

UNITED STATES COURT OF APPEALS  
FOR THE SIXTH CIRCUIT

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LEXMARK INTERNATIONAL, INC.,  
Plaintiff-Appellee,

v.

STATIC CONTROL COMPONENTS, INC.,  
Defendant-Appellant.

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Appeal from the United States District Court  
for the Eastern District of Kentucky  
(Civil Action No. 02-571-KSF)

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PROOF BRIEF OF APPELLANT

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**DISCLOSURE OF CORPORATE AFFILIATIONS  
AND FINANCIAL INTERESTS**

Pursuant to Sixth Circuit Rule 26.1, Appellant makes the following disclosure:

1. Appellant is not a subsidiary or affiliate of a publicly-owned corporation not named in this appeal.

2. No publicly-owned corporation that is not a party to the appeal has a financial interest in the outcome of this appeal.

\_\_\_\_\_  
Seth D. Greenstein

\_\_\_\_\_  
Date

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**STATEMENT OF REASONS  
WHY ORAL ARGUMENT SHOULD BE HEARD**

This appeal involves a novel and unprecedented application of the Digital Millennium Copyright Act of 1998 (“DMCA”). The district court’s decision is the first to hold that an original equipment manufacturer can wield the DMCA (a copyright law) against makers of replacement parts that perform noncopyrightable functions. The district court’s decision has powerful public policy implications for a multitude of industries, and for consumers who rely upon competitive choices for consumable and replacement parts. This appeal also presents issues implicated by the “abstraction-filtration-comparison” infringement analysis adopted in this Court’s recent decision in *Kohus v. Mariol*, 328 F.3d 848 (6th Cir. 2003). Oral argument will enable the Court to address questions concerning the nuances of the case and the impact of these and other issues upon the interpretation of the DMCA and the future of copyright.

## **JURISDICTIONAL STATEMENT**

(a) The district court had subject-matter jurisdiction in this matter under 28 U.S.C. § 1331.

(b) This Court has appellate jurisdiction under 28 U.S.C. § 1292(a)(1).

(c) The district court entered the order appealed from on February 27, 2003. Static Control Components timely filed a Notice of Appeal on March 25, 2003.

## STATEMENT OF ISSUES PRESENTED FOR REVIEW

1. A. Whether the district court erred by applying § 1201(a)(2) of the Digital Millennium Copyright Act (DMCA) so as to protect noncopyrightable software functions and toner cartridges.

B. Whether a measure “effectively controls access to a work” under § 1201(a) of the DMCA where, without circumvention, the measure does not prevent unfettered access to obtain, read and copy the works.

C. Whether the district court erred as a matter of law and fact when it failed to exempt Appellant's “SMARTEK” software from DMCA liability even though Appellant's SMARTEK software meets the requirements for an exemption under § 1201 (f)(3) of the DMCA.

2. A. Whether the district court erroneously held that Appellee is likely to prevail on its copyright claim by holding inapplicable the filtration-comparison test and, thereby, finding infringement based on the copying of noncopyrightable elements.

B. Whether the district court misconstrued the fair use defense by holding that Appellee is likely to prevail on its copyright claim although the Appellee’s “work” is fundamentally functional and the functional aspects are necessary for others to use in order to compete in the market for repaired and replacement toner cartridges.

3. Whether the district court erroneously entered a preliminary injunction where there is no actual irreparable harm to Appellee and any potential harm is fully compensable by damages, and where the actual harm caused to Appellant, third parties, and public interests outweighs any potential harm to Appellee.

4. Whether the district court abused its discretion by failing to increase the amount of Appellee's bond.

## STATEMENT OF THE CASE

On December 30, 2002, plaintiff Lexmark International, Inc. (“Lexmark” or “Appellee”), a manufacturer of computer laser printers and toner cartridges, sued defendant Static Control Components, Inc. (“SCC” or “Appellant”), in the United States District Court for the Eastern District of Kentucky. SCC manufactures parts which others use to repair and refill printer toner cartridges, including Lexmark cartridges. Lexmark asserted that SCC-manufactured semiconductor “microchips” (or “chips”), known as “SMARTEK” chips, should be preliminarily and permanently enjoined, asserting the chips infringed copyright in Lexmark’s “Toner Loading Programs” (Count One), and that the SCC chip circumvented a technological measure applied by Lexmark with respect to its Toner Loading Programs (Count Two) and Printer Engine Program (Count Three), in violation of Section 1201(a)(2) of the Digital Millennium Copyright Act.<sup>1</sup>

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<sup>1</sup> Separately, on January 19, 2003, SCC petitioned the United States Copyright Office to exempt the circumvention of the Lexmark technological measure from § 1201(a)(1). SCC’s petition, reply comments, and the hearing transcript are available online at the Copyright Office website, <http://www.copyright.gov/1201/>. The Copyright Office will issue any regulations concerning the requested exemption on or before October 28, 2003.

Lexmark moved for a preliminary injunction. Following a hearing on February 7, 2003,<sup>2</sup> the district court issued a preliminary injunction on February 27, 2003, finding that Lexmark was likely to succeed on the merits of each count. On March 6, 2003, SCC filed a Motion for Clarification of the scope of the preliminary injunction. The district court granted this motion on April 21, 2003, and clarified the scope of the injunction. This appeal of the preliminary injunction followed.

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<sup>2</sup> Eight Amicus Curiae submitted briefs to the district court, all in opposition to Lexmark's Motion; six were admitted after the court had already entered its preliminary injunction. (R. 115–20, Amicus Briefs, Apx. pg. \_\_).

## STATEMENT OF FACTS

### I. BUSINESS OF STATIC CONTROL

Appellant SCC manufactures and supplies products, including replacement chips and other component parts, to businesses that repair, remanufacture, and refill used printer toner cartridges. (R. 67 Affidavit of William K. Swartz, pg. 2, ¶ 4, Apx. pg. \_\_). SCC employs approximately 1,000 people at its Sanford, North Carolina, headquarters. (*Id.* at pg. 2, ¶ 5, Apx. pg. \_\_; R. 92 Order Stating Findings of Fact and Conclusions of Law, pg. 1, ¶ 3, Apx. pg. \_\_).

### II. BUSINESS OF LEXMARK

Headquartered in Lexington, Kentucky, Appellee Lexmark is an Original Equipment Manufacturer (“OEM”) of laser printers and toner cartridges. (R. 92 FF/CL, pg. 1, ¶ 1, Apx. pg. \_\_). At issue in this dispute are Lexmark’s T520/522 and T620/622 printers and toner cartridges, and, in particular, a small amount of data embedded in chips on Lexmark’s cartridges. (*Id.* at pg. 1, ¶ 2, Apx. pg. \_\_).

Recognizing that it can earn higher profits over the life of the printer by controlling the market for high-priced replacement consumables, including toner cartridges, Lexmark sells printers to consumers virtually at cost. (R. 53 Def. Opp. PI, Apx. 3, Affidavit of Lester Cornelius, pg. 3, ¶ 8, Apx. pg. \_\_; R. 1 Complaint, pg. 4, ¶ 12, Apx. pg. \_\_). Lexmark’s replacement cartridges are priced from \$325-

\$414. (R. 3 Plaintiff's Memorandum in Support of Motion for Preliminary Injunction, Ex. B, Declaration of Michael Yaro, pg. 4, ¶ 11, Apx. pg. \_\_).<sup>3</sup>

### **III. COMPETITIVE TENSION BETWEEN LEXMARK AND THE REMANUFACTURING INDUSTRY**

Toner cartridge remanufacturers repair, recondition, and refill used cartridges to create a less-expensive, environmentally sound alternative to buying an all-new cartridge. (R. 53 Def. Opp. PI, Apx. 3, Cornelius Aff., pg. 3, ¶¶ 5–7, Apx. pg. \_\_). SCC is a supplier to this industry. Aftermarket cartridges provide the only competition to OEMs such as Lexmark, and thereby constrain OEM increases in price. (R. 63 Affidavit of Tricia Judge, pg. 2, ¶ 5, Apx. pg. \_\_).

Lexmark continually changes elements of its toner cartridges in an effort to stifle legitimate aftermarket competition. (R. 58 Affidavit of Lynton Burchette, pg. 2–3, ¶ 5, Apx. pg. \_\_; R. 3 Pltf. Sup. PI, Ex. B, Yaro Decl., pg. 5, ¶ 15, Apx. pg. \_\_). Around 1997–98, Lexmark began placing a small semiconductor chip in its toner cartridges that rendered refilled cartridges unusable, thus preventing repair or remanufacture by Lexmark's competitors. (R. 58 Burchette Aff., pg. 2–3, ¶ 5,

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<sup>3</sup> Lexmark has a two-tier pricing scheme for its toner cartridges: “Prebate” cartridges, more expensive than competitive comparables (William K. Swartz at TR 157–60, Apx. pg. \_\_); and non-prebate cartridges, priced \$50 higher. (*Id.*; R. 92 FF/CL, pg. 3, ¶ 12, Apx. pg. \_\_; R. 3 Pltf. Sup. PI, Ex. B, Yaro Decl., pg. 2, 4, ¶¶ 5, 11, Apx. pg. \_\_). Lexmark contends that it “licenses” prebate cartridges to

Apx. pg. \_\_). Once companies such as SCC designed around such barriers, Lexmark redoubled its efforts to inhibit competition from remanufacturers, relying on a novel and unforeseen application of intellectual property laws to do so.

#### **IV. LEXMARK'S CURRENT CHIPS ALLEGEDLY USE A "TECHNOLOGICAL MEASURE"**

In 2001, Lexmark introduced printer toner cartridges for its T520/522 and T620/622 printers containing a more advanced generation of "disabling chips." These new chips, manufactured and supplied to Lexmark by Dallas Semiconductor ("Dallas"), incorporated a mechanism that enable the Lexmark printer to verify that the toner cartridge came from Lexmark. (R. 66 Declaration of Bruce Macdowell Maggs, pg. 2-3, ¶¶ 6-8, Apx. pg. \_\_; Maggs at TR 90, Apx. pg. \_\_). Whenever a toner cartridge is inserted into a Lexmark printer, the printer is powered on, or the printer is opened and closed, a "handshake" is performed between a computer program in the printer (the "Printer Engine Program" or "PEP") and the disabling chip to verify that only toner cartridges authorized by Lexmark are used. (R. 92 FF/CL, pg. 12, ¶¶ 59-63, Apx. pg. \_\_; R. 3 Pltf. Sup. PI, Ex. C, Declaration of Douglas A. Able, pg. 2-3, ¶¶ 8-9, Apx. pg. \_\_). If this

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consumers who must return used toner cartridges to Lexmark. (R. 3 Pltf. Sup. PI, Ex. B, Yaro Decl., pg. 3-4, ¶ 9, Apx. pg. \_\_).

