The Federal and Ninth Circuits Square Off: Refusals to Deal and the Precarious Intersection Between Antitrust and Patent Law

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THE FEDERAL AND NINTH CIRCUITS SQUARE OFF: REFUSALS TO DEAL AND THE PRECARIOUS INTERSECTION BETWEEN ANTITRUST AND PATENT LAW

I. INTRODUCTION

Although both the patent and antitrust laws were designed to stimulate the economy and benefit consumers, a fundamental tension between the two has always existed. The primary goal of the antitrust laws is to preserve efficient economic competition by discouraging anticompetitive monopolistic behavior and unreasonable restraints on trade or commerce. In contrast, the patent laws seek to encourage innovation, research, and development by rewarding the patentee with a monopoly in the protected works for a statutorily prescribed time. It is possible for one to imagine a legal landscape where both schemes work in harmony to promote the public good; however, in practice the schemes often overlap in precarious ways. An excellent example of this friction is illustrated by the recent split in the circuit courts concerning the rights of a patent holder to unilaterally refuse to deal.

In February 2000, the Court of Appeals for the Federal Circuit issued its controversial opinion in In re Independent Service Organizations Antitrust Litigation ("ISO"). Essentially, the ISO court found that it is entirely proper for a patent holder to leverage its congressionally sanctioned monopoly power in one market by refusing to deal with competitors in a second relevant market, regardless of whether a valid business justification exists. The ISO court made it clear that although such a refusal might carry with it an anticompetitive effect, only a showing of illegal tying, fraud in the Patent Office, or sham litigation would preclude such behavior. This holding not

5. See id. at 1327-28.
6. Id.; see also infra Part II.
only flies in the face of traditional notions of antitrust and patent law but also it directly conflicts with the Ninth Circuit's 1997 decision in *Image Technical Services, Inc. v. Eastman Kodak, Co.* ("Kodak"). On nearly identical facts, the *Kodak* court adopted a rebuttable presumption of a patent holder's valid business justification in a monopoly leveraging claim. The court held that the presumption of validity could be overcome by evidence that the patent was unlawfully acquired or that the proffered business justification was merely a "pretext," advanced only to "mask anticompetitive conduct." Although some commentators have attempted to harmonize the two opinions by drawing intricate distinctions, it is clear that the Federal Circuit decision disregards important antitrust and patent law.

The Federal Circuit's decision disregards both the realities of the marketplace and the letter of antitrust law. A decision like *ISO* benefits patent holders at the expense of competitors, especially smaller competitors such as the independent service organization members involved in that litigation. Precedent suggests that a patent holder has the right to be free of scrutiny when unilaterally refusing to deal with competitors in the primary market for a patented product. However, when that legitimate right is abused by extending the refusal to a separate and distinct market for unjustifiable anticompetitive reasons, the patent holder has stepped outside the law.

The remainder of this Comment will analyze the background of both patent and antitrust law, point out the current conflict, and suggest the direction the law should take in the future. Specifically, Part II gives an overview of the two statutory schemes and their interpretations, as well as outlines the creation of, and congressionally intended jurisdiction of, the

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7. See infra Parts II and III.
8. 125 F.3d 1195 (9th Cir. 1997), cert. denied, 523 U.S. 1094 (1998).
9. See id.
10. Id. at 1219.
13. *Kodak*, 125 F.3d at 1216. "Kodak and its amicus correctly indicate that the right of exclusive dealing is reserved from antitrust liability. We find no reported case in which a court has imposed antitrust liability for a unilateral refusal to sell or license a patent or copyright." Id.
14. Id. at 1216-17. "This basic right of exclusion does have its limits . . . . Section 2 of the Sherman Act condemns exclusionary conduct that extends natural monopolies into separate markets. Much depends, therefore, on the definition of the patent grant and the relevant market." Id. at 1216.
Federal Circuit. Part III discusses, in detail, the Federal Circuit’s and Ninth Circuit’s decisions in ISO and Kodak, respectively, with a focus on the differences in the courts’ reasoning and support, or lack thereof, offered in the decisions. In addition, Part IV.A outlines changes to the jurisdictional reach of the Federal Circuit and discusses the impact those changes may have on both antitrust and patent law. Part IV.B considers the flaws in the Federal Circuit’s analysis in ISO and the deleterious effects the court’s rationale is likely to have. Finally, Part IV.C offers some possible solutions that would reconcile patent and antitrust law in this area, such as action by Congress or a Supreme Court opinion definitively affirming Kodak.

II. BACKGROUND AND EXISTING LAW

Whether a patent holder has violated the antitrust laws will turn on the interpretation of both patent law and the Sherman Act. The patent laws provide qualified holders with immunity from liability for refusing to license or sell patented products or ideas. However, the Sherman Act makes the use of natural or legal monopoly power in one market to leverage power in the next market illegal. Harmonization of these two bodies of law has yet to be achieved either by statute or by Supreme Court decision, as illustrated by the current split in the circuits. Therefore, consideration of the underlying principles involved is essential to understanding the issues at the heart of the courts’ decisions in ISO and Kodak. The remainder of this section seeks to clarify the conflicting views involved. Part II.A considers the Sherman Act, refusal to deal, and analogous antitrust law principles helpful in the analysis of the relevant case law. Part II.B then describes the elements of a valid patent and the extent to which Congress intended the Act to shield patent holders from liability. Finally, Part II.C considers the role of the Federal Circuit in the realm of antitrust litigation, considering Congress’s intent in creating the court as a backdrop.

A. The Sherman Act and Monopoly Leveraging

In 1890, Congress enacted the Sherman Act making, under section 1 of the Act, “[e]very contract, combination . . . or conspiracy, in restraint of trade or commerce” illegal. Also, section 2 of the Act makes illegal any attempt
to monopolize.\textsuperscript{20} While the implications of this legislation have provided the basis for over a century of litigation, it is generally understood that Congress intended the Act to benefit consumers by promoting healthy economic competition.\textsuperscript{21}

Although, by definition, a violation of section 1 of the Act must generally involve more than one party, courts have found that certain situations, such as the tying of one good to another by a monopolist, will give rise to a violation.\textsuperscript{22} Success in a tying case requires evidence that the supplier has conditioned the sale of one desirable product, in which it holds substantial market power, upon the unwilling purchase of another.\textsuperscript{23} In such a case, much of the court's attention will be focused on determining whether the producer wields the requisite market power in the tying product, as was the case in the Supreme Court's decision in \textit{Eastman Kodak Co. v. Image Technical Services},

\begin{quote}
Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is declared to be illegal. Every person who shall make any contract or engage in any combination or conspiracy hereby declared to be illegal shall be deemed guilty of a felony, and, on conviction thereof, shall be punished by fine not exceeding $10,000,000 if a corporation, or, if any other person, $350,000, or by imprisonment not exceeding three years, or by both said punishments, in the discretion of the court.
\end{quote}

\textit{Id.}

\textsuperscript{20} 15 U.S.C. § 2 (2002). Section 2 reads:

\begin{quote}
Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a felony, and, on conviction thereof, shall be punished by fine not exceeding $10,000,000 if a corporation, or, if any other person, $350,000, or by imprisonment not exceeding three years, or by both said punishments, in the discretion of the court.
\end{quote}

\textit{Id.}

\textsuperscript{21} Sullivan, \textit{supra} note 1, at 6.


Tying arrangements...\textsuperscript{23} flout the Sherman Act's policy that competition rule the marts of trade. Basic to the faith that a free economy best promotes the public weal is that goods must stand the cold test of competition; that the public acting through the market's impersonal judgment, shall allocate the Nation's resources and thus direct the course its economic development will take... By conditioning his sale of one commodity on the purchase of another, a seller coerces the abdication of buyers' independent judgment as to the "tied" product's merits and insulates it from the competitive stresses of the open market.

\textit{Id.} at 605.

\textsuperscript{23} See \textit{id.}; see also \textit{Data Gen. Corp. v. Grumman Sys. Support Corp.}, 36 F.3d 1147, 1180 (1st Cir. 1994) (refusing to turn the question of a tie-in over to the jury because of insufficient evidence that the two products in question were actually two distinct products, namely service and support).
In that case, the Court noted that simply because market power in the tying product is gained by some natural advantage such as a patent, the patent holder is not immune from antitrust liability when that power is extended into a secondary market. Indeed, courts have consistently held that such behavior by a patent holder may, and in some cases will, give rise to liability.

A claim under section 2 of the Sherman Act carries with it no requirement of combination. A monopolization claim under section 2 must allege two basic elements: "(1) the possession of monopoly power in the relevant market and (2) the willful acquisition or maintenance of that power as distinguished from growth or development as a consequence of a superior product, business acumen, or historic accident." Monopoly power has been described as the power to exclude competition or control prices and may be inferred from market share. However, the mere


25. Id. at 488 n.29. "The Court has held many times that power gained through some natural and legal advantage such as a patent, copyright, or business acumen can give rise to liability if 'a seller exploits his dominant position in one market to expand his empire into the next.'" Id. (quoting Times-Picayune Pub. Co., 345 U.S. at 511) (citing Int'l Salt Co. v. United States, 332 U.S. 392 (1947); Int'l Bus. Mach. Corp. v. United States, 298 U.S. 131 (1936); United Shoe Mach. Corp. v. United States, 258 U.S. 451 (1922)).


It is the protection of the public...[that] denies to the patentee after issuance the power to use it in such a way as to acquire a monopoly which is not plainly within the terms of the grant. The necessities or convenience of the patentee do not justify any use of the monopoly of the patent to create another monopoly. The fact that the patentee has the power to refuse a license does not enable him to enlarge the monopoly of the patent by the expedient of attaching conditions to its use.

Id.

27. United States v. Grinnell Corp., 384 U.S. 563, 570-71 (1966). Section 2 of the Sherman Act also allows for damages from attempted monopolization. See 15 U.S.C. § 2 (2002). The elements of an attempt claim under section 2 are similar but not identical. The Kodak court described them as follows: "(1) a specific intent to control prices or destroy competition; (2) predatory or anticompetitive conduct directed at accomplishing that purpose; (3) a dangerous probability of achieving 'monopoly power,' and (4) causal antitrust injury." Image Tech. Servs., Inc. v. Eastman Kodak Co., 125 F.3d 1195, 1202 (9th Cir. 1997) (citing Rebel Oil Co., Inc. v. Atlantic Richfield Co., 51 F.3d 1421, 1434 (9th Cir. 1995)). Although it may be easier in theory to prevail under an attempt claim, the elements are almost identical and require the same type of proof. Therefore, often both types of section 2 claims will be advanced. See, e.g., Kodak, 125 F.3d at 1202. In Kodak, Kodak primarily challenged the section 2 monopoly claim although it had a verdict against it for both because, as the Ninth Circuit pointed out, a successful reversal of the section 2 monopoly claim would have also upset the section 2 attempt claim. See id. For the purpose of this Comment, only section 2 monopolization claims will be considered.

28. See Grinnell, 384 U.S. at 571 (citing United States v. E.I. du Pont De Nemours & Co., 351
possession of such power without a showing of anticompetitive conduct is harmless. 29

To be successful on a section 2 claim, the plaintiff must show either actual or circumstantial evidence of the defendant’s monopoly power in the relevant market. 30 Because of the inherent difficulty of showing actual market power, most cases will involve only circumstantial evidence. 31 The court must first determine the character of the relevant market. 32 In doing so, courts will take into account both economic and geographic criteria. 33

After the court has determined the relevant market, the complaining party must then show that the defendant maintains a dominant share in that market. 34 Although there is no requisite level of market consolidation that will be considered a dominant share, 35 over eighty percent control of a relevant market will generally be a sufficient showing. 36 Many courts have found that a much lower percentage will constitute a dominant share of the market. 37

The final factor in proving monopoly power requires a showing of "significant barriers to entry," such as patents or essential facilities. 38 Although patents are a good indication of monopoly power, the possession of

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29. See Intergraph Corp. v. Intel Corp., 195 F.3d 1346, 1353-54 (Fed. Cir. 1999). “Intel does not dispute the high market share achieved by its high performance microprocessors. However, that is not a violation of law.” Id. at 1354.

30. Rebel Oil Co. v. Atl. Richfield Co., 51 F.3d 1421, 1434 (9th Cir. 1995).

31. Grinnell, 384 U.S. at 571. “In United States v. E.I. du Pont De Nemours & Co., . . . we defined monopoly power as ‘the power to control prices or exclude competition.’ The existence of such power ordinarily may be inferred from the predominant share of the market.” Id. (internal citation omitted).

32. Id. at 571-72.

33. See id. (finding that different types of security services were not substitutes and that geographic market for such security services was national in scope).

34. See id. at 570-71.


37. See, e.g., Fineman v. Armstrong World Indus., 980 F.2d 171, 201-03 (3d Cir. 1992) (finding 55% of resilient floor covering market to be dominant enough to confer monopoly power when combined with other factors).

38. Rebel Oil Co. v. At. Richfield Co., 51 F.3d 1421, 1439 (9th Cir. 1994). The Ninth Circuit stated that:

[M]ere showing of substantial or even dominant market share alone cannot establish market power sufficient to carry out a predatory scheme. The plaintiff must show that new rivals are barred from entering the market and show that existing competitors lack the capacity to expand their output to challenge the predator’s high price.

Id.
a patent will not, in and of itself, “demonstrate [monopoly] power.”\textsuperscript{39} However, the Supreme Court has held that lack of sufficient market power in a primary market will not, as a matter of law, preclude a finding of sufficient monopoly power in a derivative market.\textsuperscript{40}

Once the plaintiff has shown monopoly power in the market concerned to the satisfaction of the court, he or she must then provide evidence showing that the defendant used the power “to foreclose competition, to gain a competitive advantage, or to destroy a competitor.”\textsuperscript{41} In a “monopoly leveraging” case, the emphasis will be placed on the defendant’s conduct in the secondary market.\textsuperscript{42} Often the alleged anticompetitive behavior in such a case will be a unilateral refusal to deal with competitors in the secondary market with the intent to eliminate competition.\textsuperscript{43} To determine whether this conduct is anticompetitive, the court will look to the economic realities of the situation, including the effects on both competitors and consumers.\textsuperscript{44}

If legitimate anticompetitive effect in the secondary market can be shown, it will then be incumbent upon the defendant to provide a legitimate business justification.\textsuperscript{45} An important and relevant example of such a justification is the desire to profit from rightfully obtained intellectual property rights.\textsuperscript{46} However, the \textit{Kodak} decision stands for the proposition that such a justification may be rebutted with evidence suggesting that it is pretextual.\textsuperscript{47} In non-patent cases, other justifications have included contentions that economic efficiency mandated a refusal to deal.\textsuperscript{48} In reaction to such arguments, the Supreme Court has held that a substantial change in business practice may legitimately contribute to a jury finding that a proffered business justification was invalid or pretextual.\textsuperscript{49}

\textsuperscript{40.} Eastman Kodak Co. v. Image Tech. Servs., 504 U.S. 451, 482-83 (1992); \textit{see also infra} this Part.
\textsuperscript{41.} Image Tech. Servs., 504 U.S. at 482-83 (citing United States v. Griffith, 334 U.S. 100, 107 (1948)).
\textsuperscript{42.} Image Tech. Servs., Inc. v. Eastman Kodak Co., 125 F.3d 1195, 1208 (9th Cir. 1997).
\textsuperscript{43.} \textit{See, e.g., In re Indep. Serv. Org.}, 203 F.3d at 1326-27.
\textsuperscript{44.} Aspen Skiing Co. v. Aspen Highlands Skiing Corp., 472 U.S. 585, 605 (1985). “The question whether Ski Co.’s conduct may properly be characterized as exclusionary cannot be answered by simply considering its effect on Highlands. In addition, it is relevant to consider its impact on consumers and whether it has impaired competition in an unnecessarily restrictive way.” \textit{Id.}
\textsuperscript{45.} \textit{See id.} at 608.
\textsuperscript{46.} \textit{Kodak}, 125 F.3d at 1219.
\textsuperscript{47.} \textit{Id.} at 1219-20.
\textsuperscript{48.} \textit{Aspen Skiing Co.}, 472 U.S. at 608-11.
\textsuperscript{49.} \textit{Id.} This is important when considering the decisions in \textit{ISO} and \textit{Kodak}. Both cases
The Sherman Act is an important and useful tool for the small and defenseless competitor who has been shoved out of business by anticompetitive behavior. Although a monopoly may be sanctioned in one market, it defies the letter and spirit of the Sherman Act to use that power as a lever to gain a stranglehold on a second market. As the next section shall illustrate, patent holders rightfully enjoy the monopoly position granted to them by Congress, but when they overstep the limitations of this grant, they have violated the Sherman Act and should be held accountable.

B. The Patent Act, Defenses, and Counter Claims

Article I, Section 8 of the United States Constitution grants Congress the right "[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." Pursuant to this grant, the second session of the First Congress passed the original incarnation of the modern United States Patent Act. The Act has evolved over the years into an intricate web of case law and legislation; however, the spirit of the original Act remains.

The basic requirements for patent protection are enumerated in Title 35 of the United States Code. Section 101 of that Title states: "Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent involved situations in which the ISOs involved had been doing business with Kodak and Xerox for substantial periods of time. See Kodak, 125 F.3d at 1201. Then, almost without warning, they were suddenly unable to obtain certain parts necessary for them to remain in business. See id. Part of the Ninth Circuit's decision in Kodak dealt with the fact that:

[a] company with monopoly power in a relevant market has no general duty to cooperate with its business rivals and may refuse to deal with them or with their customers if valid business reasons exist for such refusal. It is unlawful, however, for a monopolist to engage in conduct, including refusals to deal, that unnecessarily excludes or handicaps competitors in order to maintain a monopoly. Id. at 1209 (alteration in original). Also, as the Ninth Circuit pointed out in Kodak, the Supreme Court has held that past dealings may be used as evidence of monopolistic behavior in a refusal to deal case. See id. at 1210-11. Therefore, under the Supreme Court's decision in Aspen Skiing, a business justification may be rebutted by evidence that there has been a "conscious choice to change an established pattern of distribution to the detriment of competitors." Kodak, 125 F.3d at 1211.

See Grimes, supra note 12, at 236-39 (stating current antitrust case law disadvantages small firms through its intolerance of collective action by smaller competitors and its curtailment of causes of action that may provide relief to victimized small businesses).

50. See Grimes, supra note 12, at 236-39 (stating current antitrust case law disadvantages small firms through its intolerance of collective action by smaller competitors and its curtailment of causes of action that may provide relief to victimized small businesses).


53. See id. at 524-25.
therefore, subject to the conditions and requirements of this title," 54 The courts have broadly construed the "new and useful" requirement, 55 but the laws of nature and other abstract ideas have been held unpatentable. 56 In addition, the subject matter of the patent must be described in writing 57 and meet the additional statutory requirements of novelty and non-obviousness. 58

Once a party has convinced the Patent Office that it has cleared the threshold requirements for receiving a patent or copyright, 59 the party is entitled to all the rights and privileges conferred in Title 35. Among these benefits is the right to exclude others from the use or sale of the protected process or product for a period of twenty years. 60 Also, in defense of a lawfully obtained patent, the holder is granted the right to bring suit under the Act for infringement. 61 A successful proceeding for patent infringement will entitle the patent holder to relief in the form of an injunction, 62 damages, 63 or both. 64

In defense of an infringement action, defendants should, and have traditionally been entitled to, offer a number of counterclaims. These have traditionally been broken down into five categories: (1) Walker Process claims; (2) "sham" litigation claims; (3) patent pooling claims; (4) repetitive litigation claims; and (5) tying and other claims. 65

A Walker Process claim requires proving that the patent owner obtained the patent by willfully or knowingly fraudulent means and then attempted to foreclose competition, in violation of section 2 of the Sherman Act, by seeking to enforce the invalid patent by means of litigation. 66 So called

54. 35 U.S.C. § 101 (2002). The blanket requirements of the statute have been the subject of much litigation. For example, in Brenner v. Mason the Supreme Court explained that an invention is useful if it exhibits "specific benefit." Brenner, 383 U.S. at 534-35.

55. See McCullen, supra note 1, at 473-74.

56. See id. at 474.

57. 35 U.S.C. § 112 (2002) (requiring the invention be described in writing as well as the process used in making the invention and the use for which it is intended).


64. See McCullen, supra note 1, at 475-76.


66. See Schwartz, supra note 1, at 3-4. There are three elements to a Walker Process claim: (1) the patent was obtained through willful fraud; (2) the patent owner attempted to or did enforce the fraudulently obtained patent; and (3) the defendant has standing to pursue the counterclaim.
“sham” litigation claims are very similar to *Walker Process* claims; however, the claimant must only prove that the patentee knew the patent was invalid when enforcement was attempted. 67 In contrast, patent pooling claims involve valid patents, but allege that the patents were “pooled” with other patentees in the same industry to create, or attempt to create, a monopoly in violation of section 2 of the Sherman Act. 68 Other frequently used counterclaims to an infringement suit are illegal tying, licensing, and/or price fixing. 69 This is where a monopoly leveraging counterclaim under section 2 would fall, and such counterclaims will be discussed throughout this Comment.

In the past, the courts’ receptiveness to the antitrust counterclaims mentioned above and the patent misuse doctrine have represented the most potent and effective countermeasures to a patent infringement claim. 70 In general, a patent misuse defense will involve allegations that the patent holder has illegally extended his congressionally sanctioned monopoly in violation of both the Patent Act and the antitrust laws. For example, in *Mercoid Corp. v. Mid-Continent Investment Co.* 72 and *Mercoid Corp. v. Minneapolis-Honeywell Regulator Co.*, 73 Mercoid was found to have impermissibly tied the sale of a license for its patented product to the purchase of non-patented switches in violation of antitrust law. 74 The Supreme Court held that a patent misuse defense could serve as a per se violation of the antitrust laws, but noted that the plaintiff’s prayer for injunctive relief and treble damages technically formed a separate statutory cause of action. 75 Justice Douglas, writing for the majority, held that “[t]he legality of any attempt to bring

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67. Calkins, *supra* note 65, at 210-13. These claims are also known as Handguard claims, referring to a case of the same name. The basic element here is that the patentee was acting in bad faith by attempting to enforce the invalid patent. In addition to actual litigation, threats of litigation have recently become subject to “sham” litigation claims.

68. *See* Standard Oil Co. *v.* United States, 283 U.S. 163, 170-77 (1931); *see also* Kobe Inc. *v.* Dempsey Pump Co., 198 F.2d 416 (10th Cir. 1952) (holding that when a holding company that obtained patents for seventy-two types of hydraulic pumps had intent to control the entire industry, the infringement suit against a potential competitor was merely a thinly veiled attempt to maintain or expand the unlawful monopoly). *But see* SCM Corp. *v.* Xerox Corp., 645 F.2d 1195, 1204-05 (2d Cir. 1981) (holding that there would be no basis for a counterclaim under the Sherman Act when a patent had been lawfully obtained). *See also* Calkins, *supra* note 65, at 208-11 (discussing same).


72. 320 U.S. 661 (1944).

73. 320 U.S. 680 (1944).


unpatented goods within the protection of the patent is measured by the antitrust laws not by the patent law.\textsuperscript{76} Therefore, the Court sanctioned a misuse defense to patent infringement suits based on alleged antitrust violations by the plaintiff.\textsuperscript{77} The main difference between this sort of defense and a counterclaim alleging antitrust violations is the need for the defendant to prove anticompetitive effect in a counterclaim situation.\textsuperscript{78}

The availability of the misuse defense has been significantly curtailed in recent years because of a number of questionable lower court decisions and a recent change to the Patent Act. First, the Federal Circuit has taken steps to limit and possibly eradicate the defense, an issue that will be discussed in the next section.\textsuperscript{79} Also, a significant change was recently made to the patent law scheme by the congressional amendment of 35 U.S.C. § 271(d), entitled the 1988 Patent Misuse Reform Act.\textsuperscript{80} This change added language to the section mandating that:

\begin{quote}
No patent holder shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following . . . (4) refus[ing] to license or use any rights to the patent; or (5) condition[ing] the license of any rights to the patent or the sale of the patented product on the acquisition of a license to rights in another patent or purchase of a separate product, unless, in view of the circumstances, the patent owner has market power in the relevant market for the patent or patented product on which the license or sale is conditioned.\textsuperscript{81}
\end{quote}

In \textit{ISO}, the Federal Circuit used this language to bolster its contention that a patent holder has an unqualified right to refuse to deal, and it has also used the language to disregard the patent misuse defense.\textsuperscript{82} However, there has been wide disagreement over the intention and application of this section.\textsuperscript{83}

While the 1988 Patent Misuse Reform Act was being contemplated, there was disagreement as to the scope of the reform. This controversy did not end

\begin{thebibliography}{9}
\bibitem{note-76} See \textit{id.} at 684.
\bibitem{note-77} See Calkins, \textit{supra} note 65, at 186.
\bibitem{note-78} See \textit{id.} at 186-87.
\bibitem{note-79} See \textit{infra} Part II.C.
\bibitem{note-81} \textit{Id.}
\bibitem{note-82} \textit{In re Indep. Serv. Orgs. Antitrust Litig.}, 203 F.3d 1322, 1326 (Fed. Cir. 2000).
\bibitem{note-83} See \textit{infra} Part IV; \textit{see also} Image Tech. Servs., Inc. v. Eastman Kodak Co., 125 F.3d 1195, 1216 n.8 (9th Cir. 1997) (disregarding any application of the statutory section in question to a claim of monopoly leveraging by a patent holder).
\end{thebibliography}
with passage of the Act.\textsuperscript{84} During Senate Hearings on the subject, Senator De Concini stated that the bill dealt "'only with a small piece of the patent misuse problem-tying arrangements—and leaves the rest for [Congress] to address in the future.'"\textsuperscript{85} Although earlier versions of the bill essentially would have wiped out the patent misuse defense, this statement is evidence of a congressional compromise intended to simply move the defense from the per se category used in the \emph{Mercoid} cases to a rule of reason analysis by the courts.\textsuperscript{86} In addition, this statement acknowledges the fact that the legislature understood it was dealing with very specific issues, i.e., tying arrangements and cases involving a patent misuse defense. There is no evidence in either the House or Senate debates, or the amendment itself, indicating that the final version of the bill was meant to be applied outside the bounds of such instances, or to be used to completely disregard the patent misuse defense.\textsuperscript{87}

The public policy behind the Patent Act is sound; however, at the intersection with antitrust law, considerable tension exists. Recent changes to the legislative landscape have arguably increased this tension and undoubtedly added to the confusion surrounding the key issues for courts and the business community alike. The remainder of this section will seek to further illustrate these tensions while considering the role that the Federal Circuit has, and indeed will continue, to play in both antitrust and patent law.

\textbf{C. The Role of the Federal Circuit Leading Up to the ISO Litigation}

Perhaps the most important and influential changes to antitrust law in the United States came from the creation of a court whose jurisdiction was intended only to refine, bring uniformity to, and competently decide appellate cases arising under the Patent Act. The Court of Appeals for the Federal Circuit was created by Congress with the passage of The Federal Courts Improvement Act of 1982.\textsuperscript{88} Congress was concerned with what it perceived as inconsistency in appellate decisions, anchored by essentially the same issues in the area of the patent law.\textsuperscript{89} With this in mind, Congress sought to

\textsuperscript{84} Calkins, \textit{supra} note 65, at 192-200. The original version of House Bill 438, which later became the 1988 Patent Misuse Reform Act, was much broader in scope and would have required defendants claiming misuse to provide proof of a substantive violation of the antitrust laws in order to be successful. \textit{Id.}; see also S. Rep. No. 100-492 (1988).

\textsuperscript{85} Calkins, \textit{supra} note 65, at 198 (citing 134 Cong. Rec. S17, 147 (daily ed. Oct. 21, 1988)).

\textsuperscript{86} \textit{Id.} at 197. "As to [the amended § 271(d)(4)], Congress chose to codify existing case law. Because little controversy exists over the right of a patent owner to refuse to use a patent or to license to others, the codification adds little to existing law." \textit{Id.}


form a court that would evenly and fairly administer the patent laws. Congress created the Federal Circuit and granted the court exclusive appellate jurisdiction over all cases with claims "arising under" patent law.

Even before its creation, critics of the formation of the Federal Circuit feared that, although created to deal almost exclusively with patent law, the court's jurisdiction would grow to encompass other important areas of law whose place was properly in front of regional circuit courts of appeals. In addition, many feared that plaintiffs and defendants alike would be, in effect, allowed to undertake the much feared practice of forum shopping to gain access to the presumably favorable Federal Circuit. This, it was feared, could be done by simply interjecting a patent or copyright claim into a case that had its gravaman rooted securely in another area of law such as antitrust. It seems, however, that legislators were placated by pro-Federal Circuit groups urging that the court would exercise proper discretion when dealing with both parties and jurisdictional issues. Not very long after the creation of the court, the critics' fears were fully realized.

For a period of about six years following the passage of the Act creating the Federal Circuit, some confusion remained as to exactly how far the jurisdiction of the court would be extended. In 1988, the Supreme Court lent its voice to the debate with its decision in Christianson v. Colt Industries Operating Corp. In that case, the plaintiff sued in federal court and advanced antitrust and tort claims revolving around alleged retaliation on the part of the defendant for the plaintiff's alleged misuse of his former employer's trade secrets. After a district court ruling in favor of the plaintiff for antitrust violations and tortious interference, the defendant appealed to the Federal Circuit, which overturned the lower court's decision. The Supreme Court relied on the traditional "well-pleaded complaint rule" in overturning

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92. Stempel & Terzaken, supra note 89, at 713.


94. Id. "Notwithstanding these concerns, the Senate Report reflects a confidence that the Federal Circuit, like the Court of Claims and the Court of Customs and Patent Appeals that it replaced, would use its discretion in assuring that claims were properly before it and that it would apply the correct law." Id.


96. Id. However, the plaintiff also alleged that a number of Colt's patents were in fact invalid, a point which the district court agreed with in invalidating nine of Colt's patents before being overturned by the Federal Circuit, which was then overturned by the Supreme Court.

97. Id.
the Federal Circuit for lack of jurisdiction. The Court held that Federal Circuit jurisdiction will be appropriate only in:

those cases in which a well-pleaded complaint establishes either that federal patent law creates the cause of action or that the plaintiff's right to relief necessarily depends on resolution of a substantial question of federal patent law, in that patent law is a necessary element of one of the well-pleaded claims.

The Court concluded that Federal Circuit jurisdiction was not appropriate even though the arguments of both parties involved patent law, as the success of those claims was not rooted in the interpretation of patent law.

Despite what would seem to be clear and decisive instruction from the Supreme Court in Christianson on the issue of jurisdiction, the Federal Circuit nevertheless found it appropriate to unilaterally expand its jurisdiction shortly thereafter. In Aerojet-General Corp. v. Machine Tool Works, Oerlikon-Buehrle, Ltd., a case in which the facts were surprisingly similar to those in Christianson, the Federal Circuit held that 28 U.S.C. § 1338(a) jurisdiction was appropriate in cases in which the cause of action was not created by the patent laws. According to the court, the primary distinguishing factor between the two cases was the presence of a counterclaim for patent infringement. Essentially, the court found that counterclaims and claims have the same meaning within the parameters of Title 28; therefore, Christianson was not implicated and jurisdiction was proper. In support of its decision the court noted, "Congress did not mention the 'well pleaded complaint rule' as such and no warrant exists for reading that judicially created device into the statute when doing so would defeat the congressional purpose [of uniformity in patent law]." Although the Federal Circuit noted that a contrary decision could encourage forum shopping, the court's holding in this case and others seemed to do just that by allowing a defendant to direct an appeal to a potentially sympathetic forum with a well-pleaded

98. Id. at 808-09.
99. Id. at 809.
100. Id. at 810.
101. 895 F.2d 736 (Fed. Cir. 1990).
102. See id.
103. Id. at 738, 745.
104. Id. at 741-44.
105. Id. at 744.
106. Id. at 744-45.
infringement counterclaim.107

In addition to expanding its jurisdiction, prior to the ISO decision the Federal Circuit also undertook a course of jurisprudence which has continuously and increasingly deteriorated the rights of parties seeking relief from antitrust injuries.108 One example is the Federal Circuit’s decisions curtailing and, as some commentators have suggested, altogether abolishing the patent misuse defense mentioned above.109 Using the amendment to 28 U.S.C. § 271(d) as ammunition, a line of cases suggests that the Federal Circuit will be unwilling in the future to find any type of antitrust misuse defense sufficient to overcome a patent infringement claim.110 In C.R. Bard, Inc. v. M3 Systems, Inc.,111 the court refused to acknowledge the patent misuse defense despite a jury verdict and the court’s acknowledgement that the plaintiff’s actions essentially constituted an antitrust violation.112 Decisions such as these not only detract from the credibility of Federal Circuit jurisprudence but also they place parties harmed by the anticompetitive conduct of patentees in an extremely precarious position.

Also, the Federal Circuit has been extremely unwilling to find for, or even seriously entertain, a defendant exerting an antitrust counterclaim.113 As discussed above, traditionally there has been a wide range of counterclaims available to defendants accused of patent infringement under the antitrust

107. See Katz & Safer, supra note 90, at 694 (suggesting same). There is also case law suggesting that even when a federal district court has bifurcated proceedings in front of it, i.e., patent claims separated from other claims, the Federal Circuit would have jurisdiction over the case regardless of whether patent issues were raised in the appeal. See Atari, Inc. v. JS&A Group, Inc., 747 F.2d 1422 (Fed. Cir. 1984).

108. See supra Part II.B.; see also Hoerner, supra note 70, at 685.

The difficulty with [the Federal Circuit’s interpretations of precedent] is that in our system of justice appellate courts are “inferior” to the U.S. Supreme Court, the decisions of which control and must be followed. If the Supreme Court holds that the sale of a patented article exhausts the patent monopoly and that monopoly cannot be enlarged by attaching conditions to its use, or that an “anticompetitive effect” is not required for a finding of extension of the monopoly-type patent misuse, by what warrant does the Federal Circuit ignore such holdings? Former Chief Judge Markey had it right when he said: “We are bound however to adhere to existing Supreme Court guidance in the area until otherwise directed by Congress or by the Supreme Court.” . . . Perhaps the Federal Circuit should revisit that language.

Id. at 685 (footnote omitted).

109. See, e.g., id. at 683-85.


111. Id.

112. Id.

laws. However, the Federal Circuit has edited the list of possible recovery scenarios under the antitrust laws to situations involving the following: (1) fraud on the Patent Office in obtaining the patent; (2) a narrow category of “sham” litigation claims; and (3) the use of a patented product to “tie” an unpatented product. Although a comfort to corporations with valid patents, this move towards conservatism leaves little protection for those accused of infringement.

In addition to severely curtailing the defenses and counterclaims available against patent holders, in the late 1990s the Federal Circuit took another controversial step by breaking from its tradition of deferring to regional circuits for precedent and concluding that it would decide certain antitrust claims under its own precedent. For over sixteen years, the Federal Circuit had deferred to the various regional circuits for interpretation of substantive, non-patent issues presented to it. However, in 1998, the Federal Circuit issued its decision in Nobelpharma, AB v. Implant Innovations, Inc., which brought an end to deference and marked the beginning of a dangerous move towards a new body of Federal Circuit antitrust law. In Nobelpharma, the Federal Circuit saw fit to overrule its own precedent and hold that Federal Circuit law would not only control issues within the court’s exclusive patent jurisdiction, but would also control issues that would have previously been decided under regional circuit law. The court reasoned that because it was often in the position of having to decide whether a patentee should be stripped of immunity from antitrust laws, the court should therefore decide the antitrust issues for itself rather than having to interpret the law of the regional circuits.

[A]ntitrust claim premised on stripping a patentee of its immunity from the antitrust laws is typically raised as a counterclaim by a defendant in a patent infringement suit . . . . Because most cases involving these issues will therefore be appealed to this court, we conclude that we should decide these issues as a matter of Federal Circuit law, rather than rely on various regional precedents.

Id. (internal citation omitted). Many would argue that this is precisely why the Federal Circuit should not be deciding such cases based on its own precedent and lack of experience or expertise.
We arrive at this conclusion because we are in the best position to create a uniform body of federal law on this subject and thereby avoid the “danger of confusion [that] might be enhanced if this court were to embark on an effort to interpret the laws” of the regional circuits.\textsuperscript{122}

Not only is this argument not persuasive, it seems to defy logic. It is precisely for the sake of predictability and uniformity that the Federal Circuit should defer to the regional circuits. The regional circuits have had over 100 years of experience in dealing with the intricate substantive issues involved in antitrust litigation.\textsuperscript{123} The Federal Circuit has little. In addition, the creation of yet another body of law on antitrust issues, one carved out anew by an inexperienced court, could add considerably to “the danger of confusion” the Federal Circuit professed to be attempting to curtail. The congressional intent behind the creation of the Federal Circuit was “‘to centralize patent appeals’ and create ‘doctrinal stability in the field of patent law.’”\textsuperscript{124} In no way does the court’s decision to lend its voice to the substantive law of antitrust advance these goals.

A number of things need to be kept in mind when setting the stage for the \textit{Kodak} and \textit{ISO} decisions. First, before the Supreme Court’s 2002 decision in \textit{Holmes Group v. Vornado Air Circulation Systems, Inc.},\textsuperscript{125} it appeared as though the Federal Circuit would be able to hear any antitrust case, even if patent issues were only peripheral to the subject matter action.\textsuperscript{126} In addition, it was feasible for a party to ensure Federal Circuit jurisdiction by simply interjecting patent issues into a case.\textsuperscript{127} To intensify the problem, most antitrust cases involve manufacturers of tangible or intangible goods and often involve patent or copyright issues. Therefore, prior to the Supreme Court’s decision in \textit{Holmes Group}, discussed below, any party with a cognizable patent law claim could ensure that the Federal Circuit would hear an eventual appeal. In addition, the unavailability of a patent misuse defense and the Federal Circuit policy of deciding certain antitrust issues under its own precedent made the landscape that much more bleak for parties seeking to defend themselves under the antitrust laws. Therefore, the Federal Circuit’s

\begin{footnotes}
\item 122. \textit{Id.} at 1068 (quoting Forman v. United States, 767 F.2d 875, 880 n.6 (Fed. Cir. 1985)).
\item 123. \textit{See supra} note 21 and accompanying text.
\item 125. 535 U.S. 826 (2002); \textit{see infra} Part IV.A.
\item 126. \textit{See} Burtis & Kobayashi, \textit{supra} note 11, at 143 (suggesting that this is a happy consequence of the Federal Circuit’s ever-expanding jurisdiction).
\item 127. \textit{See supra} note 107 and accompanying text.
\end{footnotes}
decision in ISO was, and remains, an important one, even if its value as precedent may currently be in question.\textsuperscript{128}

III. THE KODAK AND ISO DECISIONS

Although the illegality of monopoly leveraging under section 2 of the Sherman Act is not a novel concept,\textsuperscript{129} the application of this theory of liability to patent holders in a primary market is relatively new. At this point, the decisions of the Ninth Circuit in Kodak and the Federal Circuit in ISO virtually represent the universe of decisions in the area. This section will take a close look at the factual circumstances of each case as well as the courts’ reasoning in each. Part A will look at the Kodak decision and consider the theory underlying the decision. Part B will consider the ISO case, as well as the policy considerations that may have led to its disposition.

A. Image Technical Services, Inc. v. Eastman Kodak Co.\textsuperscript{130}

In the early 1980s, Eastman Kodak Company found that selling photocopiers and microfilm equipment had become increasingly competitive\textsuperscript{131} because the market for such equipment had become increasingly condensed.\textsuperscript{132} In addition, Kodak was fiercely competing with corporations such as Xerox, IBM, and Canon for the same business.\textsuperscript{133} To add to these pressures, Kodak was also competing with the Independent Service Organizations ("ISOs") in the aftermarket for printer parts and service.\textsuperscript{134}

As well as being an original equipment manufacturer, Kodak also performed maintenance and service work on its equipment, with manufactured parts or parts purchased from independent suppliers.\textsuperscript{135} Gradually ISOs sprung up, offering competing service for Kodak copiers with parts obtained from Kodak, independent original equipment suppliers, and other clever sources.\textsuperscript{136} However, in the mid-1980s Kodak began restricting access to parts it sold directly to the ISOs and coerced the independent suppliers to do the same.\textsuperscript{137} Because the availability of replacement parts was

\textsuperscript{128} See Katz & Safer, supra note 90, at 736-38.
\textsuperscript{130} 125 F.3d 1195 (9th Cir. 1997).
\textsuperscript{131} Id. at 1200.
\textsuperscript{132} Id. at 1200-01.
\textsuperscript{133} Id. at 1200.
\textsuperscript{134} See infra notes 135-37 and accompanying text.
\textsuperscript{135} Kodak, 125 F.3d at 1200.
\textsuperscript{136} Id. at 1201. Apparently the ISOs also would buy or somehow obtain new or used machines to dismantle and use for parts in its service business.
\textsuperscript{137} Id.
vital to the survival of the ISOs, they quickly became unable to compete with Kodak for service contracts.\footnote{138} In 1987, the ISOs turned to the courts for relief in the form of damages and an injunction putting an end to the parts sales restrictions.\footnote{139}

In their complaint, the plaintiffs, Image Technical Services, Inc., and seventeen other independent service organizations alleged that Kodak had violated both sections 1 and 2 of the Sherman Act by: (1) tying the sale of Kodak copiers to service agreements; and (2) refusing to deal with them in the secondary or derivative market.\footnote{140} The District Court for the Northern District of California granted summary judgment for Kodak.\footnote{141} The ISOs appealed, and the Ninth Circuit reversed.\footnote{142} Kodak then appealed to the Supreme Court and, after granting certiorari, the Court affirmed the Ninth Circuit.\footnote{143} The Court remanded, holding that a lack of market power in the primary market would not preclude, as a matter of law, the finding of market power and a Sherman Act violation in the secondary market.\footnote{144} However, the court did not come to a finding on the merits because of a lack of a complete evidentiary record.\footnote{145}

On remand, the plaintiffs once again claimed that Kodak had a monopoly in the primary copier and micrographic equipment market, and alleged that it attempted to illegally extend that monopoly into the secondary market for parts and service through its unilateral refusal to deal.\footnote{146} However, the ISOs dropped the section 1 tying and conspiracy claims.\footnote{147} In front of the district court for the second time, the case was given to the jury, which found for the plaintiffs and awarded damages in excess of seventy-one million dollars.\footnote{148}

\begin{itemize}
    \item \footnote{138} Id.
    \item \footnote{139} Id.
    \item \footnote{140} Id.
    \item \footnote{143} \textit{See id.}
    \item \footnote{144} \textit{Id.} at 485-86.
\end{itemize}

In the end, of course, Kodak’s arguments may prove to be correct. It may be that its parts, service, and equipment are components of one unified market, or that the equipment market does discipline the aftermarkets so that all three are priced competitively overall, or that any anti-competitive effects of Kodak’s behavior are outweighed by its competitive effects. But we cannot reach these conclusions as a matter of law on a record this sparse. 

\textit{Id.} at 486.

\begin{itemize}
    \item \footnote{145} Id.
    \item \footnote{146} Image Tech. Servs., Inc. v. Eastman Kodak Co., 125 F.3d 1195, 1202 (9th Cir. 1997).
    \item \footnote{147} \textit{Id.} at 1201.
    \item \footnote{148} Id.
\end{itemize}
The district court also granted the ISOs an injunction requiring Kodak to sell parts to the ISOs at reasonable prices for ten years. On appeal, the Ninth Circuit began by determining whether the district court erred in denying Kodak’s motion for judgment as a matter of law as to the existence of the first component of a section 2 claim, the existence of monopoly power. The court began its analysis by determining the issue on which the case would turn: whether Kodak possessed the requisite market power in the “relevant market.” Kodak claimed that the market for each component copier part was a separate market in and of itself; therefore, patented and non-patented parts should be considered separately, with only the inability to obtain non-patented parts contributing to monopoly power in the service market. On the other hand, the ISOs advanced an “all parts” theory claiming that the relevant market “consisted of the entirety of necessary Kodak parts for that field of equipment.” The court agreed with the ISOs, finding that the “commercial realities” of the situation mandated a finding that the relevant market be broadly construed as that for all parts for Kodak copiers and micrograph machines respectively.

Next, the court held that a jury reasonably could find that Kodak’s market share in the parts was in excess of fifty percent and, when considered in conjunction with the other relevant market factors, could constitute monopoly power.

149. Id.

The injunction required Kodak to sell: (1) all parts for Kodak equipment; (2) all parts described in Kodak’s Parts Lists; (3) all parts of supply items that are field replaceable by Kodak technicians; (4) all service manuals and price lists; and (5) all tools or devices "essential to servicing Kodak equipment."

150. Id. at 1201-02.

151. Id.

152. Id. at 1203-04.

153. Id.

154. Id. at 1202-06.

Consideration of the “commercial realities” in the markets for Kodak parts compels the use of an “all parts” market theory. The “commercial reality” faced by service providers and equipment owners is that a service provider must have ready access to all parts to compete in the service market. As the relevant market for service “from the Kodak equipment owner’s perspective is composed of only those companies that service Kodak machines,” the relevant market for parts from the equipment owners’ and service providers’ perspective is composed of “all parts” that are designed to meet Kodak photocopier and micrographs equipment specifications. The makers of these parts “if unified by a monopolist or hypothetical cartel, would have market power in dealing with” ISOs and end users.

Id. at 1203-04 (internal citations omitted).
power. \[155\] In doing so, the court found that jury instructions allowing the aggregation of Kodak’s market share with that of the independent original equipment manufacturers were appropriate. \[156\] Once this was done, the court found that it would have been reasonable for the jury to conclude that Kodak’s market share was sixty-five percent or more. \[157\]

Finally, the court considered the third factor of monopoly power, namely whether extensive barriers to entry existed. \[158\] The evidence showed that Kodak held numerous patents, controlled its supply and the supply of the independent original equipment manufacturer, and consistently dominated the service market. The court concluded that these factors were sufficient to support its conclusion that extensive barriers to entry in the secondary market existed, which in turn solidified a finding of monopoly power. \[159\]

Next, the court considered the second element of a section 2 claim: The use of monopoly power "to foreclose competition, to gain a competitive advantage, or to destroy a competitor." \[160\] Initially, the court considered whether the jury should have been instructed to find a violation of section 2 only if the defendant had refused plaintiffs access to "essential facilities." \[161\] Kodak claimed that a refusal to deal under section 2 could only be considered illegal when the plaintiff has shown that the defendant’s refusal to grant reasonable access to an "essential facility" has "eliminated competition" in the relevant market. \[162\] The court refused to follow Kodak down the "essential facilities" path and, relying instead on the Supreme Court’s decisions in *Aspen Skiing Co. v. Aspen Highlands Skiing Corp.* \[163\] and *Image Technical Services* (the Supreme Court’s earlier disposition of the *Kodak* litigation), found that a refusal to deal in a downstream or secondary market will only be permissible when there is a legitimate competitive justification for doing so. \[164\]

\[155\] *Id.* at 1206 (citing Rebel Oil, 51 F.3d at 1438 n.10). "In Rebel Oil, we held that a 44% market share demonstrates market power if entry barriers are high and competitors are unable to expand their output in response to supracompetitive pricing." *Id.* at 1207.

\[156\] *Id.* at 1206-07.

\[157\] *Id.* However, the court indicated that a finding of market share near 50% "would suffice to support a jury finding of market power for the purposes of ISOs’ attempted monopolization claim." *Id.* (citing Rebel Oil, 51 F.3d at 1438 n.10).

\[158\] *Id.* at 1207.

\[159\] *Id.* at 1206-07 (stating barriers to entry can properly include legal devices such as patents).

\[160\] *Id.* at 1208 (citing Eastman Kodak Co. v. Image Tech. Servs., Inc., 504 U.S. 451, 482-83 (1992)).

\[161\] *Id.* at 1210 (internal quotations omitted).

\[162\] *Id.* (internal quotations omitted).

\[163\] *Id.* at 1209-10.

Finally, the Ninth Circuit turned to the question of whether Kodak’s intellectual property rights formed the basis of a legitimate business justification. The court recognized the various rights and privileges afforded patent holders and the solid public policy reasons behind such grants. Specifically, the court recognized the ordinarily unlimited right of a patent holder to refuse to license a patent or otherwise appropriate the rights to a discovery. However, the court also recognized the fact that the exclusionary rights of a patent holder are not absolute. The court acknowledged traditional limits to a patent holder’s right to exclude, such as the unlawful acquisition of the patent or the extension of a patent beyond its natural limits.

The court concluded that when a monopolist unilaterally refuses to license or sell its patented or copyrighted goods to a competitor, such action will be presumed a valid business justification absent evidence the patent was unlawfully acquired or that the proffered justification merely is a pretext. The court emphasized that “[t]he presumption should act to focus the fact finder on the primary interest of both intellectual property and antitrust laws: public interest.” Therefore, under the court’s reasoning, if a finder of fact determines that public policy warrants a finding that the proffered justification is a pretext, the justification will be disregarded and a section 2 violation will result.

Turning to the case at bar, the court found that the jury should have been informed of the existence of a rebuttable presumption in favor of Kodak’s proffered patent justification; however, the omission of such an instruction was found to be harmless. In essence, the court found that because the jury found for the plaintiffs despite instructions directing it to consider potential business justifications, and because Kodak had argued that its patent rights did justify its action, the jury had dismissed such justifications as pretextual.

165. Kodak, 125 F.3d at 1212-20.
166. Id. at 1215-16.
167. Id. at 1216. “We find no reported case in which a court has imposed antitrust liability for a unilateral refusal to sell or license a patent or copyright.” Id.
168. Id.
169. Id.
170. Id. (citing Data Gen. Corp. v. Grumman Sys. Support Corp., 36 F.3d 1147, 1186 (1st Cir. 1994)).
171. Id. at 1219. “The presumption may also be rebutted by evidence of pretext. Neither the aims of intellectual property law, nor the antitrust laws justify allowing a monopolist to rely upon a pretextual business justification to mask anticompetitive conduct.” Id.
172. Id. at 1218.
173. Id. at 1220.
174. Id.
B. In re Independent Service Organizations Antitrust Litigation\textsuperscript{175}

The facts the Federal Circuit confronted in ISO were much the same as those encountered by the Ninth Circuit in the Kodak litigation. But, the Federal Circuit reached a vastly different result. As in Kodak, a number of independent service organizations brought suit against Xerox for refusing to sell or license patented parts and copyrighted materials after having previously done so.\textsuperscript{176} In response to the plaintiff’s antitrust claims, the defendant counterclaimed for patent and copyright infringement.\textsuperscript{177} The District Court for the District of Kansas granted summary judgment for Xerox, holding that a patent holder’s right to refuse to deal does not violate the antitrust laws, even if the refusal impacts a secondary or derivative market, regardless of subjective intent or pretext.\textsuperscript{178} The plaintiff appealed, and the Federal Circuit affirmed.\textsuperscript{179}

After concluding that the patent claims would be reviewed under Federal Circuit law, the court began its analysis of the plaintiff’s monopoly leveraging claim.\textsuperscript{180} The court began by correctly pointing out that intellectual property rights do not amount to a congressionally granted privilege to violate antitrust laws.\textsuperscript{181} The court then stated the accepted view that the possession of a patent does not, by itself, evidence the existence of monopoly power.\textsuperscript{182} From there the court jumped to unilateral refusals to deal.\textsuperscript{183}

The court concluded that, in the absence of extraordinary circumstances, a patent holder’s unilateral refusal to deal will never result in a violation of section 2 of the Sherman Act.\textsuperscript{184} In support of its conclusion that patent law confers such broad rights, the court pointed to section 271(d) of the Patent

\textsuperscript{175} 203 F.3d 1322 (Fed. Cir. 2000).
\textsuperscript{176} See id. at 1324.
\textsuperscript{177} Id.
\textsuperscript{178} Id.
\textsuperscript{179} As is noted throughout this Comment, if this case were up on appeal today, the Federal Circuit would not have jurisdiction because the patent claims at issue were not part of the plaintiff’s complaint, but part of a counterclaim. See Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc., 535 U.S. 826, 834 (2002).
\textsuperscript{180} In re Indep. Serv. Orgs., 203 F.3d at 1325. “In order to fulfill our obligation of promoting uniformity in the field of patent law, it is equally important to apply our construction of patent law to the questions whether and to what extent patent law preempts or conflicts with other causes of action.” Id. (quoting Midwest Indus., Inc. v. Karavan Trailers, Inc., 175 F.3d 1356, 1360 (Fed. Cir. 1999)).
\textsuperscript{181} Id. (citing Intergraph Corp. v. Intel Corp., 195 F.3d 1346, 1362 (Fed Cir. 1999)).
\textsuperscript{182} Id.
\textsuperscript{183} Id. at 1326.
\textsuperscript{184} Id. at 1326-28.
Act and the Ninth Circuit’s language in Kodak finding no case law supporting a finding of liability for a patent holder’s unilateral refusal to deal. The only circumstances found sufficient to confer liability in such a situation would be when: (1) the plaintiff could show that the patent in question was obtained through fraud or misrepresentation, or (2) a patent infringement claim was a “sham” merely meant to frustrate competition.

Finally, in upholding Xerox’s monopoly leveraging via a unilateral refusal to deal, the court expressly refused to follow either the guidance of the Supreme Court in Image Technical Services or the Ninth Circuit in Kodak. The court held that because a patent holder is well within its rights when it refuses to sell or license a patented product, the court would not look into the subjective reasoning underlying such a decision. Also, the court found that because the Kodak case included tying claims when it came in front of the Supreme Court, the language of Kodak footnote twenty-nine, stating that patent holders can be liable when they extend a monopoly in one market to the next, could be disregarded. The court concluded that in the absence of proof showing sham litigation, tying, or fraud, “the patent holder may enforce the statutory right to exclude others from making, using, or selling the claimed invention free from liability under the antitrust laws. . . . [T]herefore [the court would] not inquire into his subjective motivation for exerting his statutory rights . . . .” Thus, the court refused to consider the wisdom of the Ninth Circuit’s presumption of validity, instead finding that patents ordinarily are an absolute defense to an antitrust claim.

IV. DISCUSSION

As illustrated above, the Federal Circuit and Ninth Circuit have reached

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185. 35 U.S.C. § 271(d) (2002) (stating a patent owner shall not be “denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having . . . refused to license or use any rights to the patent”).
186. In re Indep. Serv. Orgs., 203 F.3d at 1326 (citing Image Tech. Servs. Inc. v. Eastman Kodak Co., 125 F.3d 1195, 1216 (9th Cir. 1997)).
188. Id. (citing E. R.R. Presidents Conference v. Noerr Motor Freight, Inc., 365 U.S. 127, 144 (1961)). “[A]n antitrust plaintiff must prove that the suit was both objectively baseless and subjectively motivated by a desire to impose collateral, anti-competitive injury rather than to obtain a justifiable legal remedy.” Id. (quoting Nobelpharma AB v. Implant Innovations, Inc., 141 F.3d 1059, 1071 (Fed. Cir. 1998) (emphasis omitted)).
189. Id.
190. Id.
191. Id. at 1326-28.
192. Id. at 1327.
diametrically opposed holdings in cases involving essentially identical fact patterns and legal issues. This graphically illustrates the potential for conflict between the patent laws and the Sherman Act. Although both bodies of law serve important social goals, these goals must be harmonized. The Federal Circuit's *ISO* decision does not contribute to these goals in any meaningful way. The *ISO* decision serves only to extend the already expansive patent holder rights beyond those intended by modern Congress while ignoring competitive concerns. Indeed, if this case were heard today, the Federal Circuit would not have jurisdiction over the subject matter of the case.\(^{193}\) However, despite the changes in Federal Circuit jurisdiction, there is still a fundamental difference in scholarly and judicial opinion as to the extent to which a refusal to deal is protected by the patent laws.\(^{194}\) If this situation is not addressed by either the Supreme Court or the Congress in the near future, increased judicial confusion will undoubtedly result. In addition, patent holders will be allowed to create and extend monopolies unimpeded, to the detriment of small businesses. The result will be a loss of efficiency in secondary markets and increased prices for consumers.

The remainder of this Comment considers the competing views concerning the intersection of patent and antitrust law and suggests solutions to the current split in the circuits. First, Part IV.A will consider the Supreme Court's recent decision in *Holmes Group v. Vornado Air Circulation Systems*,\(^{195}\) curtailing Federal Circuit jurisdiction. Part IV.A also will attempt to gauge the impact that the *Holmes Group* decision is likely to have on patent and antitrust law. Next, Part IV.B will analyze critically the Federal Circuit's decision in *ISO*. In addition, Part IV.C will consider the impact that the *Kodak* and *ISO* decisions have, and will have, on economic competition. Finally, Part IV.D will suggest a number of solutions to the current split in the circuits, such as affirmative action by Congress or a Supreme Court ruling affirming the *Kodak* decision.

### A. The Reigning in of the Federal Circuit

A discussion of the Federal Circuit's decision in *ISO* would be incomplete without considering the procedural context in which the case was decided. Beginning in the early 1990s, the Federal Circuit expanded its jurisdiction to include not only "well pleaded" patent claims, but also compulsory and even

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193. *See infra* Part IV.A.


permissive counterclaims. This laid the groundwork for the ISO litigation and Federal Circuit influence over antitrust law.

Had the ISO litigation taken place today, the Federal Circuit would not have had jurisdiction over the case. The reason for this is the Supreme Court’s 2002 decision in *Holmes Group, Inc. v. Vornado Air Circulation Systems, Inc.* The remainder of this section will dissect and explain the wisdom of the *Holmes Group* decision. In addition, this section will attempt to outline the impact that decision may have on the future of both patent and antitrust litigation.

1. The Supreme Court’s Decision in *Holmes Group v. Vornado Air Circulation Systems*

As outlined above, in *Aerojet-General Corp. v. Machine Tool Works, Oerlikon-Buehrle, Ltd.*, the Federal Circuit unilaterally extended the reach of its jurisdiction to include cases that included patent law counterclaims. That decision opened the door for Federal Circuit adjudication of scores of antitrust suits that otherwise would have been left to be decided by the various regional circuits. Nonetheless, many viewed the decision as well reasoned and correct. Although popular reaction to the *Aerojet* decision was generally positive, the holding in that case was undoubtedly in conflict with previous Supreme Court precedent and the “well pleaded complaint” rule. Although it took twelve years, this is what ultimately led to the overruling of *Aerojet* by the Court in *Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc.*

The factual underpinnings of the *Holmes Group* case illustrate the dangers that the *Aerojet* decision presented, for example, forum shopping by parties wishing to have the Federal Circuit hear their case. In the original litigation, the plaintiffs brought suit against the defendants for trade-dress infringement. The district court found in favor of Vornado on its trade

196. See supra Part II.C.
199. See, e.g., U.S. Valves, Inc. v. Dray, 190 F.3d 811, 813 n.6 (7th Cir. 1999) (citing the Federal Circuit’s decision in *Aerojet* with approval); DONALD CHISUM, CHISUM ON PATENTS § 21.02[1][e], 21-91 n.129 (2002). Indeed, the Federal Circuit itself was so confident in the decision, the court extended its holding to encompass permissive as well as compulsory counterclaims. See DSC Communications Corp. v. Pulse Communications, Inc., 170 F.3d 1354, 1359 (Fed. Cir. 1999).
202. See supra Part II.C.
203. See Vornado Air Circulation Sys., Inc. v. Duracraft Corp., 58 F.3d 1498 (10th Cir. 1995).
dress claim; however, on appeal, the Tenth Circuit reversed the lower court’s decision, finding that the plaintiffs had no enforceable rights.\textsuperscript{204}

Not satisfied with the Tenth Circuit’s decision, the plaintiffs decided to go another route. They filed a complaint with the International Trade Commission and issued a press statement,\textsuperscript{205} both claiming that Holmes Group had infringed upon their trade dress.\textsuperscript{206} This prompted Holmes Group to file suit in district court for declaratory judgment on the trade dress infringement claim and an injunction against Vornado from distributing statements claiming that Holmes Group infringed on its trade dress.\textsuperscript{207} As expected, Vornado filed a patent infringement counterclaim in conjunction with that case.\textsuperscript{208} Once again, the district court sided with Holmes Group, granting both the declaratory judgment and the injunction.\textsuperscript{209} On cue, Vornado filed an appeal with the Federal Circuit, which vacated the district court judgment.\textsuperscript{210}

The Supreme Court “granted certiorari to consider whether the Federal Circuit properly asserted jurisdiction over the appeal.”\textsuperscript{211} In delivering the opinion of the Court, Justice Scalia began by considering the language in 28 U.S.C. § 1338, the congressional grant of jurisdiction to the Federal Circuit.\textsuperscript{212} Citing Christianson v. Colt Industries Operating Corp., he concluded that Congress intended section 1338 to parallel 28 U.S.C. § 1331, which requires that the plaintiffs “well pleaded” complaint “creates the cause of action.”\textsuperscript{213} Therefore, for jurisdiction to be proper under section 1338, federal patent law must create the plaintiff’s claim.\textsuperscript{214} Because the Holmes Group complaint did not assert any claims that “arose out of” or were “created by” federal patent law, the Court found that the Federal Circuit had no jurisdiction over the appeal.\textsuperscript{215}

Having decided the primary question before the Court, Justice Scalia went
on to clarify two additional points. First, he made it painfully clear that neither permissive nor compulsory counterclaims have any bearing on whether a case "arises under" the federal patent laws for purposes of section 1338 jurisdiction.\footnote{Id. at 831. "[A] counterclaim--which appears as part of the defendant's answer, not as part of the plaintiff's complaint--cannot serve as the basis for 'arising under' jurisdiction." \textit{Id.}} Second, Justice Scalia reiterated his view that the "arising under" requirement of section 1338 was identical to that found in section 1331 and, therefore, required the patent law claim to be "on the face of the plaintiff's well-pled complaint."\footnote{Id. at 834.}

2. Impact of the \textit{Holmes Group} Decision on Federal Circuit Influence

The effect of the \textit{Holmes Group} decision is anything but certain. Indeed, while the Supreme Court's mandate seemed concrete, the Federal Circuit has rejected precedent before.\footnote{See supra Part II.C.} Although the \textit{Christianson} decision seemed to have little or no impact on Federal Circuit jurisprudence, the \textit{Holmes Group} decision has. Since the Supreme Court's decision in \textit{Holmes Group}, the Federal Circuit has acknowledged the fact that \textit{Aerojet} has been overruled and has complied with the requirements outlined therein.\footnote{See, e.g., Golan v. Pingel Enter., Inc., 310 F.3d 1360, 1366 (Fed. Cir. 2002). Stating: Although Pingel's counterclaims requested direct coercive relief under the patent laws... the Supreme Court held that § 1295(a)(1) authorizes us to exercise appellate jurisdiction over only those appeals in which the complaint authorized the district court to exercise jurisdiction pursuant to 28 U.S.C. § 1338. After \textit{Vornado}, we may no longer rely solely on counterclaims arising under the patent laws to establish our appellate jurisdiction. \textit{Id.}} What remains to be seen, however, is the impact that this decision will have on both patent and antitrust law and how it may relate to the questions presented in \textit{Kodak} and \textit{ISO}.

A number of positive and overdue ramifications flow from the Supreme Court's decision in \textit{Holmes Group}. First, as Justice Scalia emphasized in the opinion, plaintiffs will once again be the master of the complaint.\footnote{Holmes Group, 535 U.S. at 832.} Plaintiffs will once again have the unfettered right to determine both the forum in which their complaint is heard and the law that creates it. Said differently, plaintiffs will no longer face the possibility that the forum they chose will be unilaterally changed by the defendant interjecting a patent counterclaim.

Also, regional circuit autonomy over antitrust law will be re-solidified.\footnote{See James W. Dabney, Holmes v. Vornado: A Restatement of the "Arising Under" Jurisdiction of Federal Courts, New York State Bar Ass'n Bright Ideas, Fall 2002, 2 at 6, available}
The Federal Circuit will no longer have the last word on the debate over the intersection of antitrust and patent law. Instead, the regional circuits will now have more of an opportunity to hear and apply their own precedent to antitrust, copyright, trade dress, and other subjects.\textsuperscript{222} This will bring much needed objectivity to decisions such as the Federal Circuit's ISO decision.

Finally, forum shopping by defendants wishing to have the Federal Circuit hear an appeal is now impossible.\textsuperscript{223} Unless patent claims are part of a well pleaded complaint, appellate jurisdiction over antitrust cases will be determined by the court of first instance that the plaintiff chooses.

All of the effects mentioned above were originally intended by Congress when it created the Federal Circuit; it simply took the Supreme Court twenty years to clarify the law. However, many commentators have taken exception to the \textit{Holmes Group} decision and suggest a number of nefarious scenarios. They point out that, in addition to transferring jurisdiction over patent counterclaims and cross-claims to other federal circuit courts, the \textit{Holmes Group} decision allows state courts to hear certain patent cross and counterclaims.\textsuperscript{224} They argue that such a situation is highly undesirable and should be overruled by an act of Congress.\textsuperscript{225} If Congress did intend to forego such a possibility, the perversion of patent law by those courts would certainly be grounds for an amendment to the jurisdictional scheme. However, this development has yet to be seen.\textsuperscript{226}

Others argue that the \textit{Holmes Group} decision will cause a "race to the court house steps." It has been suggested that the Supreme Court's decision will cause patent holders or infringers that fear prosecution to strike first by filing suit for patent infringement.\textsuperscript{227} This type of forum shopping was no doubt clear to the Court when it issued the opinion. However, the Court was attempting to end a much more dangerous form of forum shopping—the type of forum shopping witnessed in ISO and in \textit{Holmes Group} itself.

Everything else being equal, one thing is clear: The \textit{Holmes Group} decision negatively impacts the precedential value of \textit{Kodak}.\textsuperscript{228} If the case

\textsuperscript{222} See id.
\textsuperscript{223} Id.
\textsuperscript{224} See \textit{Holmes Group}, 535 U.S. at 831-32.
\textsuperscript{226} See id.
\textsuperscript{228} See Chen, \textit{supra} note 194, at 156.
were heard today, any appeals would be forwarded to the Tenth Circuit instead of the Federal Circuit. This does not solve the problem though, because as the Federal Circuit pointed out in its opinion, the Tenth Circuit had no precedent on point.\footnote{See id.} Therefore, it is unclear how that court, or any other for that matter, would have ruled. In addition, instructive opinion on point in other circuits is also lacking. Therefore, a court hearing a case with facts and allegations similar to those in ISO and Kodak would nevertheless need to choose either the rationale of the Ninth or Federal Circuit, in other words, whether to adopt a rebuttable presumption that may be overcome by a showing of pretext.

\textbf{B. Neither Existing Patent nor Antitrust Law Supports the Federal Circuit's Decision in ISO}

It is settled law that a patent or copyright holder has no affirmative duty to sell or license its products. Essentially, the patent holder is granted a monopoly position in the primary market for those goods encompassed by the patent.\footnote{See, e.g., Zenith Radio Corp. v. Hazeltine Research, Inc., 395 U.S. 100, 135 (1969) (patent pooling case).} However, the Supreme Court has established that when an otherwise legal monopolist exploits that sanctioned position in order to expand his monopoly into a secondary market, he has violated the Sherman Act.\footnote{See, e.g., Times-Picayune Publ’g Co. v. United States, 345 U.S. 594, 611 (1953).} Refusing to deal with a competitor in a derivative market, together with sufficient evidence of a dominant position in that market, constitutes prima facie evidence of an attempted monopolization in violation of section 2 of the Sherman Act.\footnote{See Aspen Skiing Co. v. Aspen Highlands Skiing Corp., 472 U.S. 585, 602 (1985).} However, in such a case the adverse party will be able to escape liability by advancing a legitimate business justification.\footnote{United States v. Aluminum Co. of Am., 148 F.2d 416, 432 (2d Cir. 1945).} According to the Kodak court, the possession of a patent, without additional evidence, will be considered such a justification.\footnote{See supra Part III.A.} However, that presumption may be overcome by a showing of either fraud, misuse, or
evidence that the exertion of patent rights was merely a pretext.\textsuperscript{235}

The Federal Circuit impermissibly sidestepped the understood framework for a section 2 violation by holding patent holders immune from such scrutiny. A patent holder is immune under applicable case law and 35 U.S.C. § 271(d) only when it refuses to deal in the primary market for the patented good.\textsuperscript{236} Complete protection from antitrust liability does not extend to the secondary market, as the Kodak court properly held.\textsuperscript{237} As the Ninth Circuit noted, "[the] basic right of exclusion does have limits.... Section 2 of the Sherman Act condemns exclusionary conduct that extends natural monopolies into separate markets. Much depends, therefore, on the definition of the patent grant and the relevant market."\textsuperscript{238}

Without any meaningful analysis of the relevant markets, the Federal Circuit simply assumed that a valid patent or copyright confers virtually absolute protection to the holder, regardless of the markets affected.\textsuperscript{239} Although the court impliedly recognized the existence of two separate markets, the court found that a patent grant could encompass multiple markets.\textsuperscript{240} First, the court cited section 271(d) of the Patent Act for the proposition that Xerox had not illegally extended its patent rights by refusing to deal with the ISOs in the derivative market.\textsuperscript{241} However, as discussed above, it is generally understood that the language of section 271(d) was merely meant to codify existing case law dealing with the availability of the tie-in patent misuse defense, not unilateral refusals to deal under section 2.\textsuperscript{242} Next, the court cited its own precedent for the proposition that a patent may confer exclusionary rights in two separate antitrust markets.\textsuperscript{243} This would have been persuasive if not for the fact that: (1) it is Federal Circuit precedent; and (2) the cited passage concerned a jury instruction that again dealt with a tying misuse claim.\textsuperscript{244}

The parts involved in the litigation were covered by patents as component parts of copiers.\textsuperscript{245} Without the copiers, the parts are, in effect, useless. The

\begin{center}
\textsuperscript{236} See supra Part II.B; see also Calkins, supra note 65, at 192-200.
\textsuperscript{237} See supra Part II.
\textsuperscript{238} Kodak, 125 F.3d at 1216.
\textsuperscript{240} Id. at 1327.
\textsuperscript{241} Id. at 1326.
\textsuperscript{242} See supra Part III; see also Kodak, 125 F.3d at 1214 n.7; Calkins, supra note 65, at 197-98.
\textsuperscript{243} In re Indep. Serv. Orgs., 203 F.3d at 1327.
\textsuperscript{244} See B. Braun Med., Inc. v. Abbott Labs., 124 F.3d 1419, 1426-27 (Fed. Cir. 1997).
\textsuperscript{245} See supra Parts III.A & B.
\end{center}
patent rights over such products, therefore, justifiably extend to the primary market for those products, i.e., copiers.246 Thus, both the Federal Circuit and the Ninth Circuit agree that it would be entirely legal and proper for Xerox or Kodak to unilaterally refuse to sell copiers to the defendants or anyone else. However, according to the Supreme Court’s determination in *Kodak v. Image Technical Services*, the aftermarket for parts and service is separate and distinct from that for copiers.247 Even with primary and secondary markets properly established, without more, a refusal to deal in the secondary market would not implicate the antitrust laws.248 The courts have long recognized that a refusal to deal in a competitive market is well within the rights of a patent holder or any other producer, manufacturer, or service provider.249 The antitrust laws are only implicated when, as in ISO and Kodak, there is proof of monopoly power in the derivative market. This is the point at which an innocent refusal to deal becomes anticompetitive behavior within the meaning of section 2.

The Ninth Circuit properly incorporated the realities of a secondary service market in its analysis. As outlined above, the traditional elements of a section 2 claim must be made out before business justifications will be analyzed. The plaintiff must show that the defendant wields sufficient market power in the secondary market and that the monopolist has engaged in anticompetitive conduct before the court will even consider whether there were any legitimate business justifications for that behavior.250 The plaintiff has a heavy initial burden to carry, and still faces the prospect of losing if the defendant can explain its behavior as promoting economic efficiency. Under the *Kodak* rationale, the burden on a plaintiff will be exponentially higher because of an inherent presumption of validity in cases involving patented or copyrighted products. Therefore, the Ninth Circuit instituted a safeguard in the form of an opportunity for the finder of fact to determine whether protection of patents or copyrights was simply a pretext, or excuse, for anticompetitive and exclusionary practices.

The Federal Circuit offered little in the way of affirmative support for its refusal to consider the ISOs’ assertions that Xerox’s copyrights and patents were merely pretext for its anticompetitive behavior.251 The court relied on the First Circuit’s decision in *Data General Corp. v. Grumman Systems*

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246. See supra Part II.B.
251. See Kodak, 125 F.3d at 1216.
Support Corp.\textsuperscript{252} for the proposition that the presumption of legitimacy may be overcome \textit{only} by a showing of fraud in the Patent Office or use of a patent infringement claim to impermissibly gain monopoly power.\textsuperscript{253} The Federal Circuit's incorporation of \textit{Data General} is not altogether misplaced. However, if \textit{Data General} is to be relied upon, that case must be viewed in light of the Supreme Court's decision in \textit{Image Technical Services}. In that case, the Court explicitly stated: "Kodak's willingness to allow self-service casts doubt on its quality claim. In sum, we agree with the Court of Appeals that respondents 'have presented evidence from which a reasonable trier of fact could conclude that Kodak's first reason is \textit{pretextual}."\textsuperscript{254} The Federal Circuit's opinion makes no mention of the above passage. Instead, the court justified its position in favor of virtually blanket immunity by explaining that allowing juries to look for pretext would be hazardous because it would allow them to "second guess the subjective motivation of the copyright holder in asserting" its right to refuse to deal.\textsuperscript{255}

The Federal Circuit's reasoning fails to consider that when judges and juries make a determination of fact, they are often necessarily second guessing the motivations of one party or another. The very reason for having a trier of fact is to wade through the various arguments and, when provided with sufficient information and guidance, to determine which party proved its case. Therefore, there seems to be no hazard in allowing the trier of fact to do what it is supposed to do. As the Supreme Court has indicated, when a patent right is used merely as a pretextual justification of classic anti-competitive behavior, the law should not shield the manufacturer from liability when, but for the patents or copyrights, a Sherman Act violation would be found.

\textit{C. The Federal Circuit’s Decision Works to Frustrate the Enforcement of Antitrust Law and Unjustly Enriches Patent Holders at the Expense of Consumers and Small Business}

The ISOs involved in the litigation against Kodak and Xerox were overwhelmingly small businesses.\textsuperscript{256} For years, they had serviced those manufacturers' copiers and had maintained a competitive atmosphere in the market.\textsuperscript{257} In fact, there was evidence to suggest that consumers in the service

\textsuperscript{252} 36 F.3d 1147 (1st Cir. 1994).
\textsuperscript{253} \textit{In re Indep. Servs. Orgs.}, 203 F.3d at 1329.
\textsuperscript{255} \textit{In re Indep. Serv. Orgs.}, 203 F.3d at 1329.
\textsuperscript{256} Kodak, 125 F.3d at 1201.
\textsuperscript{257} \textit{Id}. 
and part market preferred the ISOs to the manufacturer. The reality of the situation insists that Kodak's refusal to deal in the secondary market was not motivated entirely by a desire to protect its patents. Had Kodak and Xerox been exclusively concerned with protecting their intellectual property, they would not have undertaken a pattern of past sales and licensing of patented parts and manuals to the ISOs in the first instance. In the same respect, if their goal was increased profits, that could have been achieved legally through increasing prices for component parts sold directly to the ISOs or by increasing licensing fees charged to the independent original equipment manufacturers, which would then have been passed on to the ISOs. The only reasonable explanation was that, as the jury in the Kodak district court case found, these explanations were merely pretext. It is self evident that Kodak's and Xerox's intention was to drive the ISOs out of business by depriving them of a source for replacement parts, without which they could not hope to compete in the service market. There was no indication in either of the relevant cases that the ISOs had infringed on the patents involved. Rather, they simply sought to compete on a level playing field in the service market. By denying them this right, the Federal Circuit has ensured a monopoly for the patent holders and has also erected insurmountable entry barriers while condoning anticompetitive behavior.

It stands to reason that the Federal Circuit's holding in ISO will extend to any other market for patented goods, such as those for computers, televisions, and other consumer goods. In such markets, producers may now strangle the service market without fear of antitrust liability. This means that prices for end users may very well go up while the service provided could deteriorate. Without the specter of competitors or possible entry, the producers will be able to charge whatever the market will bear for service and will have little incentive to improve the quality of the service products offered.

The Ninth Circuit's decision carries with it no such deleterious consequences. Patent holders would not be stripped of their inherent rights to exclude in the primary market for their goods. In most cases, those patent holders will not be required to deal with potential customers, even in the secondary market. They will potentially be liable only when they step outside the confines of the competitive framework. As in the Kodak case, patent holders will face liability when they cannot justify their actions—when the

258. Id. "ISOs began servicing Kodak equipment in the early 1980's, and have provided cheaper and better service at times, according to some customers. ISOs obtain parts for repair service from a variety of sources, including, at one time, Kodak." Id.

259. Id.

260. Id. at 1201-02.
only reason for the refusal to deal is to foreclose competition completely. This determination will be a question of fact, properly left to the trier of fact, in most cases a jury. Thus, in only the most blatant cases will patent holders be subjected to liability. This framework neither frustrates the goals of patent law, nor does it discourage innovation. Patent holders will still be able to protect their inventions; however, they will need to be mindful of stepping outside the law. Encouraging such competitive responsibility is what the Ninth Circuit had in mind in the *Kodak* decision, and this, in turn, adds to the harmonization of the patent and antitrust laws.

**D. Possible Solutions**

The dissonance between the circuits on this important subject will undoubtedly lead to uncertainty about the rights of patent holders and those who compete with them and may spur additional litigation. Therefore, a solution must be devised to settle once and for all the question of whether a unilateral refusal to deal by a patent holder in the secondary market for a good is a violation of the law. A definitive solution to this quandary could take two forms: (1) a change to the Patent Act expressly denying antitrust immunity for patent holders who leverage or attempt to foreclose competition in secondary or derivative markets for patented goods; or (2) a Supreme Court decision affirming *Kodak*.

The simplest and most definitive solution to the split between the circuits would be congressional amendment of the Patent Act. Section 271 of the Act currently states that a “patent owner otherwise entitled to relief... shall [not] be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having... (4) refused to license or use any rights to the patent...”\(^{261}\) The Federal Circuit cited this section as support for its contention that monopoly leveraging falls under the antitrust immunity afforded to patent holders.\(^{262}\) The Ninth Circuit disagreed and found that this section did not apply to monopoly leveraging claims.\(^{263}\)

This language has led to extensive confusion over the section’s application to the fact patterns in *Kodak* and *ISO*. Simply adding the words “in the primary market for the patent good” to section 271(d)(4) should end confusion regarding congressional intent. A number of commentators have advanced the idea that this addition would merely embody the original

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\(^{263}\) *See Kodak*, 125 F.3d at 1214 n.7 (stating that although the section protects the core right of a patent holder to exclude others, it does not preclude other antitrust claims such as monopoly leveraging).
congressional intent;\textsuperscript{264} however, expressly stating it in the section will bar a sympathetic court from interpreting the statute otherwise.

Also, the Supreme Court could grant certiorari in a monopoly leveraging case and affirm the Ninth Circuit's decision in \textit{Kodak}. It is likely that if the Court did review a decision similar to that in \textit{Kodak}, the Court would agree with the reasoning therein. The Court has a solid tradition of properly balancing the rights of monopolists with patent holders in regard to leveraging of power in one market to exploit the next. The presumption embodied in the \textit{Kodak} decision properly balanced all relevant considerations. The \textit{Kodak} court considered the patent holder's rights and the needs of a competitive market place and correctly determined that a rebuttable presumption struck an appropriate balance between the two bodies of law. It is therefore unlikely that the Supreme Court would turn its back on such reasoning and instead come down in favor of the Federal Circuit's short-sighted reasoning in \textit{ISO}.

\section*{V. CONCLUSION}

The tensions that exist between antitrust and patent law are bound to continue. However, in order to preserve healthy competition and economic growth, it must be understood that although the patent laws protect inventions, that protection is limited. Patent holders need to know that when they step outside their legislative grant, they will face the potential of antitrust liability. As this Comment has attempted to illustrate, the relevant case law and economic factors necessitate holding patent holders liable for their anticompetitive behavior. When a patent holder uses a sanctioned monopoly position in one market to eliminate competition in another, that patent holder should be on notice that those actions may carry liability with them.

The Ninth Circuit's decision in \textit{Kodak} properly balanced the rights of patent holders with those of competitors under the antitrust laws. Even assuming the pretext analysis advanced by that court, potential plaintiffs will still face an uphill battle, and presumably only the most blatant abuses will result in liability. The Federal Circuit's opinion goes too far to protect patent holders by extending immunity from antitrust laws beyond what Congress intended. There is little reason to extend patent protection beyond its current bounds because too much protection will ultimately frustrate the public policy underlying that protection: the benefit to consumers. In addition, the circuit courts need to be aware that the laws of this nation were intended to extend beyond the protection of patent holders and instead make the consumer the touchstone of a patent law and antitrust analysis. Therefore, Congress or the

\footnote{264. See generally Calkins, \textit{supra} note 65, at 204-16.}
Supreme Court should make it clear that patent holders will be required to compete on a level playing field outside the primary market for their patented and copyrighted intellectual properties.

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