26.

27. SCC denies the averments contained in Paragraph 27.

28. SCC admits that calculations by, and communications between, the printer and the toner cartridge each time a toner cartridge is installed in the printer, the printer is powered on, or whenever the printer is opened and then closed, are used to prevent printer functionality. SCC further admits that both the printer and the microchip on the toner cartridge calculate a code referred to as a Message Authorization Code. SCC denies the remaining averments contained in Paragraph 28.

29. SCC admits the averments of the first sentence of Paragraph 29. SCC denies the remaining averments contained in Paragraph 29.

30. SCC admits the averments contained in Paragraph 30.

31. SCC admits that it manufactures and sells a line of replacement microchips sold under the brand "SMARTEK," and that certain microchips labeled under the "SMARTEK" brand are designed for use in Lexmark's T520/522 and T620/622 laser printers. SCC denies the remaining averments contained in Paragraph 31.

32. SCC denies the averments contained in Paragraph 32.

33. SCC admits that the toner cartridges for the Lexmark T520/522 and T620/622 laser printers are sold as "Prebate" toner cartridges and "Regular" toner cartridges. SCC does not have knowledge or information sufficient to form a belief as to the truth of remaining averments of Paragraph 33, and therefore denies same.

34. SCC admits that the Lexmark's "Prebate" toner cartridge has been designed to no longer operate after its initial use if it is refilled with toner. SCC denies the remaining averments of Paragraph 34.

35. SCC admits that a Regular toner cartridge for a Lexmark T520/522 or T620/622 printer may be refilled. SCC does not have knowledge or information sufficient to form a belief as to the truth of Paragraph 35, and therefore denies the averments contained therein.

36. SCC admits that toner cartridges containing a SMARTEK microchip may be able to function with Lexmark's T520/522 and T620/622 laser printers. SCC denies the remaining averments contained in Paragraph 36.

37. SCC denies the averments contained in Paragraph 37.

38. SCC denies the averments contained in Paragraph 38.

39. In response to Paragraph 39, SCC incorporates herein by reference its responses to each and every allegation of Paragraphs 1-38 of the Complaint, as if set forth fully herein.

40. SCC denies the averments contained in Paragraph 40.

41. SCC denies the averments contained in Paragraph 41.

42. SCC denies the averments contained in Paragraph 42.

43. In response to Paragraph 43, SCC incorporates herein by reference its responses to each and every allegation of Paragraphs 1-42 of the Complaint, as if set forth fully herein.

44. SCC admits that Paragraph 44 correctly quotes 17 U.S.C. § 1201(a)(2)(A)-(C), and that this is a section of the Digital Millennium Copyright Act. SCC denies all other averments contained in Paragraph 44.

45. SCC denies the averments contained in Paragraph 45.

46. SCC denies the averments contained in Paragraph 46.

47. In response to Paragraph 47, SCC incorporates herein by reference its responses to each and every allegation of Paragraphs 1-46 of the Complaint, as if set forth fully herein.

48. SCC denies the averments contained in Paragraph 48.

49. SCC denies the averments contained in Paragraph 49.

50. SCC denies the averments contained in Paragraph 50.

RELIEF REQUESTED

Paragraphs A-G set forth prayers for relief as to which no response is required. To the extent that these paragraphs may be deemed to set forth any facts asserting entitlement to such relief, SCC denies that Lexmark is entitled to any of the relief it seeks under paragraphs A-G, inclusive.

AFFIRMATIVE DEFENSES

SCC asserts the following affirmative defenses, applicable to each and every cause of action alleged in the Complaint:

1. The Complaint fails to set forth facts sufficient to state a claim upon which relief may be granted against SCC. The Complaint further fails to set forth facts sufficient to entitle Lexmark to the relief sought, or any relief whatsoever, from SCC.

2. The Complaint should be dismissed for lack of personal jurisdiction over SCC.

3. SCC did not copy any protectable elements of any copyrightable work owned by Lexmark.

4. Lexmark's Copyright Registrations for its Toner Loading Programs and/or Printer Engine Programs are invalid because said programs do not contain the requisite degree of authorship and therefore are not protectable by copyright.

5. Lexmark's Copyright Registrations for its Toner Loading Programs and/or Printer Engine Programs are invalid because said programs consist only of ideas, procedures, processes, systems, methods of operation, concepts, principles, plans, discoveries, plans, devices, or words and short phrases and therefore are not protectable by copyright.

6. Lexmark's Copyright Registrations for its Toner Loading Programs are invalid because the programs consist entirely of an unprotectable "lock-out code."

7. Lexmark's Copyright Registrations for its Toner Loading Programs are invalid because said programs consist of mathematical formulae and constants, which are not protectable by copyright.

8. SCC's copying of and reverse engineering of Lexmark's Toner Loading Programs are protected as Fair Use under 17 U.S.C. § 107.

9. SCC's activities constitute lawful reverse engineering for purposes of attaining interoperability, and thus are protected from liability under 17 U.S.C. § 1201(f).

10. The alleged technological measure incorporated in the Lexmark printer and toner cartridge chip does not control "access" within the meaning of 17 U.S.C. § 1201(a)(2).

11. The Toner Loading Programs and Printer Engine Program are not the type of "work" that is protected under 17 U.S.C. § 1201(a)(2).

12. Lexmark is barred from prosecuting a copyright infringement or DMCA claim because it has misused its copyrights in order to assert control over noncopyrighted material and such leveraged use of a copyright is violative of the public policy embodied in the grant of copyright.

13. Lexmark is barred from prosecuting a copyright infringement or DMCA claim because it has misused its copyrights to assert control over noncopyrighted material. Such leveraged use of a copyright is violative of the antitrust laws.

14. The Complaint, and each claim for relief therein that seeks equitable relief, is barred by the doctrine of unclean hands.

15. SCC reserves the right to assert additional affirmative defenses at such time and to the extent warranted by discovery and the factual development of this case.

JURY TRIAL REQUESTED

SCC requests a trial by jury of all issues so triable.

PRAYER FOR RELIEF

WHEREFORE, Defendant Static Control Components, Inc., prays as follows:

(1) That no relief be afforded to Lexmark and that the Complaint be dismissed in its entirety;

(2) That Lexmark's Copyright Registrations attached to the Complaint as Exhibits A, B and C be adjudged invalid;

(3) That Lexmark's Copyright Registrations attached to the Complaint as Exhibits A, B and C be adjudged unenforceable until such time, if any, as it has purged the effects of the misuse of its copyrights;

(4) That judgment be granted in favor of SCC and against Lexmark on Counts 1-111 of the Complaint;

(5) That SCC be awarded its costs of defense and reasonable attorneys' fees incurred because of this litigation; and

(6) For such other relief in favor of SCC as the Court may deem just and proper.

COUNTERCLAIM

Defendant and counterclaim plaintiff, STATIC CONTROL COMPONENTS, INC. (“SCC”) sues Plaintiff and counterclaim defendant LEXMARK INTERNATIONAL, INC. (“Lexmark”) and says:

OVERVIEW

1. SCC brings this action, in part, under the United States antitrust laws and North Carolina competition laws against Lexmark for its illegal conduct arising from anticompetitive acts affecting the markets for remanufactured toner cartridges used in certain Lexmark printer models, for components used to remanufacture toner cartridges used in the same Lexmark printer models, and for microchips used in toner cartridges for the same Lexmark printer models. Lexmark has conspired to restrain trade with microchips suppliers, including refusals to deal with SCC and other competitors, which has resulted in reduced output and higher prices. Lexmark also has conspired with microchips suppliers and other brand name computer equipment suppliers to monopolize the market for refurbished toner cartridges for certain Lexmark manufactured printers and the market for components used to refurbish certain Lexmark manufactured printers. Moreover, Defendant has monopolized or attempted to monopolize the relevant markets. All of this anticompetitive conduct has injured competition and consumers in the United States and foreign countries by reducing output,

excluding competitors, and raising prices. As a result of Lexmark's anticompetitive conduct, SCC has sustained injuries for which it seeks money damages, injunctive relief to end the illegal conduct, and other appropriate relief to compensate it for its harm.

2. SCC brings this action, in part, against Lexmark under the Lanham Act and North Carolina unfair competition law for its illegal, misleading intimidation of SCC's customers and for misleading information it disseminated to customers and end-users. Lexmark has falsely informed customers that SCC's products infringe Lexmark's purported intellectual property. Lexmark has misled end-users of Lexmark toner cartridges and customers of SCC's products that license agreements prohibit remanufacturing Lexmark toner cartridges, when no license agreements actually exist. Lexmark also has misled its consumers and end-users into purchasing printers that contain toner cartridges, which are purported to be subject to license agreements. Lexmark's false and misleading statements cause consumers and others in the trade to believe that SCC's products are illegal and unlawful, that SCC is engaged in unlawful conduct, and that SCC is a dishonest and disreputable business. As a result of Lexmark's illegal conduct, SCC has sustained injury for which it seeks money damages, injunctive relief, and other appropriate relief to compensate it for the harm it has suffered.

JURISDICTION AND VENUE

3. SCC brings this action, in part, pursuant to Sections 4 and 16 of the Clayton Act, 15 U.S.C. §§ 15

and 26, against Lexmark for injuries SCC sustained as a result of Lexmark's violations of Sections 1 and 2 of the Sherman Act, 15 U.S.C. §§ 1 and 2, as alleged herein. SCC seeks injunctive relief and damages, including treble damages, costs of suit, and reasonable attorneys' fees.

4. SCC brings this action, in part, under 28 U.S.C. §§ 1331 and 1338 for damages sustained by SCC as a result of Lexmark's violations of Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a), as alleged herein.

5. SCC also brings this action under 28 U.S.C. § 1332, to recover damages, including treble damages, costs of suit, and reasonable attorneys' fees, against Lexmark for injuries sustained by SCC as a result of violations of North Carolina's competition laws, N.C. Gen. Stat. §§ 75-1, 75-1.1, 75-2.1; and common law civil conspiracy as alleged herein.

6. Personal jurisdiction exists over the Lexmark pursuant to Lexmark's Complaint in this action, Section 12 of the Clayton Act, 15 U.S.C. § 22, and the Kentucky Long Arm Statute, Ky. Rev. Stat. § 454.210.

7. Venue is proper in this Court pursuant to Section 12 of the Clayton Act, 15 U.S.C. § 22, and 28 U.S.C. §§ 1391(a), (b), (c), and 1400(a). Lexmark maintains offices, has representatives, may be found, and/or transacts business within this District within the meaning of Section 12 of the Clayton Act, 15 U.S.C. § 22.

8. Lexmark illegally contracts, combines, and conspires with persons and entities that have

committed, and continue to commit, overt acts within Kentucky in furtherance of the contract, combination, and conspiracy alleged in this Complaint.

9. Lexmark's conduct has unlawfully restrained the domestic and foreign commerce of the United States and injured consumers in the United States and foreign countries.

10. As a result of Lexmark's anticompetitive acts, as alleged in this Complaint, consumers and SCC have sustained harm in North Carolina.

PARTIES

11. SCC is a North Carolina corporation with its principal place of business in Sanford, North Carolina.

12. Lexmark, on information and belief, is a Delaware corporation with a principal place of business in Lexington, Kentucky. Lexmark is an original equipment manufacturer ("OEM") of laser toner printers and compatible laser toner cartridges.

13. On information and belief, Lexmark has for many years engaged in substantial business activities in North Carolina and Kentucky and continues to engage in such activities by, among other things, promoting and selling its goods and services to customers located in North Carolina and Kentucky.

INTERSTATE COMMERCE

14. Lexmark's activities, including activities related to its illegal, anticompetitive conduct, are in the flow of and substantially affect interstate commerce.

15. Among other things, Lexmark's anticompetitive conduct results in communications across state lines using interstate telecommunications networks, the Internet, and the U.S. mail. Lexmark also ships products, which are at issue in this Complaint, across state lines. Lexmark reaps substantial revenues from sales of products, which are at issue in this Complaint, amounting to millions of dollars, throughout the United States.

RELEVANT MARKET AND LEXMARK'S MARKET POWER

16. The relevant geographic market for purposes of SCC's claim is worldwide, including the United States and other relevant submarkets thereof.

17. The relevant product markets for purposes of SCC's claims comprise:

- (a) Lexmark toner cartridges for use in Optra S series, Optra SE, Optra T series, T520/522, T620/622, e320/322, e220, T630/632/634, e321/323, and T420 Lexmark printer models and the multifunctional peripheral versions of these models ("Cartridges Market");

- (b) components and toner used to remanufacture Lexmark toner cartridges for use in Optra S series, Optra SE, Optra T series, T520/522, T620/622, e320/322, e220, T630/632/634, e321/323, and T420 Lexmark printer models and the multifunctional peripheral versions of these models (“Components Market”);
- (c) and microchips used in Lexmark toner cartridges for use in Optra SE, Optra T series, T520/522, T620/622, e320/322, e220, T630/632/634, e321/323, and T420 Lexmark printer models and the multifunctional peripheral versions of these models (“Microchips Market”).

18. Lexmark has and exercises market power within the relevant markets. On information and belief, Lexmark has approximately an 85% share in each of the relevant markets.

19. As alleged herein, no substitutes are available to customers and end-users for products within the Cartridges, Components, and Microchips Markets. As alleged herein, barriers to entry into the Cartridges, Components, and Microchips Markets include Lexmark’s unlawful anticompetitive activities to exclude competition.

20. Lexmark’s anticompetitive conduct in the relevant markets has excluded competitors and resulted in consumers paying higher prices than would

have prevailed in competitive markets. Consumers paying higher prices and the exclusion of competitors are indicia of Lexmark's market power and unlawful anticompetitive conduct.

LEXMARK'S ANTICOMPETITIVE ACTIVITIES

21. This action arises out of Lexmark's anticompetitive activities in the relevant markets. That anticompetitive conduct includes:

- (a) a conspiracy by Lexmark and its microchip suppliers to restrain trade, including refusals to deal with SCC and competitors, that has restricted output and increased prices;
- (b) a conspiracy by Lexmark, microchip suppliers, and resellers of Lexmark manufactured printers to monopolize the relevant markets; and
- (c) Lexmark's unilateral monopolization and attempted monopolization of the relevant markets.

22. Lexmark makes a variety of laser toner printer models and sells them directly to consumers and end-users. Many, if not the majority, of Lexmark's consumers are individuals as opposed to business purchasers. Lexmark also supplies printers to other computer equipment manufacturers, which in turn resell those printers under their own brands.

23. To function properly, a Lexmark laser toner printer, like all such printers, must contain a compatible laser toner cartridge. Toner cartridges are depleted during a printer's normal operation.

24. Lexmark also makes and sells replacement laser toner cartridges that are compatible only with its laser toner printers. Lexmark designs its printers so only a Lexmark-designed toner cartridge will work with a particular Lexmark printer model. No other manufacturer makes new toner cartridges compatible with Lexmark printers. As with its printers, Lexmark also supplies toner replacement cartridges to other computer equipment manufacturers, which in turn resell those cartridges under their own brands.

25. Lexmark sells its printers for very little, if any profit. Lexmark sells replacement toner cartridges—a major component of its total supplies sales—for a substantial profit. Lexmark perceives its revenue for supplies as critical to its business. Lexmark has stated, "Recurring supplies add stability/growth." In 2002, Lexmark derived 54% of its total revenue from supplies sales, as compared to 33% in 1999.

26. Lexmark perceives its initiatives in developing laser printers as "opportunities" that "drive[] supplies." Lexmark introduces new model printers and compatible toner cartridges every few years. Generally, Lexmark discontinues an old model printer upon introducing a new model. Lexmark continues to sell replacement toner cartridges for a discontinued printer model for many years.

27. Laser toner cartridges contain toner and other components. Toner is the ink in the xerographic process used in laser printers. Most of the other components in the toner cartridge have a usable life beyond the initial toner load. If the toner cartridge is repaired and/or overhauled and new toner added, the toner cartridge can be reused. This constitutes remanufacturing toner cartridges.

28. Remanufacturing toner cartridges is the most environment-friendly way of handling depleted toner cartridges. The plastic toner cartridge is made of heat resistant plastic that is difficult to recycle for other uses. Moreover, toner cartridges thrown away in landfills require hundreds of years to begin to decompose.

29. Remanufacturers disassemble used OEM laser toner cartridges, inspect and clean them, replace any worn components, and add toner. The resulting remanufactured laser toner cartridge sells at a substantial discount compared to the price of a new toner cartridge. On information and belief, third-party remanufactured Lexmark toner cartridges for Optra S series, Optra SE, Optra T series, T520/522, T620/622, e320/322, e220, T630/632/634, e321/323, and T420 Lexmark printer models and the multifunctional peripheral versions of these models are priced approximately 50-75% of the price of new toner cartridges for the same Lexmark printer models.

30. SCC is a leading supplier to toner cartridge remanufacturers. SCC supplies, among other things, toner and other components used by SCC's customers in remanufacturing Lexmark toner cartridges.

31. Because Lexmark printer owners can buy toner cartridges only from Lexmark or remanufacturers, every remanufacturer's sale is a lost Lexmark sale. No substitutes are available to consumers and end-users that need toner cartridges for Lexmark printers.

32. Lexmark has taken a series of actions designed intentionally to inhibit and exclude competition in the relevant markets. These actions, discussed in detail below, include (1) promoting a sham Prebate program; (2) incorporating into Lexmark toner cartridges "killer microchips" that Lexmark designed in concert with microchips suppliers solely to preserve Lexmark's market position and exclude competition; (3) revoking the status of Lexmark-authorized service providers when those providers sell remanufactured Lexmark toner cartridges; (4) putting in place a program to price selectively toner cartridges to undercut identified remanufacturers; and (5) conspiring to threaten competitors.

33. Lexmark specifically launched its Prebate program to intimidate and to exclude competition from remanufacturers. Exploiting Prebate, Lexmark also effects its deliberate, unlawful, anticompetitive intent to raise prices and exclude competition. Lexmark purports to offer two toner cartridges for each of its printer models—one cartridge labeled "Prebate" and a physically identical, higher priced cartridge that lacks the Prebate label. Lexmark charges substantially more for toner cartridges not labeled Prebate, and it does not make non-Prebate toner cartridges readily available. Lexmark asserts that customers who buy Prebate cartridges are bound by a licensing agreement to use

Prebate cartridges only once and to return depleted Prebate cartridges only to Lexmark.

34. On information and belief, computer equipment manufacturers that purchase Lexmark-manufactured laser printers and replacement toner cartridges for resale also restrict end-users' use of the toner cartridge with the sham Prebate license or similar anticompetitive marketing schemes.

35. Lexmark sent letters to most of the companies in the toner cartridge remanufacturing business upon introducing Prebate. Lexmark falsely claimed that remanufacturing Prebate-labeled toner cartridges violates Lexmark's intellectual property rights and that Prebate toner cartridges could not be legally remanufactured. Lexmark falsely informed remanufacturers that if they used SCC's products to remanufacture Lexmark toner cartridges, the customers would violate the law. Lexmark has threatened suing its competitors that remanufacture Prebate toner cartridges. Because Lexmark sells virtually all its toner cartridges with the Prebate label, its program has the intended effect of excluding competition and increasing prices to consumers in the relevant markets by restricting the supply of Lexmark toner cartridges.

36. Lexmark's actions are designed to eliminate competition and to ensure that only it supplies replacement toner cartridges, whether new or remanufactured. On information and belief, Lexmark packages each printer it sells with a Prebate toner cartridge. Lexmark does not sell printers that come packaged with non-Prebate cartridges.

37. Because of Lexmark's deception and fraudulent inducement, customers and end-users do not know that, at the time they purchase Lexmark printers, they are locked-in to purchasing replacement toner cartridges for these printers only from Lexmark. Lexmark intentionally does not inform customers and end-users of its Optra S series, Optra SE, Optra T series, T520/522, T620/622, e320/322, e220, T630/632/634, e321/323, and T420 Lexmark printer models and the multifunctional peripheral versions of these models that the only toner cartridges that accompany these printers are Prebate toner cartridges. Lexmark's deliberate nondisclosure of this fact fraudulently induces customers' use of Prebate cartridges. Customers and end-users thus do not have any practical choice other than to use Prebate cartridges with their newly purchased Lexmark laser printers. Lexmark also deceptively omits from packaging containing new printers any information about Prebate, thereby exploiting consumers' lack of information about choices in replacement cartridges. As a result, Lexmark printer customers do not know that Lexmark asserts that Prebate toner cartridges cannot be reused or refilled by third parties.

38. Customers and end-users are unable to calculate life-cycle costs of operating Lexmark printers due to, among other things, Lexmark's deceptive dissemination of misleading information. Lexmark is aware that it unlawfully deceives consumers about life-cycle costs, and has boasted to investors that exploiting consumers' ignorance will increase Lexmark's profitability: "Most companies don't know [the] total cost of printing. . ." Lexmark's anticompetitive exploitation of consumers' and

end-users' lack of adequate information increases prices and reduces output in the relevant markets.

39. On information and belief, after an end-user purchases a Lexmark printer, Lexmark purposefully misleads end-users to believe that they have a restricted license on Lexmark toner cartridges—to the extent that consumers are even aware of this license—and that the license requires customers and end-users to purchase toner cartridges only from Lexmark. Lexmark, however, knows that its end-users have no such restricted license agreement. Lexmark's sole purpose for deceiving end-users to believe they are contractually bound by this agreement to use only Lexmark toner cartridges is to preserve, maintain, and enhance its unlawful monopoly power in the relevant markets.

40. Through Prebate, Lexmark also seeks to extend its patent rights beyond their scope, which constitutes patent misuse. By using the sham Prebate license to deceive customers and end-users that they are bound by a restrictive license agreement, Lexmark misuses its patent rights to preserve, maintain, and enhance its unlawful monopoly power in the relevant markets.

41. On information and belief, there is no substantive difference in the sales process when a customer or end-user purchases a separately packaged Prebate-labeled Lexmark replacement toner cartridge, which includes the sham restricted license, or when a customer or end-user purchases a separately packaged non-Prebate Lexmark replacement toner cartridge. Customers or end-users do not know—and Lexmark

deliberately fails to disclose—that a consumer’s purchase of a Lexmark replacement toner cartridge labeled Prebate creates a sham restrictive license between Lexmark and the customer or end-user. Many customers and end-users purchase replacement toner cartridges either on the Internet, through phone orders, or from large retail outlets. Lexmark does not inform consumers and end-users that their simple transactions, which occur without customers or end-users actually viewing the replacement toner cartridge boxes, create purportedly restricted-use licenses.

42. On information and belief, for the purpose of effectuating Lexmark’s illegal exclusionary conduct, Lexmark tracks customers and end-users that insist on purchasing non-Prebate cartridges. Lexmark isolates and targets customers and end-users that prefer to use remanufactured toner cartridges as opposed to using Prebate-labeled toner cartridges, which Lexmark insists can be used only once. Lexmark thus is able to unlawfully exclude competition and increase prices to customers and end-users.

43. Those end-users and remanufacturers intimidated by Lexmark’s Prebate program—but still seeking to use remanufactured toner cartridges—ordered Lexmark toner cartridges without the Prebate label. Lexmark has sent representatives to these customers and attempted to undercut the remanufacturer’s price. If the end-user insisted on buying a remanufactured toner cartridge (typically because of environmental concerns), then Lexmark offered to sell a Lexmark-remanufactured toner cartridge to these end-users. These Lexmark

“remanufactured toner cartridges” were often, on information and belief, actually new toner cartridges labeled “remanufactured.” They were also labeled “Prebate.”

44. Lexmark began to incorporate electronic components (microchips) into its toner cartridges with the Optra SE printer’s introduction. Several Lexmark printer models now incorporate these anticompetitive microchips, including the Optra SE, Optra T series, T520/522, T620/622, e320/322, e220, T630/632/634, e321/323, and T420 Lexmark printer models and the multifunctional peripheral versions of these models. Lexmark’s co-conspirator microchip manufacturers make these anticompetitive microchips. Lexmark conspired to create and use an algorithm in each microchip that “authenticates” the toner cartridge, making the cartridge unusable with a Lexmark printer when remanufactured by a competitor. The anticompetitive microchips share a basic design feature as well as a single, anticompetitive purpose—i.e., the printer will not print unless it identifies a compatible microchip in the toner cartridge. When the initial toner load in a new toner cartridge is exhausted, the microchip is rendered unusable. Thus, a remanufactured toner cartridge cannot be used in Lexmark’s “chipped printers” unless the cartridge includes a replacement microchip supplied by the microchip manufacturer. Lexmark and its co-conspirator microchip suppliers refuse to deal with SCC and other competitors to supply such a microchip.

45. Lexmark and its co-conspirator microchip suppliers, from time to time, have acted in concert to redesign the anticompetitive microchips to include

multi-layered, multi-stage encryption. Lexmark's sole purpose for redesigning the anticompetitive microchips is to exclude competitors from the relevant markets, restrict output, and increase end-user prices.

46. Lexmark has conspired with its microchip suppliers so that only Lexmark can purchase the anticompetitive microchips. To ensure that only Lexmark receives the anticompetitive microchips, Lexmark and its co-conspirators have created a system whereby the microchip supplier allocates certain serial numbers to identify each individual anticompetitive microchip, thereby enabling Lexmark and its co-conspirators to track every single anticompetitive microchip that enters the market to ensure that only Lexmark has access to them.

47. Lexmark's purpose for using the anticompetitive microchips with the Lexmark toner cartridges is to exclude competition, restrict output, and increase end-user prices in the relevant markets. As a result of Lexmark's conduct involving the anticompetitive microchips, Lexmark has excluded and otherwise unlawfully restrained competitors from the relevant markets, thereby enhancing Lexmark's dominant, monopoly market position and increasing prices.

48. On information and belief, Lexmark installs anticompetitive microchips in toner cartridges both with the Prebate label and in toner cartridges not labeled Prebate. Customers and end-users that purchase non-Prebate labeled toner cartridges believe that the non-Prebate labeled toner cartridges can be remanufactured without any restriction. Because

Lexmark and its co-conspirator microchip suppliers, acting in concert, have illegally used the anticompetitive microchips to exclude competition in the relevant markets by, among other conduct, refusing to deal with SCC and remanufacturers, those customers and end-users are not aware that the non-Prebate toner cartridges—all of which incorporate the anticompetitive microchips—cannot be remanufactured without any restriction.

49. On information and belief, other printer toner cartridge manufacturers, such as Hewlett-Packard, do not use microchips for the same anticompetitive purpose that Lexmark does. Other printer toner cartridge manufacturers do not similarly restrict customers' abilities to have their toner cartridges remanufactured. Thus, the industry practice is to permit customers to purchase either new or remanufactured replacement toner cartridges from any source, which is less restrictive than Lexmark's use of the anticompetitive microchips and other exclusionary practices. As a result of Lexmark's anticompetitive activities, however, Lexmark printer customers believe that at the time they purchase a Lexmark printer they will be able to use either new replacement toner cartridges or remanufactured toner cartridges from any source with their Optra SE, Optra T series, T520/522, T620/622, e320/322, e220, T630/632/634, e321/323, and T420 Lexmark printer models and the multifunctional peripheral versions of these models.

50. On information and belief, approximately 35% of Hewlett-Packard toner cartridges are remanufactured. On information and belief, approximately 14% of Lexmark toner cartridges are

remanufactured. The disparity in these percentages indicates that Lexmark's exclusionary conduct is having an unlawful anticompetitive effect in the relevant markets.

51. On information and belief, U.S. sales of Lexmark toner cartridges that are remanufactured—as a percentage of total sales of all Lexmark toner cartridges, new and remanufactured—has decreased since 1998. Over the same period, U.S. sales of Hewlett-Packard toner cartridges that are remanufactured—as percentage of total sales of all Hewlett-Packard toner cartridges, new and remanufactured—has increased. These trends indicate that Lexmark's exclusionary conduct is having an unlawful anticompetitive effect in the relevant markets.

52. On information and belief, the prices of Lexmark-supplied replacement toner cartridges in the relevant markets have increased since 1998. Over the same period, the prices of Hewlett-Packard-supplied replacement toner cartridges have remained flat or decreased. These trends indicate that Lexmark's exclusionary conduct is having an unlawful anticompetitive effect in the relevant markets.

53. Lexmark certifies authorized service providers that are able to perform warranty service on Lexmark printers. Many of these authorized service providers sell new and remanufactured Lexmark toner cartridges. Lexmark has embarked on a campaign to revoke the status of authorized service providers. On information and belief, Lexmark is revoking the status

of authorized service providers because Lexmark does not want competitive remanufactured toner cartridges available in the relevant markets. If an authorized service provider remanufactures toner cartridges, Lexmark terminates that service provider's certification. Lexmark's purpose for terminating the authorized service provider is to preserve, maintain, and enhance its monopolies in the relevant markets.

54. Certain suppliers have offered, or have contemplated offering, replacement microchips for Lexmark toner cartridges. On information and belief, Lexmark and its microchip suppliers, acting in concert, have threatened these suppliers in a scheme designed to discourage such offerings. For example, in 2000, SCC met with Lexmark and informed Lexmark that it was contemplating selling microchips. One week after SCC met with Lexmark, Lexmark's microchip supplier sent a letter to SCC threatening patent infringement litigation. Other suppliers of replacement microchips received similar letters. After SCC entered the relevant markets with replacement microchips for toner cartridges for the T520 and T620 Lexmark printer models, Lexmark's microchips supplier sent another letter to SCC alleging infringement based solely on a picture of a microchip on SCC's web site.

55. On information and belief, Lexmark has conspired with its microchips supplier to extend the scope of Lexmark's patents and the microchips supplier's patents beyond the legitimate coverage of those patents' issued claims to intimidate and prevent competitors such as SCC from competing in the relevant markets.

56. In addition, Lexmark has brought its copyright action against SCC not for the purpose of obtaining a favorable judgment or perfecting the claims stated therein, but instead to harass SCC and interfere with SCC's ability to compete with Lexmark in the relevant markets, thus preserving Lexmark's dominant and monopoly position in the relevant markets.

57. Lexmark has misused the copyrights at issue in this action and has used them in violation of the antitrust laws as to render them unenforceable. Lexmark also has imposed restrictions on the use of its purportedly copyrighted material at issue in this case that anticompetitively extend the scope of those copyrights in violation of the antitrust laws.

58. On information and belief, there is a close link between the downward price pressure on Lexmark's laser printers and Lexmark's need to increase its revenue and profit growth from its supplies business. Lexmark considers its toner cartridge supply business to be critical to its profitability. Lexmark has issued press releases describing its supplies-driven business model, which emphasizes the profitability of Lexmark's toner cartridges sales. Lexmark has recently reported that its supplies revenue for the 2003 third quarter increased 13% from the same period in 2002. Consequently, on information and belief, Lexmark considers the remanufacturing of Lexmark printer toner cartridges by third parties to be a significant threat to Lexmark's revenue, profit growth, and monopolization of the relevant markets.

59. On information and belief, Lexmark has acted with the intent to restrain and monopolize the relevant markets to ensure that Lexmark will obtain artificially inflated monopolistic profits from Lexmark's new and remanufactured printer toner cartridge sales.

FIRST CLAIM FOR RELIEF

(Violation of Sherman Act § 1—Restraint of Interstate Commerce)

60. SCC realleges and incorporates by reference the allegations in Paragraphs 1 through 59 above.

61. Lexmark has engaged in an unlawful contract, combination or conspiracy to unreasonably restrain interstate commerce in the relevant markets in the United States in violation of Section 1 of the Sherman Act, 15 U.S.C. § 1.

62. Lexmark's aforesaid unlawful combination and conspiracy to restrain interstate commerce in the relevant markets has consisted, among other things, of Lexmark's conspiring to engage in the above alleged predatory and/or anticompetitive conduct for the purpose of restraining interstate commerce.

63. Lexmark's actions, as alleged above, have unlawfully injured competition and business activities in interstate commerce.

64. On information and belief, Lexmark willfully engaged in the actions, as alleged above, which constitute violations of Section 1 of the Sherman Act,

15 U.S.C. § 1, and Lexmark intended to restrain interstate commerce.

65. Lexmark's actions intentionally have had these adverse effects, among others, on the relevant markets: (a) reduced output within the relevant markets and (b) increased prices of products within the relevant markets.

66. Lexmark's actions, as alleged above, have proximately caused injury to SCC by diverting sales from SCC to Lexmark and inhibiting SCC from effectively competing in the relevant markets. As a result, SCC has suffered damages to its business or property by Lexmark in an amount to be established at trial in excess of \$18 million, exclusive of costs and interest.

67. SCC is entitled to an award of damages, including an amount up to three times the amount found as actual damages, reasonable attorneys' fees, and costs, under Section 4 of the Clayton Act, 15 U.S.C. § 15.

68. SCC will continue to suffer damages as a result of the unlawful actions of Lexmark unless Lexmark, its officers, agents, servants, employees, attorneys, and those persons acting in concert with Lexmark are permanently enjoined from continuing such anticompetitive actions.

SECOND CLAIM FOR RELIEF

(Violation of Sherman Act § 2—Conspiracy to Monopolize, Attempted Monopolization, and Monopolization)

69. SCC realleges and incorporates by reference the allegations in Paragraphs 1 through 68 above.

70. Lexmark has conspired with its microchips suppliers and other brand name computer equipment manufacturers to monopolize the relevant markets in violation of Section 2 of the Sherman Act, 15 U.S.C. § 2.

71. Lexmark's aforesaid conspiracy to monopolize the relevant markets has consisted of, among other things, Lexmark's conspiring to engage in the above alleged predatory and/or anticompetitive conduct in furtherance of its conspiracy to monopolize the relevant markets.

72. On information and belief, Lexmark willfully engaged in conspiratorial actions, as alleged above, which constitute violations of Section 2 of the Sherman Act, 15 U.S.C. § 2, and Lexmark specifically intended to monopolize the relevant markets.

73. Lexmark has individually attempted to monopolize the relevant markets in the United States in violation of Section 2 of the Sherman Act, 15 U.S.C. § 2.

74. Lexmark's activities are anticompetitive and predatory and were undertaken with the specific intent to inhibit competition, exclude competitors, control

prices, and create and maintain Lexmark's monopoly in the relevant markets.

75. There is a dangerous probability that Lexmark will succeed in its attempt to monopolize or maintain its monopolies in the relevant markets.

76. On information and belief, Lexmark willfully engaged in the actions, as alleged above, which constitute violations of Section 2 of the Sherman Act, 15 U.S.C. § 2, and specifically intended to monopolize the relevant markets.

77. In addition, Lexmark has monopolized the relevant markets in the United States in violation of Section 2 of the Sherman Act, 15 U.S.C. § 2.

78. Lexmark's aforesaid monopolization of the relevant markets has consisted of Lexmark obtaining and maintaining monopoly power with, on information and belief, approximately an 85% share of each relevant market.

79. Lexmark's actions, as alleged above, have unlawfully injured competition and business activities in interstate commerce.

80. Lexmark's concerted actions with its co-conspirators and Lexmark's unilateral actions in violation of Section 2 of the Sherman Act, as alleged above, have proximately caused injury to SCC by diverting sales from SCC to Lexmark and inhibiting SCC from effectively competing in the relevant markets. As a result, SCC has suffered damages caused

by Lexmark to its business and property in an amount that is estimated to be at least \$18 million.

81. Lexmark's concerted actions with its co-conspirators and Lexmark's unilateral actions in violation of Section 2 of the Sherman Act, as alleged above, have resulted in excluding competitors from the relevant markets and increasing prices to consumers in the relevant markets.

82. SCC is entitled to an award of damages, including an amount up to three times the amount found as actual damages, attorneys' fees and costs, under 15 U.S.C. § 15.

83. SCC will continue to suffer damages as a result of the unlawful actions of Lexmark unless Lexmark, its officers, agents, servants, employees, attorneys, and those persons acting in concert with Lexmark are permanently enjoined from continuing such actions.

THIRD CLAIM FOR RELIEF

(Violation of Lanham Act § 43(a)—False Advertising, Product Libel, and Unfair Competition)

84. SCC realleges and incorporates by reference the allegations in Paragraphs 1 through 83 above.

85. The communications regarding Lexmark's alleged intellectual property rights and Lexmark's alleged unlawful conduct, as alleged above, constitute material misrepresentations and/or omissions of the

nature, characteristics, and qualities of Lexmark's and SCC's goods, services and/or commercial activities, and are thus in violation of Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a). Lexmark's misrepresentations and omissions were made willfully and in bad faith in commercial advertising and promotion.

86. Lexmark made misrepresentations and omissions about its own products and SCC's competing products. All these products are marketed and sold in interstate commerce, and in commerce between the United States and foreign countries.

87. Lexmark's misrepresentations and omissions concerning Lexmark's and SCC's products have deceived and are likely to deceive a substantial segment of the intended audience.

88. Lexmark's misrepresentations are material and likely to influence purchasing decisions in the relevant markets. Such misrepresentations have proximately caused and are likely to cause injury to SCC by diverting sales from SCC to Lexmark. Such conduct has also irreparably harmed SCC by leading consumers and others in the trade to believe that SCC is engaged in illegal conduct and is a dishonest and disreputable business. Lexmark's illegal conduct has substantially injured SCC's business reputation.

89. SCC is entitled to an award of damages, including an amount up to three times the amount found as actual damages, attorneys' fees and costs, under 15 U.S.C. § 1117(a).

90. SCC will continue to suffer damages as a result of the unlawful actions of Lexmark unless Lexmark, its officers, agents, servants, employees, attorneys, and those persons acting in concert with Lexmark are permanently enjoined from continuing such actions and appropriate corrective advertising is awarded.

FOURTH CLAIM FOR RELIEF

(Violation of N.C. Gen. Stat. § 75-1—Restraint of North Carolina Commerce)

91. SCC realleges and incorporates by reference the allegations in Paragraphs 1 through 90 above.

92. Lexmark has engaged in an unlawful contract, combination or conspiracy to unreasonably restrain commerce in the relevant markets in North Carolina in violation of N.C. Gen. Stat. § 75-1.

93. Lexmark's aforesaid unlawful combination and conspiracy to restrain commerce in the relevant markets in North Carolina has consisted of, among other things, Lexmark's conspiring to engage in the above alleged predatory and/or anticompetitive conduct for the purpose of restraining commerce.

94. Lexmark's actions, as alleged above, have injured competition and adversely affected commerce and business activities within North Carolina.

95. On information and belief, Lexmark willfully engaged in the actions, as alleged above, which constitute violations of N.C. Gen. Stat. § 75-1, and

Lexmark intended to restrain commerce within North Carolina.

96. Lexmark's actions have had the following adverse effects, among others, on the relevant markets in North Carolina: (a) reduced output within the relevant markets and (b) increased prices of products within the relevant markets.

97. Lexmark's actions, as alleged above, have proximately caused injury to SCC by diverting sales from SCC to Lexmark and inhibiting SCC from effectively competing in the relevant markets. As a result, SCC has suffered damages caused by Lexmark to its business or property in an amount to be established at trial in excess of \$75,000 exclusive of costs and interest.

98. SCC is entitled to an award of damages, including an amount up to three times the amount found as actual damages, reasonable attorneys' fees and costs, under N.C. Gen. Stat. §§ 75-16 and 75-16.1.

99. SCC will continue to suffer damages as a result of the unlawful actions of Lexmark unless Lexmark, its officers, agents, servants, employees, attorneys, and those persons acting in concert with Lexmark are permanently enjoined from continuing such anticompetitive actions.

FIFTH CLAIM FOR RELIEF

**(Violation of N.C. Gen. Stat. § 75-1.1—Unfair
and Deceptive Trade Practices)**

100. SCC realleges and incorporates by reference the allegations in Paragraphs 1 through 99 above.

101. Lexmark has engaged in acts or practices that affect commerce and business activities in the state of North Carolina.

102. Lexmark's anticompetitive and predatory actions, as alleged above, constitute unfair and deceptive acts or practices in violation of N.C. Gen. Stat. § 75-1.1.

103. Lexmark willfully engaged in the acts or practices, as alleged above, which constitute violations of N.C. Gen. Stat. § 75-1.1.

104. Lexmark's unfair and deceptive acts have caused SCC to suffer damages in an amount to be established at trial in excess of \$75,000 exclusive of costs and interest.

105. SCC is entitled to recover treble damages for injuries caused by the aforesaid conduct, as well as attorneys' fees and costs of suit for Lexmark's willful conduct, under N.C. Gen. Stat. §§ 75-16 and 75-16.1.

106. Lexmark's actions are ongoing and, unless enjoined, will continue to cause irreparable harm to SCC.

SIXTH CLAIM FOR RELIEF

**(Violation of N.C. Gen. Stat.
§ 75-2.1—Conspiracy to Monopolize, Attempted
Monopolization, Monopolization)**

107. SCC realleges and incorporates by reference the allegations in Paragraphs 1 through 106 above.

108. Lexmark has conspired to monopolize the relevant markets in North Carolina in violation of N.C. Gen. Stat. § 75-2.1.

109. Lexmark's aforesaid conspiracy to monopolize the relevant markets has consisted of, among other things, Lexmark's conspiring to engage in the above alleged predatory and/or anticompetitive conduct for the purpose of monopolizing the relevant markets in North Carolina.

110. On information and belief, Lexmark willfully engaged in the concerted actions, as alleged above, which constitute violations of N.C. Gen. Stat. § 75-2.1, and Lexmark specifically intended to monopolize the relevant markets within North Carolina.

111. Lexmark, in addition to acting in concert with its co-conspirators as alleged above, has individually attempted to monopolize the relevant markets within North Carolina in violation of N.C. Gen. Stat. § 75-2.1.

112. Lexmark's aforesaid attempt to monopolize the relevant markets in North Carolina has consisted of, among other things, Lexmark engaging in the above alleged predatory and/or anticompetitive conduct to

acquire monopoly power in the relevant markets within North Carolina.

113. On information and belief, Lexmark willfully engaged in the actions, as alleged above, which constitute violations of N.C. Gen. Stat. § 75-2.1, and specifically intended to monopolize the relevant markets within North Carolina.

114. There is a dangerous probability that Lexmark will succeed in its attempt to monopolize or maintain its monopolies in the relevant markets within North Carolina.

115. In addition, Lexmark has individually monopolized the relevant markets within North Carolina in violation of N.C. Gen. Stat. § 75-2.1.

116. Lexmark's aforesaid monopolization of the relevant markets has consisted of Lexmark obtaining and maintaining monopoly power with, on information and belief, approximately an 85% share of each relevant market within North Carolina.

117. On information and belief, Lexmark willfully engaged in the actions, as alleged above, which constitute violations of N.C. Gen. Stat. § 75-2.1. Lexmark also intended to monopolize the relevant markets within North Carolina.

118. Lexmark's actions, as alleged above, have injured competition and adversely affected commerce and business activities within North Carolina.

119. Lexmark's concerted actions with its co-conspirators and Lexmark's unilateral actions in violation of N.C. Gen. Stat. § 75-2.1, as alleged above, have proximately caused injury to SCC by diverting sales from SCC to Lexmark and inhibiting SCC from effectively competing in the relevant markets within North Carolina. As a result, SCC has suffered damages in an amount to be established at trial in excess of \$75,000 exclusive of costs and interest.

120. Lexmark's concerted actions with its co-conspirators and Lexmark's unilateral actions in violation of N.C. Gen. Stat. § 75-2.1, as alleged above, have resulted in excluding competitors from the relevant markets and increasing prices to consumers in the relevant markets within North Carolina.

121. SCC is entitled to recover treble damages for injuries caused by the aforesaid conduct, as well as attorneys' fees and costs of suit for Lexmark's willful conduct, under N.C. Gen. Stat. §§ 75-16 and 75-16.1.

122. Moreover, Lexmark's actions are ongoing and, unless enjoined, will continue to cause irreparable harm to SCC.

SEVENTH CLAIM FOR RELIEF

(Civil Conspiracy)

123. SCC realleges and incorporates by reference the allegations in Paragraphs 1 through 122 above.

124. Lexmark conspired, as alleged above, to commit unlawful acts, or to do lawful acts in an unlawful way.

125. Lexmark and/or one of its co-conspirators, in furtherance of their illegal conspiracy, committed an overt act in furtherance of the aims of their conspiracy.

126. SCC has suffered actual injury as a proximate result of the overt acts committed by Lexmark and/or one of its co-conspirators in furtherance of their conspiracy.

127. SCC is entitled to recover damages, costs, attorneys' fees, and expenses necessary to counteract the effects of Lexmark's illegal civil conspiracy.

JURY DEMAND

128. SCC demands a jury trial of all matters so triable raised in this Complaint.

PRAYER FOR RELIEF

WHEREFORE, SCC prays the Court to enter a judgment:

1. That SCC recover damages from Lexmark in an amount to be determined at trial in excess of \$18 million for Lexmark's violation of Sections 1 and 2 of the Sherman Act, 15 U.S.C. §§ 1 and 2;

2. That SCC recover enhanced damages for as well as an enhanced accounting of Lexmark's unjust enrichment profits in an amount not less than \$75,000

for Lexmark's violations of the Lanham Act under 15 U.S.C. § 1125(a);

3. That Lexmark be permanently enjoined from violating the Lanham Act and be required to make and disseminate corrective advertising to remedy its Lanham Act violations against SCC in a form and frequency acceptable to SCC and the Court;

4. That Lexmark be ordered to give a report in writing, under oath, stating that Lexmark has complied with the Court's injunction and describing the steps taken to comply with the Court's injunction;

5. That SCC recover damages from Lexmark on SCC's claims under North Carolina law in an amount to be established at trial in excess of \$75,000, plus interest as allowed by law;

6. That SCC recover Lexmark's unjust enrichment profits in an amount not less than \$75,000 for Lexmark's violations of North Carolina law;

7. That said recovery be trebled, where applicable, under 15 U.S.C. § 15, 15 U.S.C. § 1117(a), and/or N.C. Gen. Stat. § 75-16;

8. That the Court enjoin Lexmark from enforcing its patents, copyrights, and the related Prebate restrictions against its customers and end-users, SCC, and SCC's customers.

9. That the Court award SCC its reasonable attorneys' fees and costs and prejudgment and post

judgment interest under 15 U.S.C. § 15; 15 U.S.C. § 1117(a); and/or N.C. Gen. Stat. § 75-16.1

10. That a trial by jury be had on all issues so triable; and

11. For such other and further relief as the Court may deem just and proper.

Dated December 4, 2003

Respectfully submitted,

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**UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF KENTUCKY
CENTRAL DIVISION
LEXINGTON**

**CONSOLIDATED CIVIL ACTION NOS.
5:02-571 AND 5:04-84
[Filed June 1, 2007]**

STATIC CONTROL COMPONENTS,)
INC.,)
)
Plaintiff/Counterclaim Defendant,)
)
V.)
)
LEXMARK INTERNATIONAL, INC.,)
)
Defendant/Counterclaim Plaintiff)
)

ORDER

*** **

Static Control Components, Inc's ("SCC") Motion for Reconsideration of the Court's Order Dismissing SCC's Claims or, In the Alternative, to Amend Its Pleading is before the Court for consideration. [R. 407]. For the reasons set forth below, SCC's motion will be denied.¹

¹ This denial is consistent with the notice that the Court gave to SCC at trial prior to opening arguments that the Court had

I.

BACKGROUND

For contextual purposes, the factual background of this case may be found, *e.g.*, at Record No. 1081 but need not be repeated here. In its current Motion, SCC invites the Court to reconsider its Order dismissing SCC’s antitrust, Lanham Act, and state law claims upon finding that SCC lacked the prudential standing necessary to maintain those claims. [R. 392].

II.

DISCUSSION

A. Standard of Review

Motions to reconsider fall within the framework of Federal Rule of Civil Procedure 59 and may be justified upon three circumstances, namely when: “1) there has been an intervening change in the controlling law, 2) there is new evidence which has become available, and 3) there is a need to correct clear legal error or to prevent manifest injustice.” *Gesler v. Ford Motor Co.*, 185 F. Supp.2d 724, 729 (W.D. Ky. 2001) (citing *Plaskon Elec. Materials v. Allied Signal*, 904 F. Supp. 644, 669 (N.D. Ohio 1995)). SCC currently argues the third basis—correction of legal error—as grounds for its Motion. Generally, however, motions to reconsider are “extraordinary in nature,” “discouraged,” and are

considered SCC’s motion and that it would be denied, pending this instant opinion and order.

granted “very sparingly,” because the motions “run contrary to notions of finality and repose.” *Plaskon Elec. Materials*, 904 F. Supp. at 669 (citations omitted). Courts consistently emphasize that a motion to reconsider is not a vehicle for a party to merely reargue or rehash its position after an unfavorable ruling. *See, e.g., Gesler*, 185 F. Supp.2d at 729 (citation omitted); *Frederick v. Southeastern Pa. Transp. Auth.*, 926 F. Supp. 63, 64 (E.D. Pa. 1996); *All W. Pet Supply Co. v. Hill’s Pet Prods. Div.*, 847 F. Supp. 858, 860 (D. Kan. 1994) (citing *National Metal Finishing Co., Inc. v. Barclays American/Commercial, Inc.*, 899 F.2d 119, 123 (1st Cir. 1990)).

Regarding the standard of review for motions for leave to amend a complaint, leave to amend a pleading shall be “freely given when justice so requires.” Fed. R. Civ. P. 15(a). However, the grant or denial of a motion to amend is within the sound discretion of the Court. *General Elec. Co. v. Sargent & Lundy*, 916 F.2d 1119, 1130 (6th Cir. 1990). Specifically, a district court should consider the following factors in deciding on a plaintiff’s motion to amend the complaint: (1) undue delay in filing the motion; (2) lack of notice to adverse parties; (3) whether the movant is acting in bad faith, or with a dilatory motive; (4) failure to cure deficiencies by previous amendments; (5) the possibility of undue prejudice to adverse parties; and (6) whether the amendment is futile. *Foman v. Davis*, 371 U.S. 178, 182 (1962); *Robinson v. Michigan Consol. Gas Co.*, 918 F.2d 579, 591 (6th Cir. 1990).

B. Analysis

SCC's own Counterclaim, and tendered amended Counterclaim, demonstrates in a self-contained manner that SCC lacks antitrust standing. Taking various exemplar SCC arguments in turn, it is evident to the Court that SCC is merely attempting to reargue the merits of this closed issue and that the Court committed no "clear legal error" in this matter. Mere disagreement with the Court's previous conclusion is not a basis for seeking reconsideration.

First, SCC argues that "the Court incorrectly required SCC to provide *evidence* in opposing Lexmark's Rule 12(b)(6) motion so that the Court could determine the sufficiency of SCC's *allegations* . . ." [R. 407 at 13 (emphasis in original)]. SCC thereafter quotes the Court: "No evidence suggests that SCC was utilized by Lexmark as a conduit or market force to injure the remanufacturers of Lexmark's cartridges." *Id.* (quoting the Court, R. 392 at 10). This argument demonstrates the tenuous nature of SCC's Motion. The only error the Court made here, if any, is using the word "evidence" in a colloquial sense. A fair reading of the Court's Order demonstrates that the Court relied on SCC's own factual allegations throughout. Predominantly, the Court accepted as true that Lexmark has indeed caused injury in fact to SCC with regard to Lexmark's Prebate program, and SCC's parsing of individual words for supposed error belies the need for reconsideration.

Next, SCC attempts to reargue an antitrust injury by overlying the Court's analysis of antitrust standing with regard to Lexmark's Prebate program in general

with the Court's disposition of the issues with regard to microchips specifically. [R. 392 at 7-8]. The Court is well aware that it is no defense to antitrust suit to argue that the antitrust violator created the restrained market in the first place. Therefore, the fact that Lexmark created the cartridges that are the subject of this suit is not a defense on the merits to antitrust. However, with regard to microchips, SCC alleges not merely that Lexmark created a microchip market, but that the very existence of these chips, incorporated into Prebate cartridges, is "anticompetitive." [See R. 392 at 3]. Therefore, with regard to these microchips, substitutes for which SCC sells, SCC has no antitrust injury, because it is profiting from Lexmark's alleged *antitrust activity*. "[I]n order to survive a motion to dismiss for failure to allege antitrust injury, a plaintiff must allege *either*: (1) that the antitrust violation was 'a necessary predicate' to their injury; *or* (2) that the defendant could injure plaintiffs only by engaging in the antitrust violation." *In re Cardizem CD Antitrust Litigation*, 332 F.3d 896, 912 (6th Cir. 2003) (emphasis in original) (citing *Hodges v. WSM, Inc.*, 26 F.3d 36, 39 (6th Cir. 1994)). In the current case, with regard to the microchips, SCC turns *In re Cardizem* on its head, because rather than the antitrust violation being a necessary predicate to SCC's *injury*, the antitrust violation, pursuant to SCC's allegations, is a necessary predicate of SCC's *profit*.

SCC also argues that the Court committed reversible clear error by not considering one of the five factors under *Associated General Contractors of California, Inc. v. California State Council of Carpenters*, 459 U.S. 519 (1983). [R. 407 at 1]. That factor is "the potential for duplicative recovery or

complex apportionment of damages.” *Southhaven Land Co., Inc. v. Malone & Hyde, Inc.*, 715 F.2d 1079, 1083, 1085 (6th Cir. 1983). SCC incorrectly suggests that the Court must fruitlessly go through the motions of addressing this factor. *Associated General* merely sets forth a balancing test, the factors of which were later enumerated with precision by the Sixth Circuit. *Id.* The Court was not unaware of factor four, but other factors weigh so heavily in Lexmark’s favor that factor four in no event could tip the balance in SCC’s favor. The factor is at best a wash.

Finally, SCC’s proposed amended Counterclaim does no better of alleging facts that would demonstrate that SCC has antitrust standing in this matter and is accordingly futile. Simply stating, *inter alia*, “Lexmark targeted SCC specifically” as an afterthought in light of the Court’s Order of dismissal is insufficient in light of SCC’s other allegations, and Lexmark’s citation on this point is well taken. R. 422 at 10; *Peck v. General Motors Corp.*, 894 F.2d 844, 846-47 (6th Cir. 1990). The Court will also deny SCC’s request to amend as futile.

II.

CONCLUSION

For the reasons set forth herein, it is hereby **ORDERED** that SCC’s Motion for Reconsideration of the Court’s Order Dismissing SCC’s Claims or, In the Alternative, to Amend Its Pleading [R. 407] is **DENIED**.

JA 61

This the 1st day of June, 2007.

Signed By:
Gregory F. Van Tatenhove
United States District Judge

JA 62

**UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF KENTUCKY
CENTRAL DIVISION
LEXINGTON**

CIVIL MINUTES-TRIAL

CASE NO. 5:04-cv-M-GFVT AT: Frankfort

DATE: June 19, 2007

STYLE:

LEXMARK INTERNATIONAL,. INC.. v. STATIC
CONTROL COMPONENTS. ET AL.

DOCKET ENTRY: Lexmark's Motion for Judgment as a Matter of Law regarding the Statute of Limitations [R. 12971 is GRANTED IN PART AND DENIED IN PART, as set forth in the record. For reasons stated on the record, Static Control Component's Motion for Summary Judgment [R. 1251] and Motions to amend Pleadings to Add Fraud Claim and Reinstate Counterclaims [R. 1317 and 1318] are DENIED. Static Control Components Motion to Exclude evidence, Argument & Jury Instruction re "good faith" patent misuse rebuttal [R. 1351] is DENIED IN PART and TAKEN UNDER ADVISEMENT in part. The Motion is denied to mark may present evidence in its rebuttal case regarding good faith.

PRESENT:

HON. s/ Gregory F. Van Tatenhove, JUDGE
GREGORY F. VAN TATENHOVE

M. Younce
Deputy Clerk

Rhonda Sansom
Court Reporter

ATTORNEYS PRESENT:

For Lexmark:

Steven Brian Loy
Andrew Copenhaver
Mark T. Banner
Ted Meece
Hada Haulsee
Hanly A. Ingram
Jason Shull
Matthew P. Becker
Jason Hicks

For Static Control Components: Joseph C. Smith, Jr.
Stanley Amberg
Allison Freedman
William H. Barrett
W. Craig Robertson
Seth Greenstein
Mickey T. Webster
Stefan Meisner

PROCEEDINGS: JURY TRIAL

___ COURT TRIAL

___**X**___ JURY TRIAL

The jury present as follows.

(1) Juror No. 114	(5) Juror No.	(9) Juror No. 126
(2) Juror No. 124	(6) Juror No. 86	(10) Juror No. 127
(3) Juror No. 58	(7) Juror No. 87	
(4) Juror No. 145	(8) Juror No. 120	

Introduction of evidence for defendant resumed and concluded.

Rebuttal evidence began but not concluded.
 Sur-rebuttal evidence

Continued to Wednesday, June 20, 2007, at the hour of 8:30 A.M. for further trial.

Jury retires to deliberate at _____;
Jury returns at _____.

JUDGMENT BY COURT JURY VERDICT.
SEE VERDICT OR ANSWERS TO INTERROGATORIES.

Jury polled.

Proposed Findings of Fact, Conclusions of Law & Judgment to be prepared by plaintiff

JA 65

____ defendant.

____ BRIEFS to be filed

Plaintiff

Defendant

Reply

within ____ days following the filing of the
transcript.

This the 19th day of June, 2007.

cc: COR
TIC: 6/20

Initials of Deputy Clerk MJY

**UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF KENTUCKY
CENTRAL DIVISION
LEXINGTON**

**CONSOLIDATED CIVIL ACTION NOS.
5:02-571 AND 5:04-84**

[Filed October 27, 2009]

_____)
STATIC CONTROL COMPONENTS,)
INC.,)
)
Plaintiff/Counterclaim Defendant,)
)
V.)
)
LEXMARK INTERNATIONAL, INC.,)
)
Defendant/Counterclaim Plaintiff.)
_____)

AMENDED FINAL JUDGMENT

*** **

These consolidated civil actions came on for trial before the Court and a jury, Honorable Gregory F. Van Tatenhove, District Judge, presiding. Further, certain other issues in these consolidated civil actions were decided by the Court, as a matter of law.

It is **ORDERED AND ADJUDGED** that:

**LEXMARK'S CLAIMS IN ITS COMPLAINT IN
THE 02-CV-571-GFVT ACTION**

(1) On Count I (Copyright Infringement) of Lexmark's Complaint in Case No. 02-CV-571-GFVT, Lexmark shall recover nothing, and that Count I be dismissed on the merits. [R. 975];

(2) On Count II (DMCA Violations Relating to Lexmark's Toner Loading Programs) of Lexmark's Complaint in Case No. 02-CV-571-GFVT, Lexmark shall recover nothing, and that Count II be dismissed on the merits. [R. 216]; and

(3) On Count III (DMCA Violations Relating to Lexmark's Printer Engine Programs) of Lexmark's Complaint in Case No. 02-CV-571-GFVT, Lexmark shall recover nothing, and that Count III be dismissed on the merits. [R. 216.]

**STATIC CONTROL'S COUNTERCLAIMS IN
THE 02-CV-571-GFVT ACTION**

(4) On the First Claim for Relief (Violation of Sherman Act § 1 – Restraint of Interstate Commerce) of Static Control's Counterclaims in Case No. 02-CV-571-GFVT, Static Control shall recover nothing, and that the First Claim for Relief be dismissed on the merits. [R. 392 & 1259];

(5) On the Second Claim for Relief (Violation of Sherman Act § 2 – Conspiracy to Monopolize, Attempted Monopolization, and Monopolization) of Static Control's Counterclaims in Case No. 02-CV-571-GFVT, Static Control shall recover nothing, and that

the Second Claim for Relief be dismissed on the merits. [R. 392 & 1259];

(6) On the Third Claim for Relief (Violation of Lanham Act § 43(A) – False Advertising, Product Libel, and Unfair Competition) of Static Control’s Counterclaims in Case No. 02-CV-571-GFVT, Static Control shall recover nothing, and that the Third Claim for Relief be dismissed on the merits. [R. 392 & 1259];

(7) On the Fourth Claim for Relief (Violation of N.C. Gen. Stat. § 75-1 – Restraint of North Carolina Commerce) of Static Control’s Counterclaims in Case No. 02-CV-571-GFVT, Static Control shall recover nothing, and that the Fourth Claim for Relief be dismissed on the merits. [R. 392 & 1259];

(8) On the Fifth Claim for Relief (Violation of N.C. Gen. Stat. § 75-1.1 – Unfair and Deceptive Trade Practices) of Static Control’s Counterclaims in Case No. 02-CV-571-GFVT, Static Control shall recover nothing, and that the Fifth Claim for Relief be dismissed on the merits. [R. 392 & 1259];

(9) On the Sixth Claim for Relief (Violation of N.C. Gen. Stat. § 75-2.1 – Conspiracy to Monopolize, Attempted Monopolization, Monopolization) of Static Control’s Counterclaims in Case No. 02-CV-571-GFVT, Static Control shall recover nothing, and that the Sixth Claim for Relief be dismissed on the merits. [R. 392 & 1259]; and

(10) On the Seventh Claim for Relief (Civil Conspiracy) of Static Control’s Counterclaims in Case No. 02-CV-571-GFVT, Static Control shall recover

nothing, and that the Seventh Claim for Relief be dismissed on the merits. [R. 392 & 1259.]

**LEXMARK'S CLAIMS IN ITS AMENDED
REPLY AND COUNTERCLAIMS IN THE
02-CV-571-GFVT ACTION**

(11) On Count I (DMCA Violations Relating to PEP for Optra Se and T Series Printers) of Lexmark's Amended Reply and Counterclaims in Case No. 02-CV-571-GFVT, Lexmark shall recover nothing, and that Count I be dismissed on the merits. [R. 216];

(12) On Count V (Interference with Contractual Relations) of Lexmark's Amended Reply and Counterclaims in Case No. 02-CV-571-GFVT, Lexmark shall recover nothing, and that Count V be dismissed on the merits. [R. 1020];

(13) On Count VI (Interference with Prospective Economic Advantage) of Lexmark's Amended Reply and Counterclaims in Case No. 02-CV-571-GFVT, Lexmark shall recover nothing, and that Count VI be dismissed on the merits. [R. 1020]; and

(14) On Count VII (Civil Conspiracy) of Lexmark's Amended Reply and Counterclaims in Case No. 02-CV-571-GFVT, Lexmark shall recover nothing, and that Count VII be dismissed on the merits. [R. 1020.]

**STATIC CONTROL'S CLAIMS IN ITS
COMPLAINT IN THE 04-CV-84-GFVT ACTION**

(15) Count I (Declaratory Judgment of Non-Infringement of Copyright) of Static Control's

Complaint in Case No. 04-CV-84-GFVT is adjudged in favor of Static Control, and this Court declares that the computer software code on Static Control's reengineered replacement microchips for use with Lexmark's T420, T520/522, T620/622, T630/632/634, E320/322, E321/323, E220, Optra Se, Optra T610, Optra T612, Optra T614, and Optra T616, sold after February 24, 2004, does not infringe any Lexmark copyright. [R. 1061];

(16) Count II (Declaratory Judgment of No Violation of 17 U.S.C. § 1201(a)(2)) of Static Control's Complaint in Case No. 04-CV-84-GFVT is adjudged in favor of Static Control, and this Court declares that Static Control's manufacture, distribution, and sale of its microchips for use with Lexmark's T420, T520/522, T620/622, T630/632/634, E320/322, E321/323, E220, Optra Se, Optra T610, Optra T612, Optra T614, and Optra T616 printers do not violate 17 U.S.C. § 1201(a)(2) of the DMCA. [R. 216]; and

(17) Count III (Declaratory Judgment of No Violation of 17 U.S.C. § 1201(a)(2)) of Static Control's Complaint in Case No. 04-CV-84-GFVT is hereby dismissed without prejudice as moot.

**LEXMARK'S COUNTERCLAIMS IN THE
04-CV-84-GFVT ACTION**

(18) On Count I (Static Control's DMCA Violations relating to Lexmark's Printer Engine Programs) of Lexmark's Counterclaims in Case No. 04-CV-84-GFVT, Lexmark shall recover nothing, and that Count I be dismissed on the merits. [R. 216];

(19) On Count II (Static Control's Patent Infringement) of Lexmark's Counterclaims in Case No. 04-CV-84-GFVT, Lexmark shall recover nothing, and that Count II be dismissed on the merits [R. 1012, 1366, 1443, & 1448], except solely with regard to Lexmark's claim in Paragraph 91 of Count II against Static Control for direct infringement of Lexmark's U.S. Patent No. 6,397,015, said claim being adjudged in favor of Lexmark [R. 1362 & 1376 (6/20/07 Trial Transcript, p. A-20, line 3-4)], but with no remedy being entered on said claim. [R. 1012, 1430, & 1448];

(20) On Count V (Interference with Contractual Relations) of Lexmark's Counterclaims in Case No. 04-CV-84-GFVT, Lexmark shall recover nothing, and that Count V be dismissed on the merits. [R. 1020];

(21) On Count VI (Interference with Prospective Economic Advantage) of Lexmark's Counterclaims in Case No. 04-CV-84-GFVT, Lexmark shall recover nothing, and that Count VI be dismissed on the merits. [R. 1020]; and

(22) On Count VII (Civil Conspiracy) of Lexmark's Counterclaims in Case No. 04- CV-84-GFVT, Lexmark shall recover nothing, and that Count VII be dismissed on the merits. [R. 1020.]

OTHER MATTERS

(23) All pending motions in these consolidated actions not previously disposed of are hereby denied as moot.

(24) The Court's prior rulings and orders (including but not limited to rulings and orders on motions for summary judgment and motions for judgment as a matter of law) in these consolidated actions are merged herein, including but not limited to prior rulings and orders (including but not limited to rulings and orders on motions for summary judgment and motions for judgment as a matter of law) that dispose of claims and counterclaims asserted by and against Wazana Brothers International, Inc., d/b/a Micro Solutions Enterprises, Pendl Companies, Inc., Image Productions West, Inc., and/or NER Data Products, Inc.

(25) By tendering a proposed judgment, neither Lexmark nor Static Control waives any appeal or other rights, and all such rights, including but not limited to the right to appeal from this judgment and appeal rights previously preserved by prior stipulations, are expressly preserved.

(26) All claims in these consolidated actions not otherwise expressly disposed of by this or prior orders or rulings (including but not limited to rulings and orders on motions for summary judgment and motions for judgment as a matter of law) merged herein are hereby dismissed on the merits.

(27) Judgment is **ENTERED** with respect to all issues raised herein.

(28) This is a **FINAL** and **APPEALABLE** Judgment and there is no just cause for delay.

(29) This matter is **STRICKEN** from the Court's active docket.

(30) The parties will submit any motions for bills of costs and attorneys' fees, including under 17 U.S.C. § 505, within thirty (30) days of entry of this Judgment. The parties are reminded that, in the Sixth Circuit, the language of Federal Rule of Civil Procedure 54(d) "creates a presumption in favor of awarding costs [to the prevailing party], but allows denial of costs at the discretion of the trial court." *White & White, Inc. v. American Hospital Supply Corp.*, 786 F.2d 728, 730 (6 Cir. 1986). Where cases are "close and difficult," the denial of costs "is a proper exercise of discretion under the rule." *Id.* And "[t]he closeness of a case is judged not by whether one party clearly prevails over another, but by the refinement of perception required to recognize, sift through and organize relevant evidence, and by the difficulty of discerning the law of the case." *Id.* at 732-33. The parties are further reminded that "attorney's fees are not ordinarily recoverable in the absence of a statute or enforceable contract providing therefor." *Incarcerated Men of Allen County Jail v. Fair*, 507 F.2d 281, 284 (6th Cir. 1974).

This the 27th day of October, 2009.

Signed By:
s/Gregory F. Van Tatenhove
United States District Judge