
IN THE MATTER OF
SERR OF WASHINGTON, D.C., INC., ET AL.
CONSENT ORDER, ETC., IN REGARD TO ALLEGED VIOLATION OF
SECTIONS 5 AND 12 OF THE FEDERAL TRADE COMMISSION ACT

Docket 8991. Complaint, Aug. 28, 1974-Decision, July 28, 1975

Consent order requiring a Washington, D.C., promoter of a hair implant replacement system, among other things to cease misrepresenting the nature, appearance

Complaint

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and other related characteristics of its system; and failing to disclose that their system involves surgical procedures and continually requires special care. Further, respondents are required to devote 15 percent of all of their advertisements to warning prospective customers of the inherent dangers associated with their system of hair implant replacement.

Appearances

For the Commission: *Allen R. Caskie.*

For the respondents: *Kamerow & Kamerow* and *Sheldon B. Kamins, Deckelbaum, Wolpert & Ogens, Wash., D.C.*

COMPLAINT

Pursuant to the provisions of the Federal Trade Commission Act, and by virtue of the authority vested in it by said Act, the Federal Trade Commission, having reason to believe that Serr of Washington, D.C., Inc., and Herb Mann, individually and as an officer of said corporation, hereinafter referred to as respondents, have violated the provisions of said Act, and it appearing to the Commission that a proceeding by it in respect thereof would be in the public interest, hereby issues its complaint stating its charges in that respect as follows:

PARAGRAPH 1. Respondent Serr of Washington, D.C., Inc. is a corporation organized, existing and doing business under and by virtue of the laws of the District of Columbia with its principal office and place of business located at 1219 Connecticut Ave., N.W., Washington, D.C.

Respondent Herb Mann is an officer of the corporate respondent. He formulates, directs and controls the acts and practices of the corporate respondent including the acts and practices hereinafter set forth. His business address is the same as that of the corporate respondent.

PAR. 2. Respondents promote, among other products and services, a process called "PERMA-SURG" which is an implant hair replacement system, hereinafter sometimes referred to as the "System." The system involves a surgical procedure whereby a synthetic suture (prolene) is stitched into the scalp of respondents' customers. Hairpieces are then attached to the sutures. Respondents sell, install and maintain the system, except that the surgical procedure itself is performed by a medical doctor.

PAR. 3. In the course and conduct of their business, respondents promote the system by advertising in newspapers and magazines of general circulation which are distributed across State lines. As a result of such newspaper and magazine advertising, respondents have maintained a substantial course of trade in commerce, as "commerce" is

defined in Sections 5 and 12 of the Federal Trade Commission Act, and as a result of such newspaper and magazine advertising, have disseminated and caused to be disseminated false advertisements by United States mails, within the meaning of Section 12(a)(1) of the Federal Trade Commission Act.

PAR. 4. In the course and conduct of their business, and for the purpose of inducing the purchase of the implant hair replacement system, respondents have made numerous statements and representations in advertisements inserted in newspapers and magazines of general circulation.

Typical of the statements and representations contained in said advertisements, but not all-inclusive thereof, are the following:

She'll swear its your own hair* * *so will everybody else!

"PERMA-SURG" is not a hair weave-not a hairpiece.

A revolutionary new medical process.

A licensed M.D. performs this simple cosmetic procedure painlessly and most important, effectively.

Comb it, brush it, wash it in the shower. Sleep in it, swim in it * * * and it won't come off.

PAR. 5. Through the use of the above advertisements, and others of similar import and meaning but not expressly set out herein, and by oral statements and representations made by employees and agents of the respondents, respondents have represented, directly or by implication, that:

1. The system does not involve wearing a device or cosmetic which is like a hairpiece or toupee;

2. After the system has been applied, the hair applied becomes part of the anatomy like natural hair, and has the following characteristics of natural hair.

- (a) The same appearance in all applications as natural hair, upon normal observation, and upon extreme close-up examination;

- (b) It may be cared for like natural hair, particularly in that actions such as washing, combing, brushing and mussing may be performed on it in the same manner as might a person with natural hair.

- (c) The wearer may engage in physical activity and movement with the same disregard for his hair as he would if he had natural hair.

3. After the system has been applied, the wearer can care for it himself, and will not have to seek professional or skilled assistance in maintaining the system, and that the customer will not incur maintenance costs over and above the cost of applying the system.

PAR. 6. In truth and in fact:

1. The system does involve the wearing of a hairpiece or toupee.

2. The hairpiece or toupee differs from natural hair in many respects, including, but not limited to, the following:

(a) It does not have the same appearance as natural hair in a substantial number of instances. It is often discernible as a hairpiece or toupee upon normal observation, and upon extreme close examination.

(b) It cannot be cared for like regular hair but requires special care and handling. Strong pulling on the hair, such as may be expected to occur in washing, combing, brushing and mussing, can cause pain because of the pressure exerted on the sutures in the scalp, may cause bleeding, and may cause the sutures to pull out. As a consequence, washing the hair and scalp is difficult. Because washing is difficult, foreign particles and dead skin tissue tend to accumulate beneath the implant hair application and become a significant source of irritation. The hair styles into which the hairpiece may be combed or brushed without professional treatments are limited.

(c) The wearer may not engage in physical activities with as much disregard for his hairpiece as might a person with natural hair. The wearer must at all times be careful that the hair does not pull or get pulled, or become tangled, or strained. Discomfort and pain may be caused by common actions, such as rolling the head on a pillow during sleep.

3. The wearer cannot in most instances care for the hairpiece himself; he must seek professional or skilled assistance on many occasions. The System involves a surgical procedure by which a synthetic thread is sutured into the scalp. In some instances, one or more of the sutures may become loose or may be rejected by the body. These and other medical problems associated with the surgery or the continuing presence of synthetic thread in the scalp may require subsequent visits to a medical doctor. A substantial additional charge for such service could be incurred. Respondents' applied hair is subject to bleaching in sunlight and other discoloration normally associated with hairpieces, and where the hairpiece has been color dyed, loss of dye through washing and normal wear; thus replacement hairpieces are required at intervals in order to maintain a color match with any natural hair the wearer may have.

Therefore, the statements and representations set forth in Paragraphs Four and Five were and are false, misleading and deceptive.

PAR. 7. In the course and conduct of their business, respondents, have represented in advertisements the asserted advantages of the system, as hereinbefore described. In many cases, respondents have represented their system to be painless and have not disclosed in such advertisements that surgical procedure is a required step in the system. In no case have respondents' advertisements disclosed that:

(a) Clients may experience discomfort and pain as a result of the

surgical procedure, from the synthetic sutures themselves, and from pulling normally incident to wearing the hairpiece;

(b) Clients will be subject to the risk of irritation, infections, and skin diseases as a result of the surgical procedure and as a result of the synthetic sutures remaining in the scalp;

(c) Permanent scarring to the scalp may result from the required surgical procedures, and as a result of the synthetic sutures remaining in the scalp.

The consequences described in this paragraph have in fact occurred, and to a reasonable medical certainty can be expected to occur, and respondents knew, and had reason to know, that they could be expected to occur.

Therefore, respondents' failure to disclose such material facts was, and is, unfair, false, misleading and deceptive.

PAR. 8. In the course and conduct of their business, and at all times mentioned herein, respondents have been and are in substantial competition in commerce with corporations, firms, and individuals, in the sale of cosmetics, devices and treatments for the concealment of baldness.

PAR. 9. The use by respondents of the above unfair and deceptive representations and practices and their failure to disclose material facts, as aforesaid, has had, and now has, the capacity and tendency to mislead consumers, and to unfairly influence consumers to sign contracts for the application of the implant hair replacement system, and to make partial or full payment therefor, without being informed of the seriousness of the surgical procedure, and the possibilities of discomfort, disease or disfigurement related thereto, and related to the continual presence of the synthetic suture in the scalp.

PAR. 10. The respondents' acts and practices alleged herein are to the prejudice and injury of the purchasing public, and to respondents' competitors, and constitute unfair methods of competition, and unfair and deceptive acts and practices in commerce in violation of Section 5 of the Federal Trade Commission Act, and false advertisements disseminated by United States mails, and in commerce, in violation of Section 12 of the Federal Trade Commission Act.

DECISION AND ORDER

The Federal Trade Commission having issued a complaint charging that the respondents named in the caption hereof have violated the provisions of the Federal Trade Commission Act; and

The Commission having duly determined upon motion submitted by respondents that, in the circumstances presented, the public interest would be served by a withdrawal of the matter from adjudication for

the purpose of negotiating a settlement by the entry of a consent order; and

The respondents and counsel for the Commission having executed an agreement containing a consent order, an admission by the respondents of all the jurisdictional facts set forth in the complaint, a statement that the signing of said agreement is for settlement purposes only and does not constitute an admission by respondents that the law has been violated as alleged in the complaint, and waivers and other provisions as required by the Commission's rules; and

The Commission having considered the agreement and having provisionally accepted same, and the agreement containing a consent order having thereupon been placed on the public record for a period of sixty (60) days, now in further conformity with the procedures described in Section 2.34(b) of its rules, the Commission hereby makes the following jurisdictional findings, and enters the following order:

1. Respondent Serr of Washington, D.C., Inc. is a corporation organized, existing and doing business under and by virtue of the laws of the District of Columbia, with its office and principal place of business located at 1219 Connecticut Ave., N.W., Washington, D.C.

Respondent Herb Mann is an officer of said corporation. He formulates, directs and controls the policies, acts and practices of said corporation and his business address is the same as that of said corporation.

2. The Federal Trade Commission has jurisdiction of the subject matter of this proceeding and of the respondents, and the proceeding is in the public interest.

ORDER

It is ordered, That respondent Serr of Washington, D.C., Inc., a corporation, its successors and assigns and its officers, and Herb Mann, individually and as an officer of said corporation, and respondents' agents, representatives, and employees, directly or through any corporation, subsidiary, division or other device or through franchisees or licensees, in connection with the advertising, offering for sale, sale, or distribution of the implant replacement system or other hair replacement product or process involving surgery (hereinafter sometimes referred to as the "System"), in or affecting commerce, as "commerce" is defined in the Federal Trade Commission Act, or by the United States mails within the meaning of Section 12(a)(1) of the Federal Trade Commission Act do forthwith cease and desist from representing, directly or by implication that:

1. The system does not involve wearing a device or cosmetic which is like a hairpiece or toupee;

2. After the system has been applied, the hair applied becomes part of the anatomy like natural hair, and has the following characteristics of natural hair.

a. the same appearance in all applications as natural hair, upon normal observation, and upon extreme closeup examination;

b. it may be cared for like natural hair, particularly in that actions such as washing, combing, brushing and mussing might be performed on it in the same manner as might a person with natural hair;

c. the wearer may engage in physical activity and movement with the same disregard for his hair as he would if he had natural hair.

3. After the system has been applied, the wearer can care for it himself, and will not have to seek professional or skilled assistance in maintaining the system, and that the customer will not incur maintenance costs over and above the cost of applying the system.

It is further ordered, That respondents, in advertising, offering for sale, selling or distributing the system, disclose clearly and conspicuously that:

1. The system involves a surgical procedure resulting in the implantation of synthetic sutures in the scalp, to which hair is affixed.

2. By virtue of the surgical procedure involving implantation of synthetic sutures in the scalp, and by virtue of the synthetic suture remaining in the scalp, there is a risk of discomfort, pain, infection, scarring, and other skin disorders.

3. Continuing special care of the system is necessary to minimize the probabilities and risks referred to in subparagraph two of this paragraph, and such care may involve additional costs for medications and assistance.

4. The purchaser is advised to consult with his personal physician about the system before deciding whether to purchase it.

Respondents shall set forth the above disclosures separately and conspicuously from the balance of each advertisement or presentation used in connection with the advertising, offering for sale, sale, or distribution of the system, and shall devote no less than 15 percent of each advertisement or presentation to such disclosures. *Provided, however*, That in advertisements which consist of less than ten column inches in newspapers and periodicals, and in radio and television advertisements with a running time of one minute or less, respondents may substitute the following statement, in lieu of the above requirements:

Warning: This application involves surgery whereby synthetic sutures are placed in the scalp. Discomfort, pain, and medical problems may occur. Continuing care is necessary. Consult your own physician.

No less than 15 percent of such advertisements shall be devoted to this disclosure, such disclosure shall be set forth clearly and conspicu-

ously from the balance of each of such advertisements, and if such disclosure is in a newspaper or periodical, it shall be in at least eleven point type.

It is further ordered, That respondents, in connection with the sale of the system, provide prospective purchasers with a separate disclosure sheet containing the information required in the immediately preceding paragraph of this order, subparagraphs one (1) through four (4) thereof, and that respondents require that, prior to executing any contract to purchase said system, such prospective purchasers, sign and date the disclosure sheet after the sentence, "I have read the foregoing disclosures and understand what they mean," and that Serr of Washington, D.C., Inc. provide a copy of said disclosure sheet to the customer and retain such signed disclosure sheet for at least three years.

It is further ordered, That, in connection with the sale of the system, no contract for application of the system shall become binding on the purchaser prior to midnight of the third day, excluding Sundays and legal holidays, after the day on which said contract for application of the system was executed, and that:

1. Respondents shall clearly and conspicuously disclose, orally prior to the time of sale, and in writing on any contract, promissory note or other instrument executed by the purchaser in connection with the sale of the system, that the purchaser may rescind or cancel any obligation incurred by mailing or delivering a notice of cancellation to the office responsible for the sale prior to midnight of the third day, excluding Sundays and legal holidays, after the day on which said contract for application of the system was executed.

2. Respondents shall provide a separate and clearly understandable form which the purchaser may use as a notice of cancellation.

3. Respondents shall not negotiate any contract, promissory note, or other instrument of indebtedness to a finance company or other third party prior to midnight of the fifth day, excluding Sundays and legal holidays, after the day on which said contract for application of the system was executed.

It is further ordered, That respondents, in connection with the advertising, offering for sale, sale, or distribution of the system, serve a copy of this order upon each present and every future licensee or franchisee, and upon each physician participating in application of respondents' system, and obtain written acknowledgment of the receipt thereof; and that respondents obtain from each present and future licensee or franchisee an agreement in writing, (1) to abide by the terms of this order, and (2) to cancellation of their license or franchise for failure to do so; and that respondents cancel the license or franchise

of any licensee or franchisee that fails to abide by the terms of this order. Respondents shall retain such acknowledgments and agreements for so long as such persons or firms continue to participate in the application or sale of respondents' system.

It is further ordered, That respondents, in connection with the advertising, offering for sale, sale, or distribution of the system, forthwith distribute a copy of this order to each of their operating divisions or departments.

It is further ordered, That the corporate respondent notify the Commission at least thirty (30) days prior to any proposed change in said respondent, such as dissolution, assignment, or sale resulting in the emergence of a successor corporation, the creation or dissolution of subsidiaries, licensees, or franchisees, or any other change in the corporation which may affect compliance obligations arising out of the order.

It is further ordered, That in the event that the corporate respondent merges with another corporation or transfers all or a substantial part of its business or assets to any other corporation or to any other person, said respondent shall require such successor or transferee to file promptly with the Commission a written agreement to be bound by the terms of this order; *Provided,* That if said respondent wishes to present to the Commission any reasons why said order should not apply in its present form to said successor or transferee, it shall submit to the Commission a written statement setting forth said reasons prior to the consummation of said succession or transfer.

It is further ordered, That the individual respondent Herb Mann promptly notify the Commission of the discontinuance of his present business or employment and of his affiliation with a new business or employment. Such notice shall include respondent's current business address and a statement as to the nature of the business or employment in which he is engaged as well as a description of his duties and responsibilities.

It is further ordered, That the respondents herein shall within sixty (60) days after service upon them of this order, file with the Commission a report, in writing, setting forth in detail the manner and form in which they have complied with this order.

IN THE MATTER OF
XEROX CORPORATION

CONSENT ORDER, ETC., IN REGARD TO ALLEGED VIOLATION OF
THE FEDERAL TRADE COMMISSION ACT

Docket 8909. Complaint, Jan. 16, 1973—Decision, July 29, 1975

Consent order requiring a Stamford, Conn., manufacturer and developer of office copier equipment, among other things to cease engaging in anticompetitive licensing, patent and marketing arrangements.

Appearances

For the Commission: *Charles W. Corddry III, Jonathan E. Gaines, Robert D. Jacobs, Robert T. Joseph, Richard L. Williams, David I. Wilson, Lloyd E. Oliver (Economist).*

For the respondent: *John R. Murphy, G. Emmett Smith and Kaye Scholer, Stamford, Conn. Milton Handler, Fierman, Hays & Handler, New York City.*

COMPLAINT

The Federal Trade Commission, having reason to believe that Xerox Corporation, hereinafter referred to as Xerox or respondent, has violated and is violating Section 5 of the Federal Trade Commission Act, and that a proceeding in respect thereof would be in the public interest, issues this complaint, stating its charges as follows:

I Definitions

PARAGRAPH 1. For purposes of this complaint, the following definitions shall apply:

(a) "Office copier" (hereinafter sometimes referred to as "copier") means a machine for the convenient reproduction of an original document. The term "office copier" includes electrostatic and thermographic process copiers and accessories physically attached to such copiers. Said term does not include either specialized use copiers, such as engineering drawing and microfilm copiers, or offset, mimeograph, or spirit duplicator machines.

(b) "Plain paper copier" means a copier which makes copies on plain, untreated paper.

(c) "Coated paper copier" means a copier which requires the use of chemically treated or coated paper.

II Respondent

PAR. 2. Xerox is a corporation organized and existing under and by virtue of the laws of the State of New York, with its executive office located at Stamford, Conn. Respondent was incorporated in 1906 as the Haloid Company, and its name was changed to Haloid Xerox Inc. in 1958 and to Xerox Corporation in 1961.

PAR. 3. In 1971, Xerox's total revenues were approximately \$2 billion, net income after taxes was approximately \$213 million, and total assets were approximately \$2.2 billion. Xerox's after tax return on stockholder's equity averaged 21.2 percent for the period 1967 through 1971. In 1971, approximately 50 percent of Xerox's total revenues were derived from its domestic business in office copiers and supplies and approximately 25 percent of Xerox's total revenues were derived from Rank Xerox. In 1971, Xerox was approximately the 52nd largest domestic industrial firm in terms of total revenues and approximately the 17th most profitable such firm based on return on stockholder's equity.

III Other Persons

PAR. 4. The Rank Organisation, Ltd. [Rank] is a corporation organized and existing under the laws of the United Kingdom, with principal offices in London, England.

PAR. 5. Fuji Photo Film Co., Ltd. [Fuji] is a corporation organized and existing under the laws of Japan, with principal offices in Tokyo, Japan.

PAR. 6. Rank Xerox, Ltd. [Rank Xerox] is a corporation organized and existing under the laws of the United Kingdom with principal offices in London, England. It was organized by Rank and Xerox for the purpose of manufacturing and distributing office copiers throughout the world except the United States (including United States territories and possessions) and Canada. In 1964, Xerox purchased from Rank certain property rights and assets, including the right to manufacture and distribute Xerox copiers in Central and South America, for \$3.3 million plus 5 percent royalties on rentals and sales in said territory. From 1956, when it was organized, until December 1969, Rank Xerox's voting stock was owned equally by Rank and Xerox. In December 1969, Xerox acquired for \$12.5 million a 51 percent ownership of said voting stock. In 1971, Rank Xerox had revenues of approximately \$500 million, assets of approximately \$690 million, and net profits of approximately \$196 million.

PAR. 7. Fuji Xerox Co., Ltd. [Fuji Xerox] is a corporation organized and existing under the laws of Japan. It was organized by Rank Xerox

and Fuji for the purpose of manufacturing and distributing office copiers in Japan, Thailand, Cambodia, Laos, Philippines, Vietnam, Indonesia, Korea and Taiwan (Formosa). Fuji Xerox's voting stock is owned equally by Rank Xerox and Fuji.

IV Nature of Trade and Commerce

PAR. 8. The relevant market is the sale and lease of office copiers in the United States, hereinafter referred to as the office copier market. This market includes as a relevant submarket the sale and lease of plain paper office copiers in the United States, hereinafter referred to as the plain paper submarket. The office copier market is dominated by the plain paper submarket and Xerox dominates the plain paper submarket.

PAR. 9. (a) In 1971, revenues from the sale and lease of office copiers were approximately \$1.1 billion and total revenues from the sale and lease of office copiers and supplies were approximately \$1.7 billion; Xerox accounted for approximately 86 percent of the former and 60 percent of the latter. In 1971, revenues from the sale and lease of plain paper copiers and supplies were approximately \$1.0 billion; Xerox accounted for approximately 95 percent of said revenues.

(b) Approximately 25 firms are presently engaged in the office copier market. Of these 23 sell or otherwise distribute coated paper copiers and three sell or otherwise distribute plain paper copiers. After Xerox, the next largest firm in the office copier market accounted for approximately 10 percent of 1971 revenues from the sale or lease of office copiers and the sale of supplies therefor.

PAR. 10. The office copier market has had and continues to have high barriers to entry and barriers to effective competition among existing competitors.

V Jurisdiction

PAR. 11. In the course and conduct of its business, Xerox has shipped or caused to be shipped office copiers to customers located throughout the United States and has also entered into licensing and distribution arrangements with foreign corporations. There is now and has been for many years a constant substantial and increasing flow of Xerox office copiers and Xerox technical information and marketing rights in "commerce" as that term is defined in the Federal Trade Commission Act. Except to the extent that competition has been hindered, frustrated, lessened and eliminated by the acts and practices hereinbelow alleged in this complaint, Xerox has been and is in competition with

other corporations, partnerships, individuals or firms engaged in the sale and distribution of office copiers and supplies.

VI Violations

PAR. 12. (a) Xerox has monopoly power in the relevant market and submarket.

(b) Xerox has the power to inhibit, frustrate, and hinder effective competition among firms participating in the relevant market and submarket.

PAR. 13. Xerox has engaged in marketing acts, practices and methods of competition including, but not limited to,

(a) following a lease only policy pursuant to which Xerox refuses to sell and discourages the sale of its office copiers,

(b) using package leasing plans and quantity discount rental price plans,

(c) discriminating in price among customers,

(d) maintaining a stock of depreciated copiers and planning to use or using such copiers to inhibit, frustrate, or hinder price competition,

(e) announcing new copier models and taking orders thereon before availability of such copiers in response to introduction of competing copiers by actual or potential competitors,

(f) requiring that it be the exclusive source of maintenance and repair service for leased Xerox office copiers,

(g) falsely disparaging competitive supplies,

(h) tying supplies to the lease of office copiers.

PAR. 14. Xerox has engaged in acts, practices and methods of competition relating to patents including, but not limited to,

(a) monopolizing and attempting to monopolize patents applicable to office copiers,

(b) maintaining a patent barrier to competition by attempting to recreate a patent structure which would be equivalent in scope to expired patents,

(c) developing and maintaining a patent structure of great size, complexity, and obscurity of boundaries,

(d) using its patent position to obtain access to technology owned by actual or potential competitors,

(e) entering into cross-license arrangements with actual or potential competitors,

(f) including in licenses under United States Patent Number 3,121,006 provisions having the effect of limiting licensees to the manufacture and sale of only coated paper copiers,

(g) offering patent licenses applicable to plain paper copiers with

provisions which, in effect, limit the licensee to the manufacture or sale of low speed copiers,

(h) including in patent licenses provisions having the effect of precluding the licensee from utilizing Xerox patents in the office copier market,

(i) entering into and maintaining agreements with Battelle Memorial Institute, Inc. and Battelle Development Corporation, Delaware corporations with principal offices at Columbus, Ohio, hereinafter referred to collectively as Battelle, pursuant to which Battelle is required to convey to Xerox all patents, patent applications, and know-how coming into its possession relative to xerography.

(j) preventing actual and potential competitors from developing plain paper copiers while permitting them to develop coated paper copiers.

PAR. 15. (a) For many years, and at least as of 1969, Rank Xerox was a substantial, viable, separate corporation capable of competing in the office copier market and plain paper submarket.

(b) Xerox has entered into and maintained agreements with Rank and Rank Xerox which have effectively divided up the world market for plain paper copiers among Xerox, Rank Xerox and Fuji Xerox.

(c) In December 1969, Xerox acquired a 51 percent interest in Rank Xerox voting stock and continues to maintain such interest.

PAR. 16. Xerox has engaged and is engaging in acts, practices and methods of competition as hereinabove alleged, for the purpose and with effect of

(a) monopolizing the office copier market and the plain paper submarket,

(b) preserving, maintaining, and furthering a highly concentrated market structure with high barriers to entry,

(c) hindering, restraining, foreclosing and frustrating competition in the office copier market and plain paper submarket and the entry of new competitors into said markets,

(d) materially reducing the independence of Rank Xerox, the influence of Rank Xerox as a potential competitor and the probability that Rank Xerox would enter competition in the office copier market or plain paper submarket,

(e) foreclosing Rank, Fuji, Rank Xerox, and Fuji Xerox from competing with Xerox in the Western Hemisphere, including the United States, and foreclosing Xerox from competing in export trade from the United States,

(f) depriving consumers of the benefits of competition.

PAR. 17. The aforesaid acts, practices, and methods of competition in commerce are unfair and constitute violations of Section 5 (a) of the Federal Trade Commission Act.

DECISION AND ORDER

The Federal Trade Commission having issued a complaint charging that the Respondent named in the caption hereof has violated the provisions of Section 5 of the Federal Trade Commission Act, 15 U.S.C. §45; and

Respondent and complaint counsel, by joint application filed Oct. 6, 1974, having moved to have the matter removed from adjudication for the purpose of submitting an executed agreement containing consent order, and the administrative law judge having certified such application to the Commission; and

The Commission, by order issued Oct. 10, 1974, having withdrawn this matter from adjudication pursuant to Section 2.34(d) of its rules; and

The Commission having considered and accepted said agreement and placed it in the public record for a period of sixty (60) days, having duly considered the comments filed thereafter pursuant to Section 2.34(b) of its rules and the recommendations of its staff, and having withdrawn its acceptance of said agreement; and

Respondent and complaint counsel having thereafter submitted a revised agreement containing consent order dated Mar. 27, 1975, and modifications thereof dated Apr. 21, 1975 and July 14, 1975; and

The Commission having considered and accepted the agreement dated Mar. 27, 1975 and placed it on the public record for a period of sixty (60) days, having held a public hearing respecting said agreement on June 4, 1975, and having duly considered the comments filed pursuant to Sections 2.34(b) and 3.25(d) of its rules during the 60 day period and the matters presented at the public hearing; and

The executed agreement dated Mar. 27, 1975, as modified, containing the following consent order, an admission by respondent of all the jurisdictional facts set forth in the complaint, a statement that the signing of said agreement is for settlement purposes only and does not constitute an admission by respondent that the law has been violated, and waivers and other provisions as required by the Commission's rules,

Now in conformity with the procedure prescribed in Section 3.25(d) of its rules, the Commission hereby makes the following jurisdictional findings and enters the following order:

1. Respondent Xerox Corporation is a corporation organized, existing and doing business under and by virtue of the laws of the State of New York, with its principal place of business located at High Ridge Park, Stamford, Conn.

2. The Federal Trade Commission has jurisdiction of this proceeding and of the respondent and this proceeding is in the public interest.

ORDER

I

It is ordered, That the following definitions shall apply in this order:

A. "Xerox" means respondent Xerox Corporation, its *subsidiaries* (except *Rank Xerox* and *Fuji Xerox*), successors and assigns and its directors, officers, employees, agents and representatives. "Rank Xerox" means Rank Xerox Limited, a corporation organized and existing under the laws of the United Kingdom. "Fuji Xerox" means Fuji Xerox Company Limited, a corporation organized and existing under the laws of Japan. "Rank Xerox" and "Fuji Xerox" each includes the *subsidiaries*, successors and assigns of said corporations and their directors, officers, employees, agents and representatives.

B. "Person" means any individual, partnership, firm, association, corporation or other legal or business entity [other than the Commission, *Xerox*, *Rank Xerox*, *Fuji Xerox*, The Rank Organisation Limited (so long as it is a party to a joint venture with *Xerox* relating to *office copier products*), Fuji Photo Film Co., Ltd. (so long as it is a party to a joint venture with *Xerox* or *Rank Xerox* relating to *office copier products*), and any foreign government (or any entity whose ownership is controlled thereby)], their *subsidiaries*, successors and assigns, and directors, officers, agents and representatives.

C. "Subsidiary" means a *person* more than fifty percent (50%) or, at the option of the *licensee* with respect to its *subsidiaries*, at least twenty percent (20%) of whose outstanding shares or stock, representing the right (other than as affected by events of default) to vote for the election of directors or other managing authority, are now or hereafter owned or controlled, directly or indirectly, by *Xerox*, *Rank Xerox*, *Fuji Xerox* or *Person*, as the case may be, but such *person* shall be deemed to be a *subsidiary* only so long as such ownership or control exists.

D. "Licensee" means any *person* licensed by *Xerox*, *Rank Xerox* and/or *Fuji Xerox* pursuant to the terms of Paragraph II of this order, including all *affiliates* of such *person*. *Affiliate* means (1) any *person* and *subsidiaries* thereof, engaged in the development, manufacture, use, lease or sale of *office copier products* at least fifty percent (50%) or, at the option of the *licensee*, at least twenty percent (20%) of whose outstanding shares or stock, representing the right (other than as affected by events of default) to vote for the election of directors or other managing authority, are now or hereafter owned or controlled,

directly or indirectly, by the licensed *person*; and (2) any *person* and *subsidiaries* thereof, which now or hereafter own or control, directly or indirectly, more than fifty percent (50%) or, at the option of the *licensee*, at least twenty percent (20%) of the outstanding shares or stock, representing the right (other than as affected by events of default) to vote for the election of directors or other managing authority of the licensed *person*, but only so long as such ownership or control exists.

E. "Patent" means some, all or any portion of all patents (including utility models, design patents, certificates of addition and the like), and all patents resulting from continuations-in-part, divisions, renewals, reissues and extensions based on said patents or the applications therefor, but only insofar as it relates to an *office copier product*.

F. "Issued" means published and either issued, granted, sealed or registered.

G. "Corresponding Patents" means two or more *patents*, each of which has *issued* in a different country, is entitled to the same priority date (or could have been if timely filed) and is based upon the same conception and reduction to practice.

H. "Present Patent" means a United States or *foreign patent issued* on or before the date of issuance of this order and all *corresponding patents* regardless of the date they are *issued*.

I. "Future Patent" means a United States or *foreign patent* other than a *present patent issued* on a patent application having an effective filing date prior to three years after the date of issuance of this order or *issued* during the six years following the date of issuance of this order, and all *corresponding patents*, regardless of the date they are *issued*.

J. "Foreign Patent" means a *patent issued* by a country other than the United States.

K. "Xerox Patent" means a *patent* which is owned or controlled by *Xerox, Rank Xerox or Fuji Xerox* or under which one or more of them has the power to grant licenses or sublicenses to *persons*. *Xerox'* power to comply with this order with respect to *patents* owned or controlled by *Rank Xerox or Fuji Xerox*, or under which they have the power to grant licenses or sublicenses, is confirmed in the undertakings of *Rank Xerox* and *Fuji Xerox* which have been submitted to the Commission.

L. "Order Patent" means a *present or Future Xerox patent* except one licensed pursuant to paragraph X(b) of this order.

M. A "Patent of the Licensee" means a *patent* which is owned or controlled by a *licensee*, or a *patent* under which such *licensee* has the power to grant licenses or sublicenses.

N. "Improvement Patent" means a *patent* on an invention which, if

practiced, would infringe a licensed *patent* and which *improvement patent* is owned or controlled by the licensee of such *patent* or is one under which such licensee has the power to grant licenses or sublicenses. Determination of what is an *improvement patent* shall be made by reference to a licensed United States *patent*, if any, or if there is no such United States *patent*, by reference to the licensed *foreign patent*.

O. "Office Copier" means a machine for the convenient reproduction of an original document and accessories physically attached to such machine. The term "Office Copier" refers to all xerographic and nonxerographic office copiers, including but not limited to polychromatic color office copiers, high speed office copiers (such as the Xerox Model 9200), hybrid offset office copiers (such as the AMCD) and office copiers adapted to receive micro input as well as hard copy input, but does not include specialized use copiers (such as engineering drawing and microfilm copiers), or offset, stencil, or spirit duplicator machines.

P. "Office Copier Product" means an *office copier* and parts, components, raw materials and consumable supplies for use therein, including but not limited to photosensitive elements, refined selenium, metal alloys for machine parts, toner, developer, paper, and containers (such as toner cartridges) for consumable supplies.

Q. "Royalty-Bearing Product" means (1) an *office copier*, (2) toner, developer, paper, and similar consumable supplies, (3) containers (such as toner cartridges) for consumable supplies and (4) photosensitive elements, any of which are covered by a licensed *patent* other than one which is royalty-free.

R. "Net Revenues" shall mean the total revenues received by the licensee from the lease or sale, as the case may be, of a *Royalty-bearing product*, or in the case of a lease of a *royalty-bearing product*, at the option of the licensee, the published selling price for such *royalty-bearing product*. Any of the following items, or any comparable items, may be deducted from the aforesaid total revenues or published selling price when they are separately stated on the invoice:

- (a) Packing costs;
- (b) Actual transportation and insurance costs from place of shipment to point of installation;
- (c) Excise, sales, use and property taxes;
- (d) Import and export duties and taxes;
- (e) The fair market value of replacement parts and components; which are not covered by a licensed *patent*;
- (f) The fair market value of consumable supplies which are not covered by a licensed *patent* whether or not they are in a licensed container;

(g) Actual credit to customers on account of any *royalty-bearing product* which is not accepted by the customer;

(h) Costs of servicing or repairing the *royalty-bearing product* excluding the costs of parts or components covered by a licensed *patent*.

To the extent that the amounts charged for the above items can be verified by referring to separate *bona fide* offers of such services or products, or to separate documents as in the case of taxes or duties, such amounts need not appear on the invoice.

S. "Polychromatic Color Office Copier Product" means an *office copier product* specially adapted to produce multicolor copy.

T. "Know-how" means all written materials used by Xerox Corporation in manufacturing, refurbishing, reconditioning, retrofitting and servicing its *office copier products* which Xerox Corporation is not specifically prohibited by a legally enforceable obligation from disclosing, including but not limited to blueprints, drawings, formulae, manuals, process descriptions, production methods, specifications, quality control and test standards and computer programs.

U. "Commercially available" means generally available for immediate sale or lease to consumers in an area at least as large as an area served by at least one sales branch of the seller or lessor and on publicly announced terms.

V. "IBM" means International Business Machines Corporation, a corporation organized and existing under the laws of the State of New York, and its *subsidiaries*, successors and assigns, and directors, officers, employees, agents and representatives.

W. "United States" means the United States of America, its territories or possessions, the District of Columbia, and the Commonwealth of Puerto Rico.

II

It is further ordered, That XEROX shall forthwith grant or cause to be granted to any PERSON making written application to *Xerox* at any time under this order a nonexclusive license for the full unexpired term under any, some or all *order patents* to make, have made, use or vend any, some or all of the following:

(1) *Office copiers* (including the right to have made parts, components and raw materials for use therein), (2) toner, developer, paper and similar consumable supplies, (3) toner, developer, paper and similar consumable supplies which may be used in future OFFICE COPIERS, (4) containers (such as toner cartridges) for consumable supplies, and (5) photosensitive elements. However, at *Xerox*' option exercised on a nondiscriminatory basis, the effective date of licenses pertaining to

polychromatic color office copier products may be up to three years from the date of issuance of this order for *present patents* and three years from the date the *patent* is issued for *future patents*. Nothing in any license granted pursuant to the terms of this order shall be deemed to prohibit a *licensee* from using a licensed *office copier* in conjunction with any other device for use in addition to the convenient reproduction of an original document.

III

Xerox, Rank Xerox and Fuji Xerox shall agree not to sue any *licensee*, or customers or suppliers of the *licensee*, for *patent* infringement or royalties with respect to any *office copier*, photosensitive element, toner, developer, paper or container (such as toner cartridges) for consumable supplies manufactured by or for the *licensee* prior to the date of issuance of this order, or to maintain any such suit.

IV

It is further ordered, That no license of an *order patent* granted pursuant to the terms of this order shall contain or be conditioned upon any restriction, except as hereinafter provided:

A. The *licensee* may, at his option, designate up to a total of three *order patents* which shall be licensed or sublicensed royalty-free; *Provided, however*, That, in each country, the *licensee* may substitute another *order patent* as royalty-free for any *order patent* previously designated as royalty-free which the *licensee* has discontinued using in that country. On *order patents* other than the three designated as royalty-free by the *licensee*, *Xerox* may, in its sole discretion, charge a royalty not to exceed 1/2 percent per PATENT up to a maximum accumulated royalty of 1 1/2 percent of the *licensee's net revenues* for each *royalty-bearing product* which is manufactured, leased or sold by or for the *licensee*. With respect to any *royalty-bearing product* of the *licensee* which the *licensee* uses or consumes himself, the royalty shall be computed on the basis of the *net revenues* that would have been received by the *licensee* in an ordinary commercial transaction. The royalty shall be computed separately for each *royalty-bearing product* on the basis of *order patents* subject to royalty which are used in such *royalty-bearing product*. In no event shall more than three royalty-free *patents* apply to any one *royalty-bearing product* at any one time irrespective of the number of licenses granted by *Xerox* with respect to such *royalty-bearing product*. For the purpose of this Paragraph IV A, a *patent* and all *Corresponding Patents* in all countries shall count as

one *patent*. The *licensee* need not take a license under any *corresponding patent*.

B. *Xerox* may require that a *licensee* agree not to sue *Xerox*, *Rank Xerox* or *Fuji Xerox*, or their customers or suppliers, for PATENT infringement or royalties with respect to any *office copier*, photosensitive element, toner, developer, paper or container (such as toner cartridges) for consumable supplies manufactured by or for them prior to the date of issuance of this order, or to maintain any such suit.

C. To the extent the *licensee* has the power to grant licenses or sublicenses, *Xerox* may require the grant to *Xerox*, *Rank Xerox* and *Fuji Xerox* of a nonexclusive license for the full unexpired term under any, some or all *patents* of the *licensee* to make, have made, use or vend any, some or all of the following: (a) *office copiers* (including the right to have made parts, components, and raw materials for use therein), (b) toner, developer, paper and similar consumable supplies, (c) toner, developer, paper, and similar consumable supplies which may be used in future *office copiers*, (d) containers (such as toner cartridges) for consumable supplies, and (e) photosensitive elements, as hereinafter provided in this Paragraph IV C.

(1) *Xerox* may (at any time) require the license of one *patent* of the *licensee* to *Xerox*, *Rank Xerox* and *Fuji Xerox* for each *Xerox patent* licensed to the *licensee* in excess of the first three *order patents* licensed to the *licensee* but in so doing *Xerox* may not require the license of (a) a greater number of *present patents* of the *licensee* than the number of *Xerox present patents* licensed to the *licensee*, or (b) a greater number of *future patents* of the *licensee* than the number of *Xerox future patents* licensed to the *licensee*. Notwithstanding the foregoing, for purposes of determining how many *present patents* or *future patents* of the *licensee* which *Xerox*, *Rank Xerox* and *Fuji Xerox* are entitled to license, the *licensee* shall have the right, if exercised at the time of first receipt of a license from *Xerox* under Paragraph II of this order, to have the first three *order patents* licensed from *Xerox* count, at the *licensee's* option, as *Xerox present patents*, or as *Xerox future patents* or as any combination of *Xerox present patents* and *Xerox future patents*, irrespective of the actual character of such *order patents*. For the purpose of determining the number of *patents* under this Paragraph IV C(1), (a) a *patent* and all *corresponding patents* in all countries shall count as one *patent*, and (b) the substitution of a previously unlicensed *order patent* shall count as an additional *patent* unless the *patent* for which substitution is made was dedicated, revoked, disclaimed, or has expired or lapsed, or was held invalid or unenforceable. *Xerox*, *Rank Xerox* and *Fuji Xerox* need not take a license under any *corresponding patent*. A *licensee* shall have no

obligation to grant a license to *Xerox*, *Rank Xerox* or *Fuji Xerox* in any country in which, by reason of governmental action, *Xerox* has been prevented from granting or causing to be granted a *patent* license requested pursuant to this order. *Xerox* shall have no obligation to grant licenses in any country in which, by reason of governmental action, the *licensee* is prevented from granting licenses to *Xerox*, *Rank Xerox* or *Fuji Xerox* pursuant to the terms of this Paragraph IV C(1).

(2) The license of *present patents of the licensee* shall not become effective until four years after the date of issuance of this order or four years after an *office copier product* (of the *licensee* or its licensee) using an invention covered by the *patent* first becomes *commercially available*, whichever is later. The license of *future patents of the licensee* shall not become effective until four years after the date the *future patent of the licensee* is *issued* or four years after an *office copier product* (of the *licensee* or its licensee) using an invention covered by the *patent* first becomes *commercially available*, whichever is later. This Paragraph IV C(2) shall not apply to IBM, except that IBM may require that the effective date of licenses pertaining to *polychromatic color office copier products* not become effective for up to three years from the date of issuance of this order for *present patents* and three years from the date IBM's *future patents* are *issued*. With respect to *corresponding future patents* the date such *patents* are *issued* shall be the date that the first such *corresponding future patent* is *issued*.

(3) *Xerox* may (at any time) require the immediate license to *Xerox*, *Rank Xerox* and *Fuji Xerox* of any of the *present* or *future patents of the licensee* (a) which would be infringed by a *Xerox*, *Rank Xerox* or *Fuji Xerox office copier* manufactured by any of them following the date of issuance of this order if the invention covered by the *patent* is the same as that embodied in an *office copier* manufactured by any of them prior to the date of issuance of this order, or (b) which would be infringed by a *Xerox*, *Rank Xerox* or *Fuji Xerox office copier product* which any of them makes *commercially available* during the six years following the date of issuance of this order if the invention of the *patent* was embodied in a device which, as of the first publication or public use anywhere in the world of the invention covered by the *patent of the licensee* or application therefor (i) actually had been built and incorporated in an engineering model or prototype model of the *office copier* by *Xerox*, *Rank Xerox* or *Fuji Xerox* and (ii) was part of a *Xerox*, *Rank Xerox* or *Fuji Xerox* funded product program. As used in this Paragraph IV C(3), "engineering model" means the first complete assembly of all the sub-assemblies of the *office copier*; and "prototype model" means the product development stage which follows the engineering model, if any. Licenses granted pursuant to this Paragraph

IV C(3) shall not be subject to the provisions of Paragraph IV C(1) (except that they shall count for the *licensee* as *patents* licensed to *Xerox*, *Rank Xerox* and *Fuji Xerox* if and when they become entitled to a license pursuant to that paragraph) or Paragraph IV C(2), but shall be subject to all other provisions of this order. The burden of establishing the right to a license under this Paragraph IV C(3) shall be on *Xerox*.

(4) *Xerox* may require a *licensee* to grant to *Xerox*, *Rank Xerox*, and *Fuji Xerox* a nonexclusive license under all *improvement patents* on *Xerox patents* licensed to the *licensee*. Such licenses shall not be subject to the provisions of Paragraph IV C(1) (except that *improvement patents of the licensee* shall count for the *licensee* as *patents* licensed to *Xerox*, *Rank Xerox*, and *Fuji Xerox* if and when they become entitled to a license pursuant to that paragraph) but shall be subject to all other provisions of this order.

(5) *Xerox* shall grant to the *licensee* a nonexclusive license under all *Xerox improvement patents* on *patents* licensed to *Xerox*. Such licenses shall be subject to all the provisions of this order except that they shall not count for *Xerox* as *patents* licensed by *Xerox*, *Rank Xerox*, and *Fuji Xerox* for purposes of Paragraph IV C(1).

(6) The *licensee* may charge *Xerox*, *Rank Xerox* and *Fuji Xerox* a reasonable royalty for *patents* licensed to any or all of them pursuant to this order, computed on the basis of the *net revenues* of *Xerox*, *Rank Xerox*, and *Fuji Xerox* for each *royalty-bearing product* which they manufactured, leased or sold. With respect to any *royalty-bearing product* of *Xerox*, *Rank Xerox* and *Fuji Xerox*, which they use or consume themselves, the royalty shall be computed on the basis of the *net revenues* that would have been received in an ordinary commercial transaction. The royalty shall be computed separately for each *royalty-bearing product* on the basis of the *patents* which are used in such *royalty-bearing product*.

(7) *Xerox*, *Rank Xerox* and *Fuji Xerox* may require that they be permitted to sublicense any PERSON in which they own, directly or indirectly, 50 percent or less, but not less than 20 percent of the voting stock if such *person* makes its *present* and *future patents* available for licensing pursuant to Paragraph II of this order. All such *persons* shall be identified to anyone making written request, and a list of all such *persons* current as of the date of issuance of this order shall be filed on the public record of the Commission. Any changes in said list shall be filed with the Commission within 30 days after they occur.

(8) A license to *Xerox* pursuant to this Paragraph IV C shall contain the provisions specified in Paragraphs IV H and IV I of this order and

may contain the provisions specified in Paragraphs IV D, IV E, IV F, IV G, and IV J of this order.

(9) If *Xerox* grants a license under *order patents* either pursuant to the terms of Paragraph II of this order or otherwise, the license agreement shall contain the irrevocable covenant of the licensee to license such of its *patents* as are licensed to *Xerox* on reasonable terms and conditions (including the license to itself of its licensees' *patents* or *improvement patents*) to any other *person* who is entitled to a license from *Xerox* pursuant to Paragraph II of this order, Provided That such license need not be effective prior to the effective date of the licensee's license to *Xerox*. Within 60 days following execution of a license agreement subject to this Paragraph IV C (9), *Xerox* shall submit to the Commission a copy thereof *in camera*.

D. Reasonable provisions may be made for the retention of books and records and for periodic royalty reports by the licensee to the manager of patent licensing of the licensor, and for inspection of such books and records by an independent auditor or any other person reasonably acceptable to both the licensor and the licensee who shall report to said manager only the amount of the royalty due and payable. The manager of patent licensing of the licensor shall not disclose the content of said periodic royalty reports to any director, officer, employee, agent or representative of the licensor other than the members of his staff and employees necessarily involved in recording and depositing checks in a routine manner, who shall be similarly bound, unless the royalty owed is not timely paid. In the event that the licensor does not have a manager of patent licensing, a mutually agreeable employee of the licensor shall be designated in his stead.

E. Notwithstanding any other provision of this order, any party taking a sublicense under the terms of this order may be required to reimburse the sublicensor for any payments it is legally required to make and does make to the original licensor on account of activities of the sublicensee under any sublicense granted pursuant hereto.

F. Reasonable provisions may be made for cancellation of the license granted to the licensee upon failure of the licensee to make the reports, pay the royalties, or permit the inspection of his books and records as hereinbefore provided, and, upon a wrongful act of the *licensee* respecting the restrictions on use or disclosure of *know-how* contained in Paragraph VII of this order, for *Xerox* to apply to the Commission for leave to cancel said license, in which event the decision of the Commission shall be final and non-appealable by either *Xerox* or the *licensee*.

G. The license may be nontransferable.

H. The license must provide that the licensee may cancel the license

in whole or as to any specified PATENTS at any time by giving 30 days notice in writing to the licensor; however, the licensor shall have the option to continue in effect any right granted to the licensor pursuant to Paragraph IV C of this order.

I. The license must provide for the arbitration specified in Paragraph VIII of this order and for suspension thereof pursuant to Paragraph VIII C of this order.

J. In granting a license pursuant to Paragraph II of this order, there shall be no discrimination by *Xerox*, *Rank Xerox*, *Fuji Xerox* or any *person* in the royalty charged as among royalty-paying *licensees* who procure the same rights under the same *patents*; but nothing herein contained shall prevent *Xerox*, *Rank Xerox*, *Fuji Xerox* or any *person* from negotiating nonexclusive licenses and cross-licenses outside the terms (except Paragraph IV C(9) of this order) of this order with anyone who so elects.

V

It is further ordered, That nothing herein shall be deemed to prevent any *licensee* or applicant for a license from attacking in any proceeding or controversy the validity, scope or enforceability of any *present* or *future patent*, nor shall this order be construed as imputing any validity, enforceability or value to any such *patent*.

VI

It is further ordered, That *Xerox* shall allow each *person* who is a licensee of a *Xerox patent* on the date of issuance of this order to obtain a license pursuant to the terms of this order; however, *Xerox*, *Rank Xerox* and *Fuji Xerox* shall have the right to continue in effect any industrial property rights under the terms previously granted to *Xerox*, *Rank Xerox* or *Fuji Xerox* by the licensee, and such licensee shall have the right to continue in effect any industrial property rights under the terms previously granted to the licensee by *Xerox*, *Rank Xerox* or *Fuji Xerox*.

VII

It is further ordered, That:

A. During the period ending five years after the date of issuance of this order, *Xerox* shall make available to *licensees* of United States *order patents* under a license pursuant to the terms of this order who make written application therefor all *know-how* (1) in existence on the date of issuance of this order or (2) made available to any other *United States* manufacturer (except a supplier to *Xerox*) or *United States*

marketer of *office copier products* for use in connection with such PRODUCTS during the five year period. The delivery of the *know-how* requested shall begin within 30 days and shall be completed within 120 days after the initial application therefor is received by Xerox; the response to subsequent requests shall be completed within a reasonable period of time. Such *know-how* shall be of such a nature as to enable one skilled in manufacturing electro-mechanical office machinery and in the technologies embodied in *office copier products* or comparable technologies to manufacture, refurbish, recondition and service Xerox Corporation's *office copier products*. Upon written application, Xerox shall provide written clarification respecting such *know-how* where such clarification is reasonably necessary. Xerox may make a reasonable charge for the cost of collecting and duplicating *know-how* which it discloses and for the time spent in clarification. At the option of such licensee, Xerox shall disclose *know-how* pertaining to photosensitive elements, supplies, raw materials and particular *office copier* models and shall limit its charge to such *know-how*. Xerox may require the licensee to agree that all *know-how* disclosed to the licensee by Xerox shall be considered a Xerox trade secret and to undertake, in good faith, to use the *know-how* only in connection with the manufacture in the United States of *office copier products* by or for the licensee and not to disclose or permit the disclosure of the *know-how* to anyone other than a supplier who is or will be manufacturing in the United States and who enters into a similar agreement and undertaking respecting disclosure and use, unless the licensee can establish that such *know-how* (1) was previously known to the licensee prior to the disclosure by Xerox, or (2) is or becomes part of the public domain through no wrongful act of licensee, or (3) is subsequently otherwise legally acquired by licensee, or (4) was or is disclosed by Xerox to third parties on a non-confidential basis.

B. Commencing 120 days after the date of issuance of this order Xerox shall make available to *know-how* licensees a list of the persons whose *know-how* Xerox claims to be prohibited from disclosing. Such list shall be subject to the restrictions on use and disclosure of *know-how* provided in this Paragraph VII. Xerox need not make *know-how* available to IBM.

VIII

It is further ordered, That:

A. Upon receipt of a written application for a *patent* license or for a *patent* license and disclosure of *know-how* under the terms of this order, Xerox shall advise the applicant in writing of the terms of such license and/or *know-how* disclosure. If a dispute arises between Xerox

and a *licensee* or applicant regarding their respective rights under this order (except where certain matters are specifically referable to the Commission as provided in Paragraph IV F of this order), and if the parties to the dispute are unable to resolve it within 90 days after the existence of such dispute is communicated in writing to *Xerox* or to the *licensee* or applicant, the dispute shall be determined by arbitration pursuant to this Paragraph VIII. Notwithstanding the provisions of Paragraph V of this order, no dispute between *Xerox* and a *licensee* or applicant with respect to the validity, enforceability, infringement or scope of any *patent* shall be subject to arbitration pursuant to this order.

B. Unless otherwise agreed to by the parties, arbitration shall be held at a location in the *United States* designated by the *licensee* or applicant and in accordance with the Commercial Arbitration Rules of the American Arbitration Association. The award of the arbitrator shall be final and binding on both parties. The arbitrator shall, upon a proper showing, issue protective orders and/or receive evidence *in camera* in the same manner as an administrative law judge of the Federal Trade Commission.

C. Within 10 days after the initiation of arbitration, *Xerox* shall notify the Commission of the parties to the arbitration, the name of the arbitrator, and the nature of the dispute. *Xerox* shall notify the Commission of the dates of arbitration hearings and other arbitration proceedings, if any, as soon as possible. Copies of all papers in the nature of pleadings shall be served upon the Commission, and the Commission or its designee shall have the right to attend any arbitration proceeding. The Commission may, in its sole discretion, at any time before evidence has been submitted, suspend the provisions of this Paragraph VIII respecting arbitration and itself resolve any or all disputes subject thereto. The Commission will not assert any claim that *Xerox* has violated this order with respect to the subject matter of the arbitration where *Xerox* has complied with the award of the arbitrator.

D. Pending the completion of any negotiation, arbitration or Commission action respecting a dispute subject to this Paragraph VIII, *Xerox* and the applicant shall enter into a license, and *Xerox* shall make disclosure of *know-how*, pursuant to the terms of this order with respect to the matters not in dispute. Upon conclusion of any negotiation, arbitration or Commission action, the disputed license or *know-how* disclosure may provide for such adjustments as the parties agree to or as the arbitrator or Commission, as the case may be, deems appropriate.

IX

It is further ordered, That for the period ending six years after the date of issuance of this order, *Xerox* shall make available (a) English language translations of all *order patents* issued after the date of issuance of this order to *Xerox*, *Rank Xerox*, and *Fuji Xerox* by France, The Federal Republic of Germany, Japan, and The Netherlands, and (b) copies of all English language *corresponding patents* at a reasonable charge not to exceed the cost of reproduction and, if the translation is made at the instance of the requesting *person*, the cost of translation.

X

It is further ordered, That for the period ending 10 years after the date of issuance of this order, *Xerox* shall not, directly or indirectly, acquire from any *person* (including The Rank Organisation Limited and Fuji Photo Film Co., Ltd.) any exclusive rights, whether by license or otherwise to any *patents* or know-how for use in *office copier products* except those (a) resulting from the work of *Xerox*, *Rank Xerox* or *Fuji Xerox* employees, *Xerox*, *Rank Xerox* or *Fuji Xerox* consultants, or research organizations doing sponsored research for *Xerox*, *Rank Xerox* or *Fuji Xerox*, or (b) under which *Xerox* grants or causes to be granted to any *person* making written application a non-exclusive, royalty-free, unrestricted license to make, have made, use or vend *office copier products* under such *patent* or know-how. Any exclusive rights acquired by *Xerox* in accordance with part (a) of this Paragraph X shall be on such terms as will permit *Xerox* to comply with the licensing provisions of Paragraph II of this order. This Paragraph X shall not apply to any acquisition or exclusive license of a *foreign patent* or of the right to use the know-how in a foreign country by *Rank Xerox* or *Fuji Xerox*.

XI

It is further ordered, That *Xerox* shall not dispose or permit the disposition of any *patents* or rights thereunder so as to deprive it of the power to grant or cause to be granted the licenses required by this order.

XII

It is further ordered, That for the period ending 10 years after the date of issuance of this order *Xerox* shall not, directly or indirectly, acquire any interest in a *person* (including The Rank Organisation

Limited and Fuji Photo Film Co. Ltd.) engaged in the manufacture, sale, lease or development of *office copiers*, or toner, developer, paper or photosensitive elements used in *office copiers* or form a joint venture involving any such products with any such *person* (except The Rank Organisation Limited or Fuji Photo Film Co. Ltd. so long as either is a party to a joint venture with *Xerox* or *Rank Xerox* relating to *office copier products*). This paragraph shall not apply (1) to the acquisition by XEROX of an interest in or joint venture with any *person* in which at the time of the acquisition or joint venture it had a stock interest, other than a PERSON in which *Xerox* had such an interest by reason of an investment in employee funds such as pension or retirement plans (*Xerox* shall promptly file with the Commission a list of the *persons* in which it has a stock interest as of the date of issuance of this order and to which this exception is to apply. Said list shall be updated as part of the annual compliance reports required by Paragraph XIX of this order), or (2) to any acquisition by *Rank Xerox* or *Fuji Xerox* of a *person* not engaged in the manufacture, sale, lease or development of *office copiers* but who is engaged in the manufacture, sale, lease or development, solely outside of the *United States*, of toner, developer, paper or photosensitive elements used in *office copiers*, or to the formation of a joint venture by *Rank Xerox* or *Fuji Xerox* involving any such products with any such PERSON, or (3) to a joint venture involving new capacity for the production of paper with a *person* other than one engaged in the manufacture, sale, lease or development of *office copiers*, or toner, developer or photosensitive elements used in *office copiers*, or (4) to the acquisition by *Xerox* of an interest in any PERSON the sole purpose of which is an investment in employee funds such as pension or retirement plans. Such acquisitions, however, shall not be deemed immune or exempt from the provisions of the antitrust laws (including the Federal Trade Commission Act) by reason of anything contained in this order.

XIII

It is further ordered, That during the period ending 10 years after the date of issuance of this order, *Xerox* shall not, directly or indirectly, make contracts in the *United States* restricting employees working in its *office copier products* business from in the future working for any other *person*, provided that *Xerox* may make contracts which prohibit the use or disclosure of trade secrets and confidential information as prohibited by *Xerox*' present form of "Proprietary Information and Conflict of Interest Agreement" which has been submitted to the Commission.

XIV

It is further ordered, That during the period commencing on a date not later than nine months after the date of issuance of this order and ending five years after said commencement date, *Xerox* shall not, directly or indirectly, utilize in the *United States* any price plan for the sale or lease of an *office copier* which depends upon the customer purchasing or leasing one or more additional *office copiers* of a different model. Any minimum qualifying level for a pricing plan or price schedule respecting any *office copier* shall be based solely on volume, revenues, number of *office copiers*, or the like of the same model.

XV

It is further ordered, That:

A. During the period ending 10 years after the date of issuance of this order, *Xerox* shall, in addition to instructing its employees in the *United States* not to comment on the quality of competitive toner or developer, place a notice in a location conspicuous to the key operator on each *office copier* sold or leased by it in the *United States* stating the following: "Xerox Corporation manufactures and distributes toner and developer for use in this machine. Other suppliers may also provide toner and developer for this machine. It may be necessary to adjust the machine to accommodate toner or developer which is provided by either *Xerox* or any other supplier."

B. In the event that *Xerox* shall publish reasonable specifications for the toner and developer used in a particular machine, *Xerox* (1) may include the following additional statement in the aforementioned notice: "The toner and developer used in this machine must comply with specifications published by Xerox Corporation.," (2) shall promptly notify all suppliers of toner and developer, who request such notification, of any changes in such specifications, and shall promptly notify a supplier when his toner or developer does not comply with such specifications in a letter signed by an officer of *Xerox*, and (3) may not require suppliers of toner or developer for *Xerox*' *office copiers* to provide to *Xerox*' customers a certification that the toner or developer supplied by them meets such specifications.

C. *Xerox* shall promptly notify all suppliers of toner and developer, who request such notification, of changes in *Xerox* *office copiers* which may affect the useability of the toner and developer in such *office copiers*.

D. Nothing herein contained shall prevent *Xerox* from advising a customer, in a letter signed by an officer of *Xerox*, that a non-*Xerox*

toner or developer is not useable in a particular *Xerox office copier*, provided that *Xerox* simultaneously advises the supplier of such toner or developer in a letter signed by an officer of *Xerox*, that (1) in the opinion of *Xerox*, the supplier's toner or developer is not useable in a particular *office copier* model, and (2) disputes regarding the useability of the toner and developer are subject to arbitration pursuant to this order. Disputes regarding the useability of non-*Xerox* toner and developer or the reasonableness of *Xerox* specifications shall be subject to arbitration in accordance with Paragraph VIII (b) and (c) of this order.

E. *Xerox* may not, directly or indirectly, require in the *United States* that it be the sole supplier of toner or developer for leased or sold *office copiers*; however, it may impose such a requirement with respect to a new model during the six months from the date such model first becomes *commercially available*. For purposes of this Paragraph XV, "new model" includes collectively the basic *office copier* model and all subsequent models not embodying material variations in the xerographic processor thereof.

XVI

It is further ordered, That during the period ending 10 years after the date of issuance of this order, (1) *Xerox* shall not in the *United States* take orders or announce that it will take orders for the sale or lease of an OFFICE COPIER more than three months prior to the time when it is reasonably expected to be *commercially available*, (2) *Xerox* shall not promote any new *office copier* in any area of the *United States* more than three months prior to the time that *Xerox* reasonably expects such new *office copier* to be first *commercially available* in that area except for national advertising which includes a statement that the model is available only in the areas where *Xerox* reasonably expects such model to be *commercially available*, and (3) at the time *Xerox* announces that it will take orders for the lease of an *office copier* in the *United States*, it shall also announce the selling price of such *office copier*.

XVII

It is further ordered, That within 30 days after the date of issuance of this order and annually thereafter until the expiration of all *future patents*, *Xerox* shall submit for publication in the Official Gazette of the *United States Patent Office* a notice (1) identifying by number, title, date of issue and category of subject matter (to an extent acceptable to the Commission) all *United States patents* which it is empowered to

license together with all *foreign patents* based on the patent application from which each United States *patent* originates; (2) stating that *Xerox* shall grant licenses under (a) its *order patents* to make, have made, use and vend *office copier products* under the terms of this order, and (b) patents required to be licensed pursuant to the terms of Paragraph X of this order, if any; (3) stating that *Xerox* shall disclose *know-how* to a licensee of its United States *order patents* for use in connection with the manufacture of *office copier products* in the *United States* under the terms of this order; and (4) stating that a copy of this order and a list of *patents* licensed to *Xerox* which are subject to the provisions of Paragraph II and IV C(9) of this order, if any, are available from *Xerox* upon written request. Beginning 30 days following the date of issuance of this order, and until the expiration of all *Xerox future patents*, *Xerox* shall send a copy of this order and of the current edition of such notice to each person who inquires as to the availability of a license for *office copier products*, or to whom *Xerox* has offered such a license at any time after Jan. 1, 1970.

XVIII

It is further ordered, That *Xerox* notify the Commission at least 30 days prior to any proposed change in the respondent, *Rank Xerox* or *Fuji Xerox* which may affect compliance obligations arising out of this order, such as dissolution, assignment or sale resulting in the emergence of a successor corporation, the creation or dissolution of subsidiaries or any other such change.

XIX

It is further ordered, That *Xerox* shall file with the Commission reports, in writing, setting forth in detail the manner and form in which it intends to comply, is complying, and has complied with this order. Said reports shall be filed 60 days and 180 days after the date of issuance of this order, and yearly thereafter on the anniversary date of the order during the period in which *Xerox* has obligations under this order, and shall contain such information and documents as are requested by the Bureau of Competition or the Commission relating to compliance with this order.

Commissioner Nye not participating.

IN THE MATTER OF
RETAIL CREDIT COMPANY

Docket 8920. Order, July 29, 1975.

Affirmation of law judge's denial of respondent's motion for a stay of further proceedings and, in the alternative, for leave to supplement the record.

Appearances

For the Commission: *William M. Sexton.*

For the respondent: *J. Wallace Adair, Howrey, Simon, Baker & Murchison, Wash., D.C. Kent E. Most, Hansell, Post, Brandon & Dorsey, Atlanta, Ga.*

ORDER AFFIRMING DENIAL OF RESPONDENT'S MOTION TO STAY
PROCEEDINGS, OR, IN THE ALTERNATIVE, FOR PERMISSION TO
SUPPLEMENT THE RECORD WITH NEWLY DISCOVERED EVIDENCE

This matter is before us on respondent's application for review of the administrative law judge's order, dated June 11, 1975, denying respondent's motion to stay proceedings pending the outcome of its Freedom of Information Act ("FOIA") suit against the Commission in the United States District Court for the District of Columbia or, in the alternative, for leave to supplement the record with newly discovered evidence which might be obtained by reason of the lawsuit.

By order dated June 24, 1975, the administrative law judge certified his ruling for review by the Commission pursuant to Section 3.23(b) of the Commission's Rules of Practice, 16 C.F.R. §3.23(b).

Respondent's motion offers too speculative a ground to warrant staying further proceedings since it assumes that respondent will ultimately obtain the documents and that the documents will contain information necessary to a resolution of the issues in this case. See *Encyclopaedia Britannica, Inc.* Docket 8908, order of May 22, 1975 Denying Motion to Postpone Oral Argument.

The administrative law judge's denial of respondent's motion, in the alternative, for permission to supplement the record with newly discovered evidence obtained from the Commission by reason of its FOIA request is also affirmed. The denial was without prejudice to respondent's right to renew the motion "* * * if and when respondent is in a position to move admission of specific and identified documents it may obtain under the FOIA into this record while the administrative law judge has jurisdiction of this proceeding." Such motions should be granted, at the very least, only upon a showing that the newly discovered evidence is relevant. It would, accordingly, be premature to