

Imaging Supplies: OEM & Compatible Issues

INTERNATIONAL



Imaging Technology Council

The latest on the industry and the Int'l Imaging
Technology Council – September 2008

Disclaimer

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4. You agree to give me excellent reviews on my course evaluation sheets regardless of my clarity. Please remember that I work for show management, so I know where each of you will be sleeping tonight.

5. My views and opinions are my own. Although the Board of Directors of the International Imaging Technology Council have given me a job, they are not responsible in any way for the content of this presentation.

6. You agree to hold them harmless if I offend, outrage or confuse you.

7. You also agree to hold me harmless if I do the same, and further agree that there will be no throwing of objects at me, gunplay or violence of any kind.

8. In consideration for all these promises, I will keep this presentation within the time allotted, and will attempt to answer as many individual questions as possible. 9. In addition, I will endeavor to keep the maintain a lively pace by providing valuable prizes for those who show a command of the subject matter.

10. However, the nature of the prizes selected remains solely within my discretion.

11. Now each of you will demonstrate your acceptance of the terms of this agreement by nodding your heads affirmatively.

This will also demonstrate that I have yet to put you to sleep.

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Copiers vs. Printers

- For every copier in place, there are FOUR printers in place.
- THE copier versus MY printer
- The company may not see its copier dealer in 60 months, BUT
- They will see the imaging supplies dealer in 6 weeks.



Copier dealers v. Cartridge Sellers

- Copier dealers already working with customers at the “C” Level.
- Copier dealers better equipped to handle sophisticated “print packs,” print management and other bundled programs.
- But you can’t follow a plan, you have to follow the customer by offering supplies and service for printers.



**HEWLETT®
PACKARD**

- **50 % of the printer market is owned by Hewlett-Packard.**
- **30 % of HP supplies in the market are remanufactured cartridges.**
- **HP is getting picky about who it allows to do its warranty work and to introduce and place new products**
- **This represents a huge opportunity.**

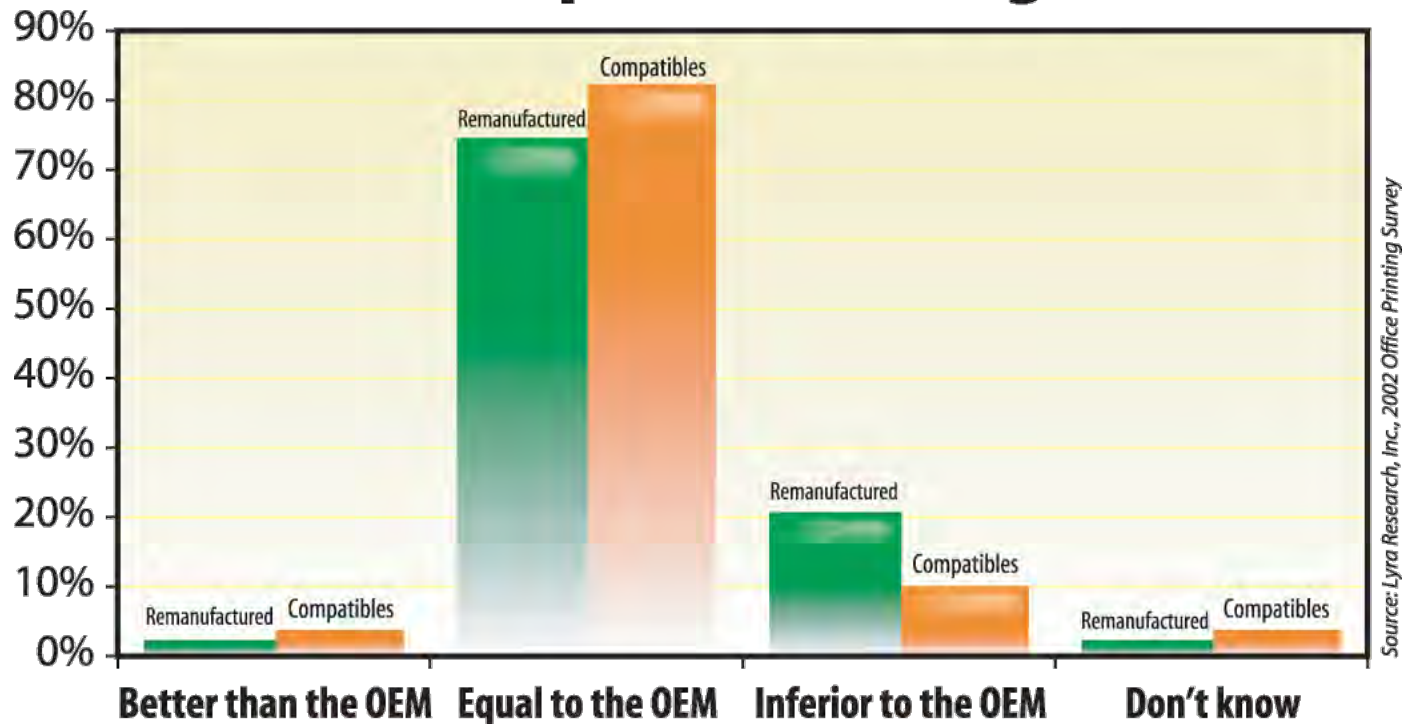
Aftermarket cartridges make printing affordable

- An \$8 billion dollar industry with humble beginnings.
- Testing and certification are replacing “drill and fill”
- Remanufactured cartridges cost savings are as much as 50% over the new OEM



Customers like remanufactured cartridges

Quality of Remanufactured and Compatible Cartridges



Summary of Printer Cartridge Aftermarket & Its Benefits

- An industry that simultaneously offers benefits:
 - ENVIRONMENTAL
 - 105 million cartridges reused every year.
 - Each laser toner cartridge recycled saves over 3 quarts of oil and every inkjet cartridge saves almost 3 ounces of oil.
 - In six months, we conserve more oil than was spilled by the Exxon Valdez in 1989 (10.9 million gallons)
 - CONSUMER CHOICE
 - Usually cost 50 to 90% of new
 - Remanufacturers often provide free service
 - SMALL BUSINESSES
 - Good for local economies
 - 34,000 employed
 - Return programs often tied to charities

Issues in the Printing Supplies Industry -

- Imaging Supplies from Asia:
 - New “compatibles”
 - Remanufactured as “new”
 - And how about new marketed as “remanufactured”
- OEM v. aftermarket
 - Adversarial relationship
 - Technological impediments
 - Legal challenges
 - Marketing claims
 - Environmental claims



Living with Asian Imports

FACTS

- Chinese economy will continue to grow to become world's largest.
- Remanufacturing booming in China and other Asian countries
- Due to environmental concerns, limited licenses given.



Chinese products -How Can We Resist ?

“We violate only 13 patents while our competitors violate 28!”

2005 Internet Ad

Chinese products: The price is right, but what about the cores? The patents? The quality?



New Compatibles v. Patents

- OEMs patent every function and little nuance of every cartridge.
- New mold cartridges MUST violate those patents.
- Every effort to get patent-proof indemnification of value or a public nature has failed.
- The Right to Repair is the only defense/protection against the OEMs' patents.
- The ONLY competitor that stands between the OEM and a monopoly is the remanufacturer.
- OEMs charge little or nothing for the printers to get the supplies business...so they mean business.



If You Leave With Only One Thing..

- **BUY/SELL NEW COMPATIBLES
AT YOUR PERIL.**



You are painting a target on your livelihood.

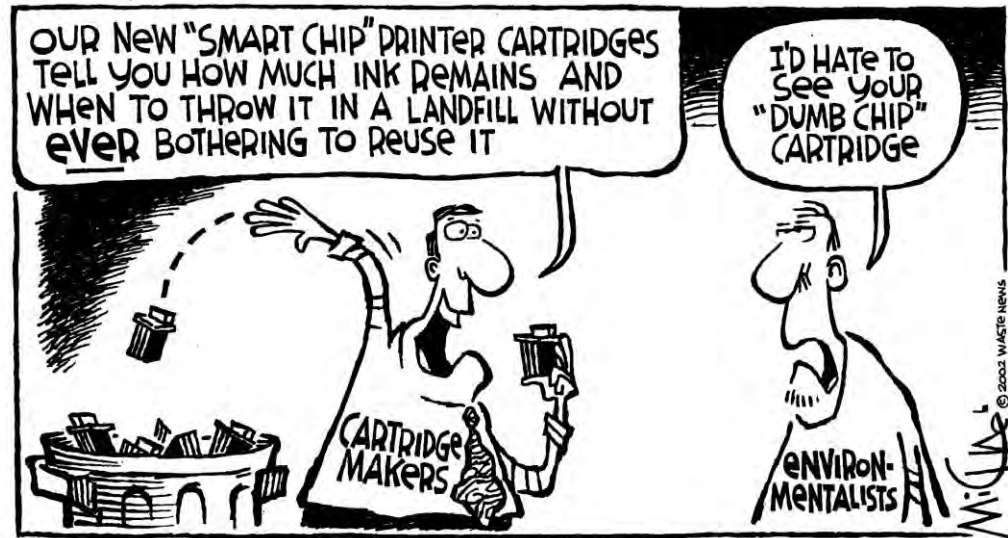
The OEMs want to capture their supplies marketplace

Lexmark

Epson

Hewlett-Packard

Canon

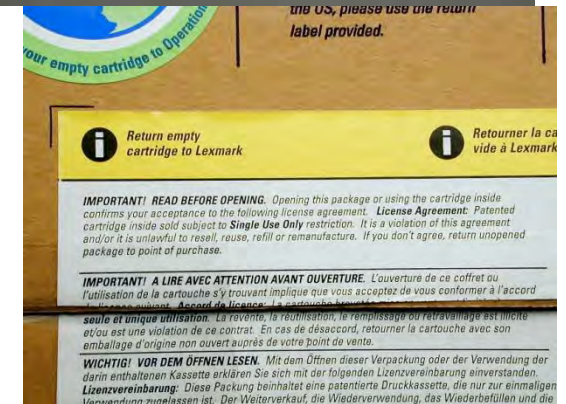


To protect their lucrative supplies market, the OEMs are resorting to anti-competitive tactics to capture those sales and hold the consumers captive. Such as placing smart chips in both the printers and cartridges so that they can not be remanufactured.

Comic courtesy of WasteNews

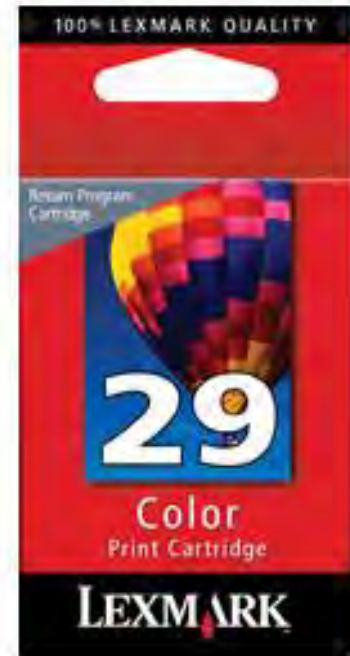
Lexmark *Prebate* program

- Shrink-wrap license agreement that compels & confuses consumers into returning empties to LXX
- Sent industry into a grassroots frenzy, that ended up passing dozens of pro-reman laws



And the OEMs never sleep...Lexmark extends *Prebate*

- Lexmark has extended anti-remanufacturing restrictions to Inkjet
- In March, Epson created “return only” supplies on some of its products...in Europe alone.



Lexmark v. Static Control



- What aftermarket hoped for:
 - A definitive precedent that Prebate was invalid.
 - A finding that Lexmark engaged in anti-competitive behavior
 - Vindication for SCC and remanufacturers that were brought into the suit.

Lexmark v. Static Control



- What we got (so far):
 - A finding that Prebate is a valid contract, thanks to ACRA decision.
 - A finding that some of Lexmark's patents are valid, and were infringed.
 - The jury thinks that Lexmark behaved badly and misused its patents, which is likely to help SCC .
 - The remanufacturers are out of the lawsuit, but so are the issues they raised.
 - The jury left a lot of holes for the judge to fill in, but the judge's decision won't be the last tango.
 - And when will we get a decision?

Jazz Photo v. Fuji Film

- The initial proceeding began in 1998, when Fuji filed a complaint at the International Trade Commission (ITC), alleging that Jazz Photo and other camera remanufacturers were violating products that infringed fifteen patents owned by Fuji
- On August 21, 2001, The Court of Appeals for the Fed. Circuit reversed the Commission's judgment of patent infringement with respect to cameras for which the patent right was exhausted by first sale in the United States, and that were permissibly repaired.
- On such cameras, single-use, shrink wrap restrictions would not apply because contractual need for "meeting of the minds" could not be proven.
- However, the ITC and Ct. of Appeals did not extend precedent to imported cameras where first sale occurred outside USA.

Epson becoming the new Bully on the block?

- ITC order
- New restrictions on import that overreach
- *New import “certification” documents*
- *Jazz Photo application*
 - *Never argued*
 - *How did this happen?*
- *Ed would like ITC System revamped. Unlikely, but he intends to prevail.*



Courts Curtailing Patent Abuse

- Patents have been at the heart of almost all major industry-related litigation, such as the cases brought by Hewlett-Packard and Epson against Nu-Kote a decade ago.
- The OEMs routinely patent every facet of their products. And many arguments have been made that these changes hardly “promote the progress of science and useful arts.”
- The federal circuit (court of appeals) has definitely broadened patent holders rights in its 25 years of existence.
- The Supreme Court has reversed this trend in several key decisions rendered in 2007.
 - In *MedImmune Inc. v. Genentech, Inc.*, the Court allowed a patent licensee to question the validity of the patent it licensed in a declaratory judgment proceeding. This is an expedited route to question a patent’s validity.
 - In *Microsoft v. AT&T Corp.*, the Court invalidated some damage awards for infringement that occurred outside the United States.
 - And of most importance, in *KSR International v. Teleflex*, the Court made it easier to find that an invention was “obvious,” and therefore not subject to being patented.

USPTO Curtailing Patent Abuse

- The KSR decision has changed the way the PTO reviews patent applications too. If they find all the elements in another patent, they reject the patent. This makes it harder to get patents and harder to sustain their validity in an attack on obviousness.
- According to an article in the February issue of the ABA Journal, the PTO is approving less of the applications for new patents that it receives, as much as 20 percent less in seven years.
- And it is considering new internal rules that would limit the number of claims that an applicant can include in its file.

Congress wants the patent system reinvented

- Congress is considering The Patent Reform Act of 2007, which includes creating a process to challenge patents after they are granted and awarding a patent to the first person to submit paperwork.
- Other provisions address the standard for calculating damages.
- The new legislation would also limit the venues in which infringement cases can be brought.
- Most importantly, the new legislation would improve the quality – and therefore validity – of patents by giving examiners a second chance to review patents.

Quanta Computers v. LG Electronics

- The question presented to the Supreme Court: patent exhaustion .
- The U.S. Solicitor General supported Quanta, wants a bright line distinction.
- The Int'l ITC Amicus Brief reinforced the one it already filed in the *Independent Ink* case last year, which also decried the Prebate program.
- **Decision on June 9: Unanimous decision in favor of Quanta and the aftermarket.**



Prebate's End finally at hand?

The Supreme Court Says “No” to after-sale restrictions

- Terms attached to an agreement were unenforceable when patents were the underlying reason to support the validity of that agreement
-
- Justice Clarence Thomas upheld 150 years of legal precedents favoring patent exhaustion over a patent's grant of monopoly.
- Justice Thomas' ruling left no doubt as to the unanimous opinion of the Supreme Court. He refuted each of LG's efforts to carve out exceptions to the patent exhaustion doctrine.
- He even specifically thwarted LG's efforts to impose the restrictions through third-party implied license agreements, akin to those used by Lexmark.



SCC Responds

- Responding to Monday's U.S. Supreme Court unanimous decision in favor of Quanta Computer, Static Control (SCC) brought the new precedent before the court charged with deciding *SCC v. Lexmark Int'l*.
- In its motion for consideration of this important decision SCC wrote, "Like Quanta, this case involves a patent owner's attempt to assert patent infringement based on the use of a patented article contrary to post sale conditions."
- Because the Supreme Court invalidated such patent conditions and patentee conduct in Quanta, this Court should reach the same result with respect to Lexmark International, Inc.'s Prebate program and allegations of inducement of patent infringement against Static Control."



Lexmark Responds

- Lexmark's objection to reconsideration turns on what is a "conditional" sale.
- And whether the *Quanta* decision affects "conditional" sales, such as *prebate*.
- Lexmark is trying to rewrite the *Quanta* decision.
- But when will we get a decision...?

What this means

- the Quanta decision: patent rights are exhausted on first sale and downstream restrictions on products are eradicated.
- ACRA decision which validated the prebate contract is bad law.
- All of this activity creates opportunities and strengthens the aftermarket position. The impact of these cases and changes turn on the strength of the OEM patents, some of which may be 98-pound weaklings.
- The aftermarket has been given new ammunition to invalidate patents. And given the outcome in Quanta, Lexmark's prebate and other shrink-wrap license agreements are on borrowed time.
- The current patent system is also on borrowed time. Whether it comes from the judicial, legislative or executive branch of government, change is coming.

What this might mean

- Revisions to our patent system may make the United States the most aftermarket-friendly environment in terms of intellectual property (patent, copyright, etc.) rights and litigation.
- The fly in the ointment? Jazz Photo decision may erect barriers to trade that weren't expected. Depending on supply, It could make for a nightmare for core brokers, or it could signal...
- A renaissance for the US remanufacturer?

Environmental Impact Attacks

- HP has commissioned reports that claim that new cartridges are better for the environment than remanufactured.
- Ever increasing number of countries, states and entities requiring e-waste recycling and mandating purchase of remanufactured.
- HP is trying to change EPA hierarchy of “reduce, reuse and recycle.”



2007 Quality Logic Report



QualityLogic

- Commissioned by HP...naturally
- Claims that 57% of aftermarket cartridges fail when compared to 100% pass rate of HP cartridges.
- Shared with institutional and government buyers.

2007 Report



QualityLogic

- The fine print has problems...naturally
 - Only cartridges that produced prints that matched HP's color scale exactly passed (and don't forget HP's inks are patented.)
 - Cartridges that didn't print the equivalent of HP's stated yield "failed" also.
 - HP used mathematical manipulation to make the aftermarket cartridge performance worse.
- The results are greatly exaggerated.

Int'l ITC's role

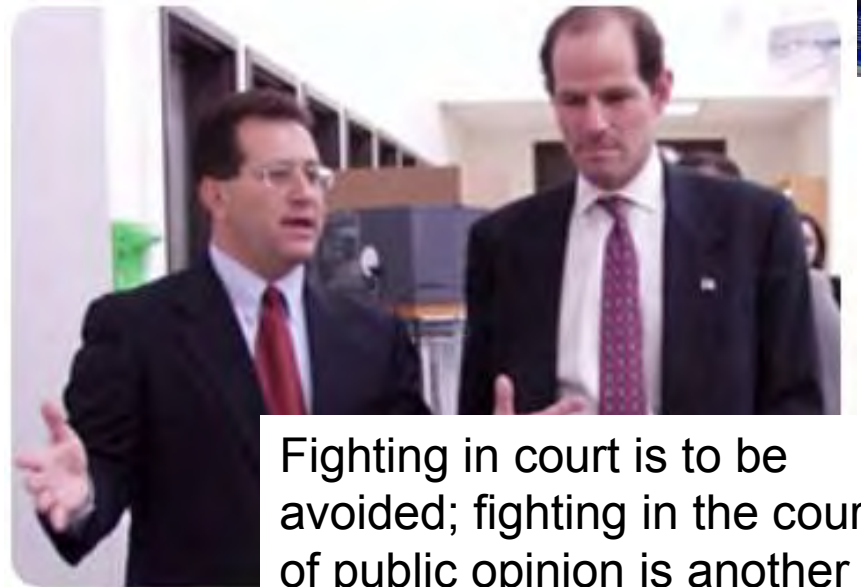
- Advocate for the industry
- Educate the consumer
- Give information to members to allow for better products



Advocacy: Develop & Maintain Industry Champions

- Respond to litigation
- Critical lobbying efforts
- Respond to OEM disinformation
- Give industry advocates tools
- Maintain and enhance relationships – especially as champions mature in their careers.
 - *OK, so some relationships have been better than others*

“Who is Lexmark to tell the consumer what they can and can not buy,” NY Assemblyman Joe Morelle



Fighting in court is to be avoided; fighting in the court of public opinion is another matter.

Legal Efforts of the Int'l ITC

While we can not represent members in court, we have:

- ✓ Filed Amicus Briefs in High-Profile Cases
 - ✓ *Jazz Photo*
 - ✓ *Independent Ink*
 - ✓ *Quanta*
- ✓ Acted as an Information Clearinghouse
- ✓ Assisted Member Defense Counsels
- ✓ Served as an Expert Witness



Combating Pseudo-Science

In 2007 the OEM's

- Promoted ISO standards that had nothing to do with cartridge performance.
- HP bought and distributed fatally flawed lab reports promoting their cartridges and damning ours.

In 2008 the Int'l ITC Will:

Continue to promote ASTM standards for toner cartridges.

Complete standards for ink cartridges.

Continue to promote STMC.

Respond to HP's ongoing reports for parity with remanufactured monochrome toner, ink and color cartridges.

Partnering with

- America's Schools Program and
 - reaching millions of kids
 - Thousands of members of Chambers of Commerce



For our children...



Int'l ITC Attacks the Counterfeits...with the OEMs

- Anti-Counterfeiting Partnership and resolution
 - Work WITH the OEMs to end this plague.
 - Our “casual” relationship
 - The 10+ companies we’re looking at.



What if there were no Int'l ITC

- No voice at the Supreme Court and other courts
- No advocate against OEMs and others that threaten supplies businesses
- STMC certification means nothing. No one to administer STMC and other ITC quality and product initiatives.
- No one will be available to clear up consumer confusion or keep counterfeit cartridges out of market
- No one to reach out to school children and consumers through partnerships
- And a host of other good things that will not happen.



Thank you BTA

- Let's work together to make the imaging industries better.

