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When Does a Patent Right Become an Antitrust Wrong? Antitrust Liability for Refusals to Deal in Patented Goods

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WHEN DOES A PATENT RIGHT BECOME AN ANTITRUST WRONG? ANTITRUST LIABILITY FOR REFUSALS TO DEAL IN PATENTED GOODS

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I. INTRODUCTION

"[T]he benefit even of limited monopolies is too doubtful to be opposed to that of their general suppression."[1]

"At the border of intellectual property monopolies and antitrust markets lies a field of dissonance yet to be harmonized by statute or the Supreme Court."[2]

[1] The United States antitrust and patent laws share a common goal: to encourage innovation and competition with the ultimate objective of benefiting the nation's consumers.[3] As described in the Sherman Act,[4] the

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[1] V THE WRITINGS OF THOMAS JEFFERSON 47 (Paul Leicester Ford, ed., New York, G. P. Putnam's Sons 1895).

[2] Image Technical Servs., Inc. v. Eastman Kodak Co., 125 F.3d 1195, 1217 (9th Cir. 1997) [hereinafter *Kodak II*].

[3] *See*, *e.g.*, Atari Games Corp. v. Nintendo of Am., Inc., 897 F.2d 1572, 1576 (Fed. Cir. 1990) ("[T]he aims and objectives of patent and antitrust laws may seem, at first glance, wholly at odds. However, the two bodies of law are actually complementary, as both are aimed at encouraging innovation, industry and competition.").

[4] 15 U.S.C. §§ 1-7 (2000).

antitrust laws seek to protect free competition and consumer choice by discouraging monopolistic behavior and other types of anticompetitive conduct.[5]

[2] By comparison, the Patent Act seeks to promote innovation by rewarding patentees with a statutorily protected monopoly right to exclude others from their patented inventions for a limited time.[6] Given that the patent laws grant monopolies while the antitrust laws seek to proscribe them, a question emerges from the tension between the two doctrines: How far may a patent holder extend his patent rights without incurring antitrust liability?

[3] Congress,[7] the courts,[8] and government agencies[9] have recognized the need to strike a reasonable balance between antitrust and patent law in determining how far a patentee may extend his right to exclude others from the use of his patented goods. At present, the Federal and Ninth Circuits are divided on the issue of whether a patentee's refusal to deal in his patented property is a violation of the antitrust laws. This circuit split is the focus of this paper.

[4] Structural shifts in the United States economy have made the promotion and protection of innovation more pressing than ever. In the latter half of the twentieth century, the United States began its evolution away from a nation based primarily on heavy manufacturing,[10] to a nation where firms derive revenue[11] and other less tangible value from their intellectual property.[12]

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[5] *Id.* §§ 1-2.

[6] 35 U.S.C. § 154(a)(1)-(2) (2000).

[7] *See*, *e.g.*, 134 CONG. REC. S14,434 (daily ed. Oct. 4, 1988) (illustrating Congressional concern with interplay between antitrust and patent laws).

[8] *See, e.g.*, Image Technical Servs., Inc. v. Eastman Kodak Co., 125 F.3d 1195, 1216 (9th Cir. 1997) (*Kodak II*).

[9] *See generally* U.S. DEP'T OF JUSTICE & FED. TRADE COMM'N, ANTITRUST GUIDELINES FOR THE LICENSING OF INTELLECTUAL PROPERTY (1995) (containing agency guidance on the overlap and conflict between antitrust and patent laws) [hereinafter 1995 ANTITRUST GUIDELINES].

[10] In 1956, blue-collar workers ceased to make up the majority of the United States workforce for the first time in history. SETH SHULMAN, OWNING THE FUTURE 4 (1999) .

[11] For example, Texas Instruments, one of the world's largest producers of electronics, now generates more revenue from licensing its patents and winning patent infringement cases than from sales of actual products. *Id.* at 5. For a comprehensive discussion of the

[5] In today's economy, the ability of high-technology firms to financially exploit their patented inventions is of paramount importance.[13] Central to a firm's ability to fully exploit its patented products is that firm's right to decide whether to sell or not to sell its products to certain customers.[14] While firms do have a right to choose their customers, this right is not unqualified; a firm's refusal to license or sell products can give rise to antitrust liability in certain situations.[15]

[6] In *Kodak II*, decided in 1997, the Ninth Circuit determined that a patentee who refuses to license his patented invention to others without legitimate business justifications for doing so has violated antitrust law.[16] In 2000, the Federal Circuit came to the opposite conclusion in *CSU, L.L.C. v. Xerox Corp.*, and held that a patentee who does not violate the patent laws may, regardless of his business justifications, refuse to license or sell his patented invention without incurring antitrust liability.[17] The opposing results reached in the *Kodak II* and *Xerox* cases highlight the tension between the antitrust and patent laws as courts struggle with the question of whether patent holders may exercise their patent rights free of antitrust limitation.

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financial and strategic benefits that firms can secure through patent licensing, see KEVIN G. RIVETTE & DAVID KLINE, REMBRANDTS IN THE ATTIC: UNLOCKING THE HIDDEN VALUE OF PATENTS (2000).

[12] Some studies demonstrate positive correlations between a firm's patent activity and other indicators of that firm's economic performance, including profitability and stock prices. MARYANN P. FELDMAN ET AL., THE ECONOMICS OF SCIENCE AND TECHNOLOGY: AN OVERVIEW OF INITIATIVES TO FOSTER INNOVATION, ENTREPRENEURSHIP, AND ECONOMIC GROWTH 56-57 (2002).

[13] By one account, intellectual property comprises two-thirds of the market value of United States corporations. Jenna Greene, *Patent Office at Center Stage*, NAT'L L. J., Jan. 15, 2001, at B8.

[14] In *Aspen Skiing Co. v. Aspen Highlands Skiing Corp.*, the Supreme Court noted that "[t]he absence of a duty to transact business with another firm is . . . the counterpart of the independent businessman's cherished right to select his customers and his associates." 472 U.S. 585, 601 (1985) [hereinafter *Aspen Skiing II*].

[15] *E.g.*, *id.* (reiterating that a refusal to deal with competitors can give rise to antitrust liability where the refusal is not supported by legitimate business justifications).

[16] Image Technical Servs., Inc. v. Eastman Kodak Co., 125 F.3d 1195, 1218 (9th Cir. 1997) (*Kodak II*).

[17] CSU, L.L.C. v. Xerox Corp., 203 F.3d 1322, 1328 (Fed. Cir. 2000).

[7] By examining *Kodak II*, *Xerox*, and other related cases and statutes, this paper will describe the current legal analyses courts apply to refusals to deal in patented property.[18] This paper will also compare and critique several recent appellate decisions concerning patentees' refusals to deal in their patented goods.[19] Finally, this paper will conclude with a summary of the current state of antitrust and patent law as they each apply to a party's refusal to license intellectual property to competitors.[20] That section will also identify the specific issues that the courts and the legislature should resolve in order to ensure a consistent approach to future cases involving refusals to deal in patented goods.[21]

II. Refusals to Deal in Patented and Non-Patented Goods

A. Sections 1 and 2 of the Sherman Act and Refusals to Deal

[8] Created to protect unrestrained competition, Congress designed the Sherman Act to preserve consumer choice and promote efficiency in the United States economy.[22] Justice Black described the goals of the Sherman Act in the following way:

> The Sherman Act was designed to be a comprehensive charter of economic liberty aimed at preserving free and unfettered competition as the rule of trade. It rests on the premise that the unrestrained interaction of competitive forces will yield the best allocation of our economic resources, the lowest prices, the highest quality and the greatest material progress . . . ."[23]

[18] *See infra* Part II.B.

[19] *See infra* Part III.

[20] *See infra* Part IV.

[21] *Id.*

[22] *See generally* Carole A. Casey, Note, *The Rule of Reason Analysis of Dual Distribution Systems: Does it Further the Purposes of the Sherman Act?*, 29 B.C. L. REV. 431 (1988).

[23] N. Pac. Ry. Co. v. United States, 356 U.S. 1, 4 (1958).

[9] Under § 1 of the Sherman Act, any "contract, combination . . ., or conspiracy, in restraint of trade or commerce" is illegal.[24] Section 1 of the Sherman Act applies by definition to multiple-firm conduct, but the Supreme Court has found that certain acts of individual firms, such as "tying" the sale of one good to the purchase of another,[25] can constitute a violation of § 1.[26] For example, a patentee who commits a "tying" by refusing to deal in his patented product unless a buyer purchases a second, separate product, from the patentee violates § 1 of the Sherman Act.[27]

[10] By definition, § 2 of the Sherman Act applies to single-firm conduct and criminalizes both actual monopolization and attempts to monopolize.[28] A patentee who uses his monopoly patent rights in one product in an effort to secure a monopoly position in a separate product may be acting in violation of § 2.[29] To sustain a claim of monopolization under § 2, a plaintiff must prove two elements: (1) the defendant has "possession of monopoly power in the relevant market,"[30] and (2) the defendant has engaged in "the willful acquisition or maintenance of that [monopoly] power as distinguished from growth or development as a consequence of a superior product, business acumen, or historic accident."[31]

[24] 15 U.S.C. § 1 (2000); *see also N. Pac. Ry. Co*., 356 U.S. at 5 (discussing conduct commonly associated with violations of § 1 of the Sherman Act, including: price fixing, group boycotts, and group agreements to restrict output).

[25] *See generally* Int'l Salt Co. v. United States, 332 U.S. 392 (1947) (explaining that tying occurs when a firm with market power in a particular product forces buyers of that product to also purchase another product in a separate, often unrelated market).

[26] *See*, *e.g.*, *N. Pac. Ry. Co.*, 356 U.S. at 7 (finding a § 1 violation where a landowner tied a land lease to the purchase of services from the landowner's separate shipping business).

[27] Eastman Kodak Co. v. Image Technical Servs., 504 U.S. 451, 461-62 (1992) [hereinafter *Kodak I*].

[28] 15 U.S.C. § 2 (2000) ("Every person who shall monopolize or attempt to monopolize . . . shall be deemed guilty of a felony.").

[29] Image Technical Servs., Inc. v. Eastman Kodak Co., 125 F.3d 1195, 1216 (9th Cir. 1997) (*Kodak II*) (discussing how monopolists exploit their positions to gain monopolies in other markets).

[30] *Kodak I*, 504 U.S. at 481 (quoting United States v. Grinnell Corp., 384 U.S. 563, 570-71 (1966)); *see also* United States v. E.I. du Pont de Nemours & Co., 351 U.S. 377, 391 (1956) (defining "monopoly power" as "the power to control prices or exclude competition").

[31] *Kodak I*, 504 U.S. at 481.

[11] To prove the monopoly power element of a § 2 claim, an antitrust plaintiff must demonstrate that the defendant has a dominant market share as well as the ability to control prices and exclude competition in the relevant market.[32] According to the Supreme Court, patent holders have monopoly power in the market for their products.[33] A plaintiff must also show that there are barriers to entry into the relevant market;[34] such barriers allow a monopolist to maintain his market share without competition from new market entrants.[35]

[12] To satisfy the second requirement of a § 2 claim—that a defendant has unfairly exercised or attempted to exercise monopoly power—a plaintiff must show that the alleged monopolist used his monopoly power "'to foreclose competition, to gain a competitive advantage, or to destroy a competitor.'"[36] A refusal to sell or license a product in order to leverage or extend monopoly power into a separate market for a separate product may violate § 2.[37] If a plaintiff alleges that a monopolist engaged in such a practice, the monopolist must demonstrate a legitimate business justification for his anticompetitive activity.[38] Examples of acceptable business justifications for refusals to deal include: maintaining quality

[32] *Id.* (citing *E.I. du Pont de Nemours & Co.*, 351 U.S. at 391).

[33] *E.g.*, Jefferson Parish Hosp. Dist. No. 2 v. Hyde, 466 U.S. 2, 16 (1984) (finding that "it is fair to presume that the inability to buy the product elsewhere gives the [patent holder] market power").

[34] *See* United States v. Microsoft Corp., 253 F.3d 34, 56 (D.C. Cir. 2001) (describing an example of a barrier to entry as a market in which would-be competitors must make a large capital investment in order to participate).

[35] *Id*. at 51.

[36] *Kodak I*, 504 U.S. at 482-83 (quoting United States v. Griffith, 334 U.S. 100, 107 (1948)).

[37] *See, e.g.*, Image Technical Servs., Inc. v. Eastman Kodak Co., 125 F.3d 1195, 1217-18 (9th Cir. 1997) (*Kodak II*); Alaska Airlines, Inc. v. United Airlines, Inc., 948 F.2d 536, 546-47 (9th Cir. 1991).

[38] *See, e.g.*, LePage's Inc. v. 3M, 324 F.3d 141, 163 (3d Cir. 2003) (en banc) (requiring an accused monopolist to demonstrate a business-related justification for anticompetitive conduct to avoid antitrust liability under § 2); Aspen Skiing Co. v. Aspen Highlands Skiing Corp., 472 U.S. 585, 605 (1985) (*Aspen Skiing II*) (requiring an explanation for ski lift owner's exclusionary actions to avoid antitrust liability).

control,[39] controlling inventory costs,[40] and the desire to exclude others from one's intellectual property.[41]

[13] The Supreme Court has developed several analyses to find whether a refusal to deal with competitors is an antitrust violation. The first of these is the "intent" analysis articulated in *United States v. Colgate & Co*.[42] This analysis requires that a court scrutinize a monopolist's decision to refuse to deal with its competitors by looking for any predatory intent to perpetuate the monopolist's controlling market position.[43]

[14] A second limit on a monopolist's right to refuse to deal with competitors arises where a monopolist in a given market controls a commodity or service that is crucial to the ability of all other participants in that market to compete; courts refer to such a commodity as an "essential facility."[44] Where courts find that a monopolist has refused access to an essential facility, the monopolist must give competitors access to that facility on a reasonable basis.[45]

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[39] *See Kodak I*, 504 U.S. at 483.

[40] *Id.* at 484.

[41] *See, e.g.*, *Kodak II*, 125 F.3d at 1219; Data Gen. Corp. v. Grumman Sys. Support Corp., 36 F.3d 1147, 1187 (1st Cir. 1994).

[42] United States v. Colgate & Co., 250 U.S. 300 (1919).

[43] *See id*. at 307. In *Colgate*, the Supreme Court noted that a monopolist was free to refuse to deal with any customer, but could not do so in an intentional effort to establish or maintain a monopoly. *Id*. In *Eastman Kodak Co. v. Southern Photo Materials Co.*, the Court determined that a corporation's decision to refuse to sell products to a competitor was not motivated by anything other than an intent to create a monopoly. 273 U.S. 359, 375 (1927).

[44] MCI Communications Corp. v. AT&T Co., 708 F.2d 1081, 1132 (7th Cir. 1983). The Seventh Circuit has created a widely-accepted test to determine the existence of an essential facility: (1) a monopolist controls the facility in question; (2) other market participants cannot reasonably duplicate the facility; (3) the monopolist unreasonably denies access to the facility to its competitors; and (4) shared use of the facility is feasible. *Id*. at 1132-33.

[45] Aspen Highlands Skiing Corp. v. Aspen Skiing Co., 738 F.2d 1509, 1519 (10th Cir. 1984), *aff'd*, 472 U.S. 585 (1985) [hereinafter *Aspen Skiing I*]. Courts have imposed some limitations on the scope of the essential facilities doctrine. *See*, *e.g.*, Cavalier Tel., LLC v. Verizon Va., Inc., 330 F.3d 176, 188-89 (4th Cir. 2003) (examining the relationship of the Telecommunications Act of 1996 with the Sherman Act); Interface Group, Inc. v. Mass. Port Auth., 816 F.2d 9, 12 (1st Cir. 1987) (noting that a firm need not license an essential facility to a non-competitor).

[15] In recent antitrust cases, the Supreme Court has favored an analysis of a monopolist's business justifications for his refusal to deal over consideration of the monopolist's intent or whether the monopolist possessed an essential facility.[46] The following two cases illustrate the Court's focus on business justifications for an antitrust defendant's refusal to deal.

1. Aspen Skiing

[16] The first of these two cases, *Aspen Highlands Skiing Corp. v. Aspen Skiing Co*., involved a claim of monopolization by the plaintiff, Highlands, against the defendant, Ski Co.[47] Highlands owned one of the four ski resorts in Aspen, Colorado and Ski Co. owned the remaining three.[48] The basis of Highlands's complaint in *Aspen Skiing* was that Ski Co. had discontinued its practice of cooperating with Highlands in issuing an interchangeable six-day pass that could be used on any of the four Aspen-area ski facilities because Ski Co. was dissatisfied with its share of the revenues from the four-facility pass.[49]

[17] After discontinuing the joint Highlands-Ski Co. pass, Ski Co. (1) replaced the four-facility pass with a pass that could only be used at one of Ski Co.'s three facilities and (2) took additional steps to prevent Highlands from marketing its own multi-area ticket package to replace the joint offering.[50] Unable to offer a convenient all-Aspen ticket, Highlands "bec[ame] a day ski area in a destination resort," and suffered a steady decline in its share of the market for Aspen downhill ski services.[51] Highlands then filed a complaint in federal court alleging that Ski Co. had monopolized the market for Aspen ski services in violation of § 2 of the

[46] *See*, *e.g.*, Eastman Kodak Co. v. Image Technical Servs., 504 U.S. 451, 483 (1992) (*Kodak I*).

[47] Aspen Highlands Skiing Corp. v. Aspen Skiing Co., 472 U.S. 585 (1985) (*Aspen Skiing II*).

[48] *Aspen Skiing I*, 738 F.2d at 1512.

[49] *Aspen Skiing II*, 472 U.S. at 592-93.

[50] *Id.* at 593. Specifically, "Ski Co. discontinued the [three]-day, [three]-area pass for the 1978-1979 season, and also refused to sell Highlands any lift tickets [to ski areas owned by Ski Co.], either at the tour operator's discount or at retail." *Id.* (citations omitted).

[51] *Id.* at 595. Highlands' share of overall Aspen ski revenues declined from 20.5% in 1976-1977 to 11% in 1980-1981. *Id* at 595-96.

Sherman Act.[52] A jury found for Highlands,[53] and the Tenth Circuit upheld the verdict.[54] The Tenth Circuit determined (1) that the multi-resort ticket was an essential facility that Ski Co. was obligated to market together with Highlands, and (2) that the jury properly found that Ski Co.'s purpose for refusing to market the four-area ticket was motivated by the intent to "'create or maintain a monopoly.'"[55]

[18] On appeal, the Supreme Court unanimously affirmed the Tenth Circuit and stated that while a firm with monopoly power like Ski Co. had "no duty to engage in joint marketing with a competitor," a monopolist's right to refuse to deal was not unqualified.[56] Declining to employ either the intent or essential facilities analyses,[57] the Court focused on the objective evidence of the case and found that Ski Co. had violated § 2 because the firm had failed to provide any legitimate business justification for its refusal to deal with Highlands.[58]

2. Kodak I

[19] In the second of these two cases, *Eastman Kodak Co. v. Image Technical Services, Inc.* ("*Kodak I*"), the Court again considered a monopolist's business justifications where a plaintiff claimed that the monopolist's refusal to deal was a violation of the antitrust laws.[59] In the

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[52] *Id.* at 595.

[53] *Id.*

[54] Aspen Highlands Skiing Corp. v. Aspen Skiing Co., 738 F.2d 1509, 1527-28 (10th Cir. 1984) (*Aspen Skiing I*).

[55] *Id.* at 1520-21 (quoting United States v. Colgate & Co., 250 U.S. 300, 307 (1919)). The Tenth Circuit noted that Ski Co.'s refusal to cooperate with Highlands made Ski Co. "the only business in Aspen that could offer a multi-day multi-mountain skiing experience" and that there was no valid business reason for refusing to accept the vouchers included in Highlands' Adventure Pack. *Id.* at 1521-22.

[56] *Aspen Skiing II*, 472 U.S. at 600-01.

[57] *Id.* at 611 n.44.

[58] *Id.* at 608. The Court also noted that Ski Co. had "elected to make an important change in a pattern of distribution that had originated in a competitive market and had persisted for several years," but that Ski Co. could not provide any legitimate business justification for that change. *Id.* at 603-05. The Court concluded by noting that while Ski Co.'s actions were not necessarily "'bold, relentless, and predatory,'" the evidence in the case supported the jury's conclusion that Ski Co. had "made a deliberate effort to discourage its customers from doing business with [Highlands]." *Id.* at 610 (quoting Lorain Journal Co. v. United States, 342 U.S. 143, 149 (1951)).

[59] Eastman Kodak Co. v. Image Technical Servs., Inc., 504 U.S. 451 (1992) (*Kodak I*).

1980s, the Eastman Kodak Company sold photocopier equipment into a highly competitive market, competing with IBM, Canon, and Xerox.[60] Kodak provided replacement parts and service for its equipment and either manufactured these replacement parts itself or purchased necessary parts from independent original-equipment manufacturers ("OEMs").[61]

[20] In the early 1980s, a number of so-called independent service organizations ("ISOs") emerged to address the service market for Kodak equipment, competing directly with Kodak for the opportunity to service Kodak photocopier equipment.[62] The ISOs obtained the replacement parts they needed from either Kodak or OEMs.[63] Kodak began to restrict the ISOs' access to Kodak's replacement parts as the ISOs grew more competitive.[64] To further hinder the ISOs' entry into the Kodak copier service market, Kodak stopped selling replacement parts to the ISOs altogether in 1986, and convinced the OEMs not to sell replacement parts to the ISOs.[65] Because the ISOs could no longer service Kodak equipment without a consistent supply of replacement parts, Kodak's policy effectively deprived the ISOs of their ability to compete with Kodak for equipment service contracts.[66]

[21] In 1987, the ISOs filed an action against Kodak alleging that Kodak (1) had unlawfully tied the sale of Kodak photocopier equipment to the sale of service for that equipment, and (2) monopolized or attempted to monopolize the sale of service for Kodak photocopiers by unfairly refusing to sell or license its replacement parts to the ISOs.[67] The district court granted summary judgment to Kodak without a hearing,[68] and after

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[60] Image Technical Servs., Inc. v. Eastman Kodak Co., 125 F.3d 1195, 1200 (9th Cir. 1997) (*Kodak II*).

[61] *Id*.

[62] *Id.* at 1201. Some customers believed the ISOs' service to be "cheaper and better" than Kodak's service. *Id.*

[63] *Id.*

[64] *Id.*

[65] *Id*.

[66] *Id.*

[67] *Id.*

[68] Image Technical Servs., Inc. v. Eastman Kodak Co., No. C-87-1686-WWS, 1988 U.S. Dist. LEXIS 17218, at *12 (N.D. Cal. Apr. 15, 1988).

the Ninth Circuit reversed the district court,[69] Kodak appealed to the Supreme Court. The Supreme Court affirmed the Ninth Circuit's denial of summary judgment, finding that there were sufficient factual disputes between Kodak and the ISOs to create genuine issues of material fact on the ISOs' tying and monopolization claims.[70]

[22] Addressing the ISOs' § 1 claim that Kodak had tied the sale of its equipment to the sale of service, the Supreme Court determined that questions of fact existed as to (1) whether the parts and service markets were separate,[71] (2) whether Kodak tied the sale of parts and the sale of service together,[72] and (3) whether Kodak had sufficient market power in the tying market for parts to force parts buyers to also purchase services.[73] Turning its attention to the ISOs' § 2 claim of monopolization, the Court first found that the ISOs had presented sufficient evidence to prove that Kodak had clear monopoly power in the market for replacement parts.[74] After establishing the likely existence of market power, the Court began its analysis of the second prong of the ISOs' § 2 claim that Kodak used its monopoly power in the replacement parts market "'to foreclose competition, to gain a competitive advantage, or to destroy a competitor'" in the service market.[75]

[23] First, the Court cited to *Aspen Skiing* for the proposition that "a firm can refuse to deal with its competitors. But such a right is not absolute; it exists *only if there are legitimate competitive reasons for the refusal*."[76] The Court then noted that because the ISOs had presented evidence

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[69] Image Technical Servs., Inc. v. Eastman Kodak Co., 903 F.2d 612, 621 (9th Cir. 1990). The Court of Appeals for the Ninth Circuit found that the ISOs had come forward with adequate evidence to raise sufficient factual disputes concerning the validity of Kodak's claimed business justifications for its policies. *Id*. at 618–20.

[70] Eastman Kodak Co. v. Image Technical Servs., Inc., 504 U.S. 451, 464–65, 477–79, 481, 483–86 (1992) (*Kodak I*).

[71] *Id*. at 462–63.

[72] *Id*. at 463.

[73] *Id*. at 464–78.

[74] *Id*. at 481. The ISOs introduced evidence at trial showing that Kodak controlled nearly 100% of the parts market and 80% to 95% of the service market, and that Kodak's customers did not have easily obtainable substitutes for Kodak's products or repair services. *Id*.

[75] *Id*. at 482–83 (quoting United States v. Griffith, 334 U.S. 100, 107 (1948)).

[76] *Id.* at 483 n.32 (citing Aspen Highlands Skiing Corp. v. Aspen Skiing Co., 472 U.S. 585, 602-05 (1985) (*Aspen Skiing II*)) (emphasis added).

alleging that Kodak exercised exclusionary action to maintain its monopoly on replacement parts and used its control over the replacement parts market to strengthen its monopoly share of the copier service market, Kodak's liability turned on whether "'valid business reasons'" could explain Kodak's actions.[77] While Kodak advanced three business justifications for its refusal to deal,[78] the Court highlighted evidence that rebutted each of those justifications.[79] Based on the factual questions this evidence raised about the "validity and sufficiency" of Kodak's claimed business justifications,[80] the Court confirmed that the trial court's grant of summary judgment was inappropriate and remanded the case for trial.[81]

B. Recent Appellate Cases: Refusals to Deal in Patented Goods

[24] While the Supreme Court now routinely examines defendants' business justifications for refusals to deal in non-patented goods,[82] less consistency exists in the appellate courts' approaches to refusals to deal in patented goods. Three recent appellate court cases—*Image Technical Services, Inc. v. Eastman Kodak Co.* ("*Kodak II*"), *Intergraph Corp. v. Intel Corp.* ("*Intergraph*"), and *CSU, L.L.C. v. Xerox Corp.* ("*Xerox*")—highlight the different analyses and conclusions appellate courts have reached in evaluating refusals to deal in patented property.

1. Kodak II

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[77] *Id*. at 483 (quoting *Aspen Skiing II*, 472 U.S. at 605).

[78] Kodak's proffered justifications were: "'(1) to promote interbrand equipment competition by allowing Kodak to stress the quality of its service; (2) to improve asset management by reducing Kodak's inventory costs; and (3) to prevent ISOs from free-riding on Kodak's capital investment in equipment, parts, and service.'" *Id.* (quoting Petitioner's Brief at 6).

[79] *Id*. at 483–86. The Court noted that while Kodak claimed that preventing its customers from using ISOs helped Kodak to maintain the best-quality service for its equipment, the ISOs presented evidence that some customers believed that service rendered by ISOs was superior to service rendered by Kodak, thereby raising a genuine issue of fact. *Id.* at 483–84. The Court then found that the second justification, reducing inventory costs, failed to explain Kodak's refusal to sell replacement parts to the ISOs. *Id*. at 484–85. Finally, the Court observed that since the ISOs had invested substantially in the service market but not the equipment and parts market, Kodak's third justification would unlawfully require the ISOs to simultaneously enter two markets. *Id*. at 485.

[80] *Id.* at 483.

[81] *Id.* at 486.

[82] *See generally, e.g*., Verizon Communications Inc. v. Law Offices of Curtis V. Trinko, LLP, 540 U.S 398 (2004); NYNEX Corp. v. Discon, Inc., 525 U.S. 128 (1998).

[25] After the Supreme Court denied Kodak's motion for summary judgment in *Kodak I* and remanded the case for trial,[83] a jury found that Kodak had violated § 2 of the Sherman Act and awarded the plaintiff ISOs $71.8 million in trebled damages.[84] In addition to the jury's damage award, the district court issued a ten-year injunctive order requiring Kodak to sell all replacement parts and necessary technical documents to ISOs on reasonable terms.[85] Appealing to the Ninth Circuit, Kodak raised the issue of its patent rights, arguing that because patent holders have a right to refuse to license their patented products, Kodak's refusal to license its patented replacement parts to the ISOs was not illegal.[86] Affirming the district court and rejecting Kodak's arguments, the Ninth Circuit held that a monopolist's refusal to license his patented product in order to exclude competition for a separate product in a separate market could qualify as exclusionary conduct under § 2 of the Sherman Act.[87]

[26] In its analysis, the *Kodak II* court first considered whether Kodak had market power in the relevant market.[88] Kodak argued that the market for each individual component part itself was a separate market because no two parts were interchangeable, thus creating thousands of individual parts markets and requiring the ISO plaintiffs to demonstrate their inability to obtain each of these individual replacement parts.[89] The court disagreed with Kodak and found that the relevant market consisted of all

[83] See *supra* Part II.A.2 for a discussion of *Kodak I*.

[84] Image Technical Servs., Inc. v. Eastman Kodak Co., 125 F.3d 1195, 1201 (9th Cir. 1997) (*Kodak II*). The jury considered only the ISOs' § 2 monopolization claim in assessing damages; the ISOs withdrew their § 1 conspiracy and tying claims before closing arguments. *Id.*

[85] *Id.* at 1201-02.

[86] *Id.* at 1214. Kodak disputed a jury instruction which stated that business conduct that is immune to antitrust liability "'does not refer to ordinary means of competition, like offering better products or services, exercising superior skill or business judgment, utilizing more efficient technology, or exercising natural competitive advantages.'" *Id.* (quoting Jury Instruction No. 28). In formulating this jury instruction, the district court had rejected Kodak's proposal to include "'exercising lawful patents and copyrights' amongst the list of non-exclusionary" business practices included in the jury instruction. *Id.*

[87] *See id.* at 1209.

[88] *Id.* at 1202-03.

[89] *Id.* at 1203.

replacement parts for Kodak copiers.[90] Finding that there were significant barriers to entry into the parts market, the court found that Kodak had monopoly power in the market for replacement Kodak parts.[91]

[27] Next, the court examined the second element of the ISOs' § 2 claim: whether Kodak had used its monopoly power "'to foreclose competition, to gain a competitive advantage, or to destroy a competitor.'"[92] Kodak argued that the only basis for liability in the context of a monopolist's refusal to deal arose under the essential facilities doctrine, in which a monopolist's refusal to grant access to a product or service eliminates competition in a downstream market.[93] Declining to apply the essential facilities doctrine, the Ninth Circuit determined that a refusal to deal was unlawful unless supported by "a legitimate business justification."[94]

[28] The court then considered whether Kodak's exercise of its patent rights could form such a legitimate business justification, noting that the question it was addressing—whether a monopolist's refusal to sell or license a patented product creates antitrust liability in the context of a § 2 monopoly leveraging claim—was one of first impression.[95] Acknowledging the public policy underlying the limited monopoly granted to patent holders, the court recognized that patentees normally have the right to refuse to license or sell their patented work.[96] At the same time, the court also recognized that a patentee's right to exclude others from their patented property was not unlimited in scope and cited to a footnote from the Supreme Court's opinion in *Kodak I* for the proposition that a patentee may not "'exploit[] his dominant position in one market to expand his empire into the next.'"[97] The *Kodak II* court

[90] *Id.*

[91] *Id.* at 1206-07.

[92] *Id.* at 1208 (quoting Eastman Kodak Co. v. Image Technical Servs., 504 U.S. 451, 482-83 (1992) (*Kodak I*)).

[93] *Id.* at 1209.

[94] *Id.*

[95] *Id.* at 1214.

[96] *Id.* at 1215. The Ninth Circuit stated that it had not found any reported cases where a court imposed liability for a unilateral refusal to sell or license patented property. *Id.* at 1216.

[97] *Id.* at 1215 (quoting *Kodak I*, 504 U.S. at 480 n.29). The Ninth Circuit interpreted the Supreme Court's statement in *Kodak I* that "power gained through some natural advantage such as a patent . . . can give rise to liability if 'a seller exploits his dominant position in one market to expand his empire into the next,'" 504 U.S. at 480 n.29 (quoting

then concluded that a monopolist's desire to exclude competitors from his patented property could be a presumptively valid business justification.[98] A plaintiff could rebut this presumption of validity by showing (1) that the patent had been unlawfully acquired or (2) that the monopolist's desire to exclude competitors was merely a pretext used to conceal anticompetitive conduct.[99] Applying this analysis to the facts of the case, the Ninth Circuit concluded that although Kodak's desire to exclude others from its patented products was a presumptively valid business justification, the jury had properly concluded that Kodak's proffered business justifications were pretextual.[100]

[29] In its opinion, the *Kodak II* court recognized the importance of properly defining the scope of Kodak's patent protection and the scope of the relevant antitrust market for Kodak's patented goods.[101] First, the *Kodak II* court found that parts and service were separate markets for antitrust purposes.[102] The court next noted that the critical inquiry in the case was whether the service market fell within the scope of Kodak's patent grant.[103] If the scope of the patent grant for Kodak's patented parts included only the antitrust market for those parts and did not also encompass the antitrust market for service, Kodak's refusal to sell its patented parts in order to dominate the separate service market would fall outside the scope of its patent grant and would therefore be illegal under § 2 of the Sherman Act.[104] If, alternatively, the scope of Kodak's parts patent included both the parts market *and* the service market, then

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Times-Picayune Publ'g Co. v. United States, 345 U.S. 594, 611 (1953)), to mean that "the [Supreme Court] supposed that intellectual property rights do not confer an absolute immunity from antitrust claims." *Kodak II*, 125 F.3d at 1216.

[98] *Kodak II*, 125 F.3d at 1218 (quoting Data Gen. Corp. v. Grumman Sys. Support Corp., 36 F.3d 1147, 1187 (1st Cir. 1994)).

[99] *Id.* at 1219.

[100] *Id.* at 1219-20. The court noted (1) that Kodak's manager stated that protection of patented items did not motivate his decision not to sell replacement parts to the ISOs and (2) that Kodak's blanket refusal to license included both patented and unpatented parts. *Id.* at 1219.

[101] *Id.* at 1216-17.

[102] *Id.* at 1217. In *Kodak I*, the Supreme Court determined that parts and service were separate markets for antitrust purposes. Eastman Kodak Co. v. Image Technical Servs., 504 U.S. 451, 463 (1992).

[103] *Kodak II*, 125 F.3d at 1217.

[104] *See id.*

Kodak's conduct would be within the scope of its patent rights and would not violate § 2 of the Sherman Act.[105]

[30] Ultimately, the Ninth Circuit concluded that patent law—and not antitrust law—should determine the breadth of the patent grant and that Kodak's refusal to deal in its patented parts unfairly extended its patent into the service market.[106] The *Kodak II* analysis, which effectively placed limits on a patent holder's right to exclude others from their patented goods, was explicitly criticized three years later by the Federal Circuit in that court's *Xerox* decision.[107]

2. Intergraph

[31] Intel is one of the world's largest manufacturers of microprocessors. Intel sells its processors to producers of various computer-based devices, including computer graphics workstations; these producers are known as original-equipment manufacturers ("OEMs").[108] Beginning in 1987, one of these OEMs, Intergraph Corporation, manufactured computer workstations using an Intergraph-owned patented technology known as "Clipper."[109] In 1993 Intergraph stopped using Clipper microprocessors and switched to an Intel-produced technology as a replacement.[110] Intel then "designated Intergraph as a 'strategic customer'" and began to provide Intergraph with proprietary products and technical documents.[111]

[32] In 1996, Intergraph charged several Intel OEM customers with infringing its Clipper technology, and these OEMs sought indemnification from Intel.[112] After Intel and Intergraph failed to resolve their dispute through negotiation, Intel ceased supplying Intergraph with the technical documentation and other benefits that Intel had previously provided to Intergraph.[113] Intergraph then sued Intel for infringing the Clipper patents

[105] *See id.*

[106] *See id.* at 1220.

[107] CSU, L.L.C. v. Xerox Corp., 203 F.3d 1322, 1327 (Fed. Cir. 2000).

[108] Intergraph Corp. v. Intel Corp., 195 F.3d 1346, 1349 (Fed. Cir. 1999).

[109] *Id.* at 1349-50.

[110] *Id*. at 1350.

[111] *Id.*

[112] *Id.*

[113] *Id.*

while also alleging that Intel's refusal to license its technology to Intergraph was a violation of the antitrust laws.[114] Intergraph claimed that it could no longer participate in the competitive workstation business without access to Intel's products.[115]

[33] The district court first concluded that Intel had tried to assert its monopoly power by "attempt[ing] to coerce Intergraph into relinquishing its intellectual property rights as a condition of Intel" continuing to supply chips to Intergraph.[116] Applying the essential facilities doctrine, the district court found that Intel's processor units and technical support were essential facilities for participants in the graphics workstation market.[117] The district court then held that Intel had used its monopoly power in the processor market to unfairly leverage its own business into Intergraph's graphics workstation market.[118]

[34] On appeal, the Federal Circuit reversed the district court and held that Intel was under no obligation to license its patented inventions to Intergraph.[119] The Federal Circuit stated that:

> "the owner of proprietary information has no obligation to provide it, whether to a competitor, customer, or supplier. Precedent makes clear that a customer who is dependent on a manufacturer's supply of a component can not on that ground force the producer to provide it; there must also be an anticompetitive aspect invoking the Sherman Act [to warrant imposition of antitrust liability]."[120]

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[114] *Id.*

[115] *Id.* at 1351.

[116] Intergraph Corp. v. Intel Corp., 3 F. Supp. 2d 1255, 1276 (N.D. Ala. 1998).

[117] *Id.* at 1278.

[118] *Id.*

[119] *Intergraph Corp.*, 195 F.3d at 1362. The Federal Circuit noted that no court had ever imposed antitrust liability for a "'unilateral refusal to sell or license a patent or copyright.'" *Id.* (quoting Image Technical Servs., Inc. v. Eastman Kodak Co., 125 F.3d 1195, 1216 (9th Cir. 1997) (*Kodak II*)).

[120] *Id.* at 1363.

The court noted that while such a situation was present in *Kodak I* and *Kodak II*, where Kodak had attempted to limit competition in the copier service market by leveraging its monopoly power in the parts market, Intel did not seek to leverage its monopoly power in the processor market into Intergraph's workstation market.[121] The Federal Circuit then concluded that because Intel and Intergraph did not compete with each other, Intel's refusal to supply its proprietary microprocessors to Intergraph was not an antitrust violation.[122]

3. Xerox

[35] In *Xerox*, the Federal Circuit considered a case factually similar to *Kodak I* and *Kodak II*.[123] Xerox, a major manufacturer of photocopier and imaging equipment and provider of repair services for those products, instituted a policy under which the company would not sell its patented replacement parts to its ISO competitors in the photocopier service market unless those competitors were also end-users of Xerox copiers.[124] The

[121] *Id.* (citing Eastman Kodak Co. v. Image Technical Servs., 504 U.S. 451, 455, 458 (1992) (*Kodak I*)).

[122] *Id.* The court noted that Intel and Intergraph did not compete in the microprocessor market because Intergraph had abandoned production of its Clipper processors several years before the filing of its case against Intel. *Id.* at 1355. The court also noted that Intel's actions would only affect Intergraph's ability to succeed in the highly competitive workstation market; an action by Intel that would affect only a single competitor in that market did not do enough damage to that market as a whole to rise to the level of an antitrust violation. *Id.* at 1359-60. In a parallel proceeding, the FTC filed an action against Intel in 1998, alleging that Intel was a monopolist and had violated § 2 of the Sherman Act by denying advance information about its products to customers that had previously sued Intel for patent infringement. *In re* Intel Corp., 128 F.T.C. 213, at *6-7 (1998). The FTC and Intel settled the dispute with a consent order under which Intel could initially decide whether or not to provide information to new customers and could terminate its relationship with a customer that failed to protect Intel's intellectual property. Under the consent order, Intel could not discriminate among existing customers on the grounds that Intel was involved in an intellectual property dispute with that customer. Press Release, FTC, FTC Accepts Settlement of Charges Against Intel (Mar. 17, 1999) *at* http://www.ftc.gov.opa/03/intelcom.htm.

[123] CSU, L.L.C. v. Xerox Corp., 203 F.3d 1322 (Fed. Cir. 2000).

[124] *Id.* at 1324. Xerox's exclusionary policy initially applied only to Xerox's six most successful competitors in the copier service market but later included all of Xerox's service market competitors. *Id.* Along with its policy to refuse to sell parts except to end-users of Xerox equipment, Xerox also implemented an on-site verification practice in which Xerox representatives would visit customer sites to confirm that the Xerox parts that customers or ISOs had purchased were actually for those purchasers' end-use. *Id.*

ISOs filed suit against Xerox, alleging that Xerox's policy unlawfully extended the company's monopoly in the market for Xerox replacement parts into the market for Xerox copier service and therefore violated the Sherman Act.[125] The district court granted summary judgment for Xerox, finding that a patent holder's refusal to license his patented products was not a violation of the antitrust laws even where that refusal to license impacted competition in more than one market.[126] The plaintiff ISOs then appealed to the Federal Circuit.[127]

[36] Affirming the district court's grant of summary judgment to Xerox, the Federal Circuit held that a patentee's refusal to sell or license its patented product did not violate § 2 of the Sherman Act unless doing so exceeded the scope of its patent grant.[128] In its holding, the Federal Circuit explicitly declined to follow the Ninth Circuit's determination in *Kodak II* that a patent holder's motivation for his refusal to deal was relevant to the antitrust analysis.[129] First, the Federal Circuit acknowledged that while the patent laws did not confer a privilege to violate the antitrust laws,[130] the antitrust laws did not abrogate a patentee's right to exclude others from his patented property.[131] The court noted next that although patent holders do not necessarily possess market power,[132] patentees with market power were under no obligation to allow others to license or use their patented property.[133]

[125] *See id.*

[126] *In re* Indep. Serv. Orgs. Antitrust Litig., No. 94-2102-EEO, 1999 U.S. Dist. LEXIS 23262, at *3-4 (D. Kan. Jan. 8, 1999); *see In re* Indep. Serv. Orgs. Antitrust Litig., 989 F. Supp. 1131, 1143-44 (D. Kan. 1997).

[127] *Xerox Corp.*, 203 F.3d at 1324.

[128] *Id.* at 1327 (citing Atari Games Corp. v. Nintendo of Am., Inc., 897 F.2d 1572, 1576 (Fed. Cir. 1990)).

[129] *Id.*

[130] *Id.* at 1325 (citing Intergraph Corp. v. Intel Corp., 195 F.3d 1346, 1362 (Fed. Cir. 1999)).

[131] *Id.* (citing *Intergraph Corp.*, 195 F.3d at 1362).

[132] *Id. But see* Jefferson Parish Hosp. Dist. No. 2 v. Hyde, 466 U.S. 2, 16 (1984) (observing that consumers' inability to obtain a patented product from any source other than the patentee gives the patentee market power).

[133] *Xerox Corp.*, 203 F.3d at 1326 (noting that, like the Ninth Circuit in *Kodak I*, the Federal Circuit was unable to find any case in which a court had "'imposed antitrust liability for unilateral refusal to sell or license a patent'") (quoting *Intergraph Corp.*, 195 F.3d at 1362).

[37] The Federal Circuit also considered the language of the Patent Act, noting that § 271(d) of the Patent Act states, "'no patent owner otherwise entitled to relief . . . shall 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.'"[134] The Federal Circuit interpreted § 271(d) to mean that the owner of a lawfully obtained patent who refused to license his patented property was within his rights to do so and that a refusal to license a lawfully obtained patent could not be penalized under the antitrust laws.[135] In the view of the Federal Circuit, the only types of patent-related conduct that could result in antitrust liability were (1) illegal tying arrangements,[136] (2) fraud on the United States Patent and Trademark Office ("USPTO"),[137] or (3) sham litigation.[138] In the absence of any of these situations, the Federal Circuit found that patentees could refuse to license their patented products without fear of antitrust liability.[139]

[38] The Federal Circuit also rejected the ISO plaintiffs' reliance on *Kodak I* for the proposition that a patentee could not use his patent-protected position in one product market to expand into a separate product or service market.[140] The court argued that *Kodak I* was a essentially a tying case and was distinguishable from *Xerox* because the plaintiffs in *Xerox* had not claimed that Xerox had tied the sale of patented replacement parts to the purchases of Xerox copier repair services.[141]

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[134] *Id.* at 1326 (quoting 35 U.S.C. § 271(d)(1999)).

[135] *Id.* at 1327. See *infra* Part III.B for a discussion of § 271(d) of the Patent Act and that statute's applicability concerning refusals to deal in patented property.

[136] *Xerox Corp.*, 203 F.3d at 1327. The Federal Circuit interpreted the Supreme Court's statement in *Kodak I* that "'power gained through some natural and legal advantage such as a patent, . . . can give rise to liability if a seller exploits his dominant position in one market to expand his empire into the next'" as reiterating that a patent holder could not use their statutory right to refuse to sell patented parts to gain a monopoly in a market beyond the scope of the patents, implicitly concluding that the service market was within the scope of the parts patents. *Id.* (quoting Eastman Kodak Co. v. Image Technical Servs., Inc., 504 U.S. 451, 480 n.29 (1992) (*Kodak I*)). See *infra* Part III.A for a discussion of the Federal Circuit's market scope analysis.

[137] *Xerox Corp.*, 203 F.3d at 1327.

[138] *Id.*

[139] *Id.*

[140] *Id.*

[141] *Id.* (stating that "[n]otably, Kodak was a tying case when it came before the Supreme Court").

[39] Finally, the Federal Circuit declined to follow the Ninth Circuit's rebuttable business justification analysis articulated in *Kodak II* and did not examine Xerox's business reasons for refusing to deal in its patented products.[142] Criticizing the Ninth Circuit, the *Xerox* court stated that the logic of the Ninth Circuit's analysis "requires an evaluation of the patentee's subjective motivation for refusing to sell or license its patented products for pretext . . . 'if a [patent infringement] suit is not objectively baseless, an antitrust defendant's subjective motivation is immaterial.'"[143] The court summarized its holding:

> In the absence of any indication of any illegal tying, fraud in the [USPTO], or sham litigation, 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*. We therefore will not inquire into his subjective motivation for exercising his statutory rights, even though his refusal to sell or license his patented invention may have an anticompetitive effect, so long as that anticompetitive effect is not illegally extended beyond the statutory patent grant.[144]

[40] In sum, the *Xerox* court concluded that Xerox's assertion of its patent rights was not a violation of the antitrust laws and that Xerox's motives or business justifications for the refusal to deal in its patented goods were irrelevant.

III. DISCUSSION

[41] The above review of recent appellate decisions illustrates the contrasting legal analyses appellate courts apply to refusals to deal in

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[142] *Id.* at 1327-28.

[143] *Id*. at 1327 (quoting Nobelpharma AB v. Implant Innovations, Inc., 141 F.3d 1059, 1072 (Fed. Cir. 1998)) (alteration in original).

[144] *Id.* at 1327-28 (emphasis added).

patented property. This section of the paper will discuss and distinguish the analyses of the Federal Circuit in *Xerox* and the Ninth Circuit in *Kodak II* and will also identify possible consequences of each court's decision.[145] This section will also propose actions that either Congress or the Supreme Court might take to remedy the current confusion in the law and thus ensure consistent resolution of future antitrust cases involving refusals to deal in patented property.[146]

A. Comparison of Federal and Ninth Circuit Analyses

[42] The Supreme Court has stated that a patentee with market power in one market is not necessarily immune from antitrust liability for conduct that affects a second market[147] and that courts must examine the business justifications underlying a monopolist's refusal to deal in his goods.[148] The Federal Circuit in *Xerox* failed to apply this Supreme Court precedent because it (1) allowed Xerox to leverage its patents on replacement copier parts into markets outside of the primary market for the patented parts and (2) failed to consider Xerox's business justifications for its refusal to license patented property. Although the *Xerox* court acknowledged certain narrow limitations on a patentee's refusal to license their patented property,[149] these limitations nevertheless give patentees significant latitude to refuse to license or sell their patented property free of antitrust liability, even where doing so leverages a patentee's market power in their patented product into a separate market for a different product.

[43] By comparison, the Ninth Circuit's analysis in *Kodak II* remained faithful to the Supreme Court precedent that the Federal Circuit ignored in *Xerox*. The *Kodak II* court did not allow the patentee to exploit its parts patent into the separate market for service and required the patent holder to demonstrate legitimate business reasons for refusing to license his patented property.[150]

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[145] *See infra* Parts III.A-C.

[146] *See infra* Part III.D.

[147] *See* Eastman Kodak Co. v. Image Technical Servs., 504 U.S. 451, 479 n.29 (1992) (*Kodak I*).

[148] *See id.* at 483; *see also* Aspen Skiing Co. v. Aspen Highlands Skiing Corp., 472 U.S. 585, 608-09 (1985) (*Aspen Skiing II*).

[149] *Xerox Corp.*, 203 F.3d at 1327.

[150] *See* Image Technical Servs., Inc. v. Eastman Kodak Co., 125 F.3d 1195, 1218-19 (9th Cir. 1997) (*Kodak II*).

1. *Analyses of the Scope of Patent Grants*

[44] The different outcomes in *Kodak II* and *Xerox* are partially explained by the fact that the Federal and Ninth Circuit each came to different conclusions as to whether a patent grant protects from antitrust liability a patentee's conduct outside of the primary market for a patented good. In *Kodak II*, the Ninth Circuit recognized the importance of defining the relevant markets for antitrust and patent purposes; noting that a finding of antitrust liability "depends largely on market definition."[151] In its *Kodak II* decision, the Ninth Circuit first determined that parts and service were separate markets for antitrust purposes.[152] Based on this finding, the court then held that Kodak's leveraging of its parts patent to dominate the separate copier service market was a violation of the antitrust laws.[153] Given that the *Kodak II* court found that Kodak was subject to antitrust liability for using its patent on copier parts to exert control over the separate antitrust market for copier service, the *Kodak II* court must have found that Kodak's patent protection for its parts covered only the antitrust market for parts and did not also encompass the antitrust market for copier service.[154]

[45] In contrast, the Federal Circuit determined in *Xerox* that "a patent may confer the right to exclude competition altogether in *more than one antitrust market*."[155] In the Federal Circuit's view, a patentee who refuses to deal in his patented property is immune from antitrust liability so long as he does not obtain his patent through fraud, engage in sham litigation, or engage in a tying arrangement.[156] Provided that the patentee does not commit any of these proscribed acts, the Federal Circuit found it irrelevant

[151] *Id.* at 1217.

[152] *Id*. The Supreme Court in *Kodak I* determined that parts and service were separate markets for antitrust purposes. *Kodak I*, 504 U.S. at 463.

[153] *See Kodak II*, 125 F.3d at 1220.

[154] For additional discussion of antitrust and patent market definitions, see Marina Lao, *Unilateral Refusals to Sell or License Intellectual Property and the Antitrust Duty to Deal*, 9 CORNELL J. L. & PUB. POL'Y 193 (1999).

[155] CSU, L.L.C. v. Xerox Corp., 203 F.3d 1322, 1327 (Fed. Cir. 2000) (emphasis added). This stands in clear opposition to the Ninth Circuit's holding in *Kodak II* that a patent could only confer a right to exclude competition in a single antitrust market. *See Kodak II*, 125 F.3d at 1216.

[156] *Xerox Corp.*, 203 F.3d at 1327.

whether a patentee's use of his patent affects markets outside of the primary market for his patented good.[157] In other words, the Federal Circuit concluded that the scope of a lawfully obtained patent encompasses *all* possible antitrust or product markets into which the patented product is used or sold. The Federal Circuit justified its view of the scope of patent protection by dismissing the claim that *Kodak I* stood for the proposition that a seller may not exploit a dominant position in one market to expand that domination into a separate market through a tying arrangement.[158] The Federal Circuit also distinguished *Kodak I* from *Xerox* on the basis that *Kodak I* was a tying case when that case came before the Supreme Court.[159]

[46] Because *Kodak I* was not strictly a tying case, the Federal Circuit's characterization of that case is incomplete. While the plaintiffs in *Kodak I* did bring a § 1 tying claim against Kodak, the *Kodak I* plaintiffs also brought a § 2 monopoly leveraging claim,[160] and the Supreme Court's analysis of the *Kodak I* plaintiffs' § 2 claim relies heavily on the Court's discussion of the *Kodak I* plaintiffs' § 1 claim earlier in the case.[161] Additionally, the language of *Kodak I* is broad enough to cover both § 1 tying and § 2 leveraging,[162] and the cases that the Court cites to in *Kodak I* involve both leveraging and tying.[163] This suggests that the Supreme Court in *Kodak I* intended for the reasoning of that case to apply to both leveraging and tying, and, at the very least, suggests that the Supreme Court believed that a patent holder who attempts to exploit his patent grant is subject to antitrust limitation.

2. *Consideration of Monopolists' Business Justifications*

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[157] *Id.* at 1327-28. As a necessary consequence of the Federal Circuit's holding, any derivative or downstream markets related to the invention at issue are within the scope of the claims of the patented invention for purposes of antitrust immunity.

[158] *Id.* at 1326-27.

[159] *Id.* at 1327.

[160] *See* Eastman Kodak Co. v. Image Technical Servs., 504 U.S. 451, 456 (1992) (*Kodak I*).

[161] *See id.* at 480-86.

[162] The Court in *Kodak I* noted that "power gained through some natural and legal advantage such as a patent . . . can give rise to liability if 'a seller exploits his dominant position in one market to expand his empire into the next.'" *Id.* at 479 n.29 (quoting Times-Picayune Publ'g Co. v. United States, 345 U.S. 594, 611 (1953)).

[163] *See* Image Technical Servs., Inc. v. Eastman Kodak Co., 125 F.3d 1195, 1216 (9th Cir. 1997) (*Kodak II*).

[47] The Supreme Court has repeatedly examined monopolists' proffered business justifications for their refusals to deal in their property.[164] Given this precedent, the Ninth Circuit's decision to consider Kodak's business reasons for refusing to license its patented parts was more faithful to the Supreme Court than was the Federal Circuit, which did not examine Xerox's business purposes for refusing to license its patented goods. While the Federal Circuit's refusal to consider a patentee's motivations may increase judicial efficiency and decrease juror confusion,[165] this approach is not consistent with Supreme Court precedent.

[48] The Federal Circuit's refusal in *Xerox* to consider the second element of the plaintiffs' § 2 monopolization claim ignores Supreme Court precedent that mandates that courts must examine an accused monopolist's business justifications for his actions.[166] It is not clear why the Federal Circuit declined to follow this business justification analysis. The Ninth Circuit, however, in adopting a rebuttable presumption that a patentee's desire to exclude others from its patented goods is a valid business justification,[167] properly accounted for a patentee's business motivations and remained faithful to the Supreme Court's decisions in *Kodak I* and *Aspen Skiing*.

B. Application of § 271 of the Patent Act to Antitrust Claims

[49] The *Xerox* court erred in its application of § 271(d)(4) of the Patent Act to support its determination that patentees are not liable under the antitrust laws for a refusal to license their patented goods;[168] the court imported law relevant only to patent infringement and patent misuse into a case that dealt strictly with antitrust law issues. While the literal language

[164] *E.g.*, *Kodak I*, 504 U.S. at 483; Aspen Skiing Co. v. Aspen Highlands Skiing Corp., 472 U.S. 585, 608-10 (1985) (*Aspen Skiing II*); United States v. Colgate & Co., 250 U.S. 300, 307 (1919).

[165] *See* R. Hewitt Pate, *Refusals to Deal and Intellectual Property Rights*, 10 GEO. MASON L. REV. 429, 439-40 (2002) (discussing the difficulties inherent in elucidating a monopolist's true motivation for refusing to license his patented goods).

[166] *See Kodak I*, 504 U.S. at 483 (noting that once an antitrust plaintiff demonstrates that the antitrust defendant has monopoly power in the relevant market, the defendant must advance "valid business reasons" to justify its actions).

[167] *Kodak II*, 125 F.3d at 1218.

[168] CSU, L.L.C. v. Xerox Corp., 203 F.3d 1322, 1326 (Fed. Cir. 2000).

of § 271(d) may appear applicable to a case such as *Xerox*, a careful examination of the section's language and legislative history suggests that the section is not applicable to antitrust violations and that courts should only apply § 271 to actions arising out of patent infringement.

[50] First, the literal language of § 271 suggests that Congress intended for the statute to govern only patent infringement actions.[169] Section 271 of the Patent Act is entitled "Infringement of patent,"[170] and begins by describing those acts that qualify as patent infringement.[171] Even the title of the section suggests that the Federal Circuit erred in applying § 271 to the facts of *Xerox*; Xerox did not raise any issues of patent infringement before the Federal Circuit.

[51] Second, § 271 describes actions that do or do not qualify as patent misuse in an infringement action but does not address issues of antitrust liability. Patent misuse is an affirmative defense to an infringement action; an infringement defendant who invokes a patent misuse defense is essentially alleging that the plaintiff patent holder has unlawfully exceeded the proper scope of his patent grant.[172] The Supreme Court has stated that patent misuse exists separately from antitrust law[173] and that patent misuse qualifies as an antitrust violation only when the party claiming antitrust injury from the alleged patent misuse can also prove all of the necessary elements of his antitrust claim.[174]

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[169] *See, e.g.*, Bankamerica Corp. v. United States, 462 U.S. 122, 128 (1983) (reiterating that the starting point for statutory interpretation is the literal language of statute).

[170] 35 U.S.C. § 271 (2000).

[171] *See id.* Section 271 of the Patent Act defines an infringer as one who "without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor." *Id.*

[172] Conduct that qualifies as patent misuse includes (1) a situation where a patentee has obtained his patent through fraud on the USPTO, and (2) so-called sham litigation in which a patentee brings an infringement claim in bad faith (*i.e.* with knowledge that the asserted patents are in fact invalid) in order to disrupt the infringement defendant's own business relationships. Glass Equip. Dev., Inc. v. Besten, Inc. 174 F.3d 1337, 1343 (Fed. Cir. 1999).

[173] *See* Mercoid Corp. v. Mid-Continent Inv. Co., 320 U.S. 661, 665-66 (1944).

[174] *See*, *e.g.*, Walker Process Equip., Inc. v. Food Mach. & Chem. Corp, 382 U.S. 172, 174 (1965). The Federal Trade Commission and the Department of Justice have also determined that patent misuse is not an antitrust violation unless the antitrust plaintiff can prove the necessary elements of their antitrust claim. *See* 1995 FED. ANTITRUST

[52] Specifically, § 271(d) states that:

> [n]o patent owner otherwise entitled to relief for infringement or contributory infringement of a patent 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) refused to license or use any rights to the patent.[175]

In *Xerox*, the Federal Circuit interpreted this language to mean that Xerox's refusal to license its patents to the ISO service providers was not an illegal extension of its patents that exposed Xerox to antitrust liability.[176] Because patent misuse and antitrust law are independent doctrines,[177] however, the Federal Circuit may have overextended the Patent Act by applying the patent misuse principles of § 271(d) to the § 2 Sherman Act antitrust claims at issue in *Xerox*, where the plaintiff ISOs had not made any allegations of patent misuse.

[53] Third, the legislative history of § 271 of the Patent Act suggests that Congress did not intend for the statute to immunize patent holders from the antitrust laws. The unadopted Senate version of § 271 contained language that explicitly discussed antitrust law and established a presumption against finding that a patentee's conduct with respect to the sale of their patented invention could constitute a violation of the antitrust laws.[178] Because Congress declined to enact a version of the statute that

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GUIDELINES, *supra* note 9, at 32 (stating that patent misuse may violate § 2 of the Sherman Act where elements otherwise necessary to establish a § 2 violation are present).

[175] 35 U.S.C. § 271(d) (2000).

[176] CSU, L.L.C. v. Xerox Corp., 203 F.3d 1322, 1326 (Fed. Cir. 2000).

[177] *See, e.g.*, *Walker Process Equip., Inc.*, 382 U.S. at 177-78; United States v. Singer Mfg. Co., 374 U.S. 174, 196-97 (1963); *see also* 1995 ANTITRUST GUIDELINES, *supra* note 9, at 32.

[178] The proposed Senate version of 35 U.S.C. § 271(d) read:

> [i]n any action in which the conduct of an owner . . . of an intellectual property right is alleged to be in violation of the antitrust laws in connection with the marketing or distribution of a product or service protected by such a right, such right shall *not* be

specifically addressed antitrust claims, Congress may not have intended for § 271 to apply outside of patent infringement cases.[179]

[54] In light of its language and legislative history, § 271(d)(4) of the Patent Act stands for the narrow rule that a patentee's refusal to license or sell his patented good does not constitute patent misuse in an infringement action. The statute does not mandate that a court immunize that same refusal to license or sell from antitrust liability. Accordingly, the Federal Circuit in *Xerox* may have erred by importing a principle of patent misuse applicable only to patent infringement actions into a case based entirely on antitrust liability where neither litigant had alleged either patent infringement or patent misuse.

C. Possible Consequences of the Federal Circuit's Decision in *Xerox*

[55] While the simplicity of the Federal Circuit's approach to refusals to deal in patented property is attractive, adopting the *Xerox* rule would have greater negative consequences for the nation's consumers than would adopting the Ninth Circuit's rule in *Kodak II*. By granting patentees near-complete freedom to leverage their patented goods across all markets in which those goods participate—including the downstream service or repair markets for those products—the *Xerox* rule creates additional

> presumed to define a market or to establish market power, including economic power and . . . monopoly power.

134 CONG. REC. S14,434 (daily ed. Oct. 4, 1988). In testimony supporting this unenacted version of 35 U.S.C. § 271, Senator Orrin Hatch (R-UT) noted his approval of the language of the bill that would make a finding of antitrust liability against patent holders more difficult; the bill would prevent courts from presuming that patent holders have market power, the first element of a § 2 Sherman Act claim. *See id.* (opining that "[t]he mistaken characterization of intellectual property rights as automatically granting power over a particular market has led to unnecessary harsh treatment of patents . . . in some antitrust cases" where courts imposed liability on patent holders).

[179] The Ninth Circuit in *Kodak II* noted that while some courts and commentators had argued that Congress's passage of the amended 35 U.S.C. § 271(d) "'may even herald the prohibition of all antitrust claims . . . premised on a refusal to license a patent,'" the language of the statute and other case law did "not compel such a result." Image Technical Servs., Inc. v. Eastman Kodak Co., 125 F.3d 1195, 1215 n.7 (9th Cir. 1997) (*Kodak II*) (quoting Data Gen. Corp. v. Grumman Sys. Support Corp., 36 F.3d 1147, 1187 (1st Cir. 1994)).

barriers to new businesses that seek to participate in derivative markets related to patented products.[180]

[56] Despite its shortcomings, the Federal Circuit's approach has some benefits. First, the rule is a predictable and consistent bright-line that monopolists, judges, and juries can easily understand. Second, one could argue that holding lawful patent-related conduct immune from antitrust laws might provide additional financial incentives for future invention[181] because patent holders will be able to exclude competition in the lucrative service and repair markets for their patented goods, without running the risk of unforeseen antitrust liability.[182] The *Xerox* rule will also make for more efficient disposition of cases involving refusals to deal in patented property because courts following *Xerox* will not have to subjectively divine a monopolist's true intent for refusing to deal in his patented property.[183]

[57] Nevertheless, the *Xerox* decision will likely have negative consequences for inventors and smaller businesses. First, because the *Xerox* rule permits patentees who dominate a market to extend their dominance into other markets so long as they do not engage in a tying arrangement, smaller competitors may be excluded from derivative markets for the service or repair of patented goods. These derivative markets are important to the nation's economy, since such markets

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[180] As an example of the size of service markets, IBM signed technology service contracts worth $17.1 billion in the fourth quarter of 2003. IBM, *Quarterly Earnings: IBM Reports 2003 Fourth-Quarter and Full-Year Results*, *at* http://www.ibm.com/investor/4q03/4q03earnings.phtml (Jan. 15, 2004) [hereinafter IBM *Quarterly Earnings*].

[181] *See* Michael A. Carrier, *Unraveling the Patent-Antitrust Paradox*, 150 U. PA. L. REV. 761, 789-90 (2002).

[182] The Ninth Circuit noted that imposing antitrust-based limits on the rights of intellectual property holders may lessen firms' incentive to innovate, particularly where firms found guilty of antitrust violations are subject to treble damages. *Kodak II*, 125 F.3d at 1218; *see* SCM Corp. v. Xerox Corp., 645 F.2d 1195, 1206 (2d Cir. 1981) ("If the threat of treble damage liability for refusing to license were imbedded in the minds of potential patent holders as a likely prospect . . . the efficacy of the economic incentives afforded by our patent system might be severely diminished."); *see also* Carrier, *supra* note 181, at 793 (acknowledging patentees' desire to avoid unforeseen liability due to consumer use of a patented product outside the product's primary market).

[183] *See* Pate, *supra* note 165, at 439 (noting that reliance on ambiguous evidence of a monopolist's intent is "likely to increase the costs and burdens of litigation and reduce the accuracy of decisions").

generate significant revenue and employment opportunities.[184] This market dominance is exacerbated in today's high-technology economy, where so-called network effects[185] create a tendency toward single-firm dominance in a particular product market and increase the size of a market over which that single firm dominates.[186] Accordingly, the *Xerox* rule paves the way for a high-technology patent holder who dominates a large market through network effects to exclude competitors from large derivative markets by refusing to deal in patented goods needed to provide service or repair to his other widely-sold products.

[58] A second negative effect of the *Xerox* decision is that the decision may discourage innovation in derivative markets outside of a patented good's primary market. Because the *Xerox* rule ensures that patent holders will control all derivative markets related to their patented good, a likely result of this control will be a decrease in the level of competition-driven innovation in those markets.[187] Such a decrease in innovation may

[184] *See* IBM *Quarterly Earnings*, *supra* note 180.

[185] The concept of network effects is exemplified by the markets for communications equipment or computer operating systems, in which one individual's demand for a particular company's product or service is positively related to the spreading use by others of that product. Robert Pitofsky, *Antitrust and Intellectual Property: Unresolved Issues at the Heart of the New Economy*, 16 BERKELEY TECH. L.J. 535, 539 (2001). One need look no further than the continued dominance of Microsoft's Windows operating system for an illustration of the power of network effects.

[186] Although network effects may allow a monopolist to increase the size of the market over which he dominates, rapid advances in technology may force a monopolist to adapt to those changes or lose its controlling market position. *See id.* at 541 ("On average, market power is probably less durable in the high-technology sector of the economy."); *see also* S.J. Liebowitz & Stephen E. Margolis, *High Technology, Antitrust, & the Regulation of Competition: Should Technology Choice be a Concern of Antitrust Policy?*, 9 HARV. J.L. & TECH. 283, 318 (1996) ("Since high technology changes so frequently, a firm that achieved monopoly with one technology will not be able to hold on to its lead unless it is extremely resourceful.").

[187] *See* Michael A. Heller & Rebecca S. Eisenberg, *Can Patents Deter Innovation? The Anticommons in Biomedical Research*, 280 SCIENCE 698, 698-701 (1998), *available at* http://www.sciencemag.org/cgi/content/full/280/5364/698?maxtoshow=&HITS=10&hits=10&RESULTFORMAT=&fulltext=Anticommons&searchid=1095251557308_4693&stored_search=&FIRSTINDEX=0 (arguing that excessive patent protection may stifle innovation in important derivative markets for patented goods).

adversely impact consumers and runs counter to the goals of both the antitrust and patent laws.[188]

[59] A final concern with granting excessive latitude to patentees who refuse to deal in their patented goods is that some patentees may be able to assert so-called "junk patents" against their competitors without any antitrust limitation. The USPTO currently receives an all-time high number of patent applications,[189] and some believe that a result of this ever-increasing workload is the issuance of so-called "junk patents" that grant their owners the right to exclude others from making commonly-used items.[190] As an example, the USPTO has recently issued patents on such items as crustless peanut butter and jelly sandwiches[191] and bread refresheners.[192] The Federal Circuit's decision to allow near-limitless power to patent holders who exercise their patent rights raises the possibility of a "junk patent" holder leveraging his patent rights across multiple markets without any antitrust-based limits on that power.

D. Proposed Solutions to Conflicting Recent Appellate Decisions

[60] Application of the Ninth Circuit and Federal Circuit's respective analyses of refusals to deal in patented property leads to differing outcomes for patent holders who have refused to license or sell their patented property. As a result, patent holders are left with considerable uncertainty as to how far they may extend their statutory patent rights. This uncertainty will likely lead to future litigation as parties seek to

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[188] For example, the Supreme Court noted in *Kodak I* that some of Kodak's service customers preferred the ISOs' service to that of Kodak. Eastman Kodak Co. v. Image Technical Servs., 504 U.S. 451, 483-84 (1992).

[189] *See* Michael S. Malone, *The Smother of Invention*, FORBES ASAP, June 24, 2002, at 32. Over the last twenty years, there has been a meteoric rise in the number of patent applications received by the Patent and Trademark Office. As of 2002, the USPTO was receiving more than 375,000 patent applications each year and was faced with a backlog of more than 350,000 applications. *Id.*

[190] *See* Pitofsky, *supra* note 185, at 543; Robert P. Merges, *As Many as Six Impossible Patents Before Breakfast: Property Rights for Business Concepts and Patent System Reform*, 14 BERKELEY TECH. L.J. 577, 606 (1999). See IPWatchdog's website for a regularly updated listing of obscure and useless patents issued by the PTO. IPWatchdog, *Museum of Obscure Patents*, *at* http://www.ipwatchdog.com/patentmuseum.html (last visited Dec. 28, 2004).

[191] U.S. Patent No. 6,004,596 (issued Dec. 21, 1999).

[192] U.S. Patent No. 6,080,436 (issued June 27, 2000).

definitively establish when a refusal to license a patented good violates antitrust law. A solution to this uncertainty could come in the form of either an amendment to the Patent Act to establish that patent-related conduct is not insulated from the antitrust laws, or a Supreme Court decision that affirms either *Kodak II* or *Xerox*.

[61] Congress could harmonize the discord in the courts' approaches to refusals to deal in patented property by amending the Patent Act. One place for such an amendment is § 154 of the Patent Act;[193] that section sets forth the rights of a patent holder and is a logical location for Congress to set out a limitation on patent holders' rights.[194] A possible remedy to the current confusion in the law would be to amend the language of § 154 to include, "a patent holder's right to grant or refuse access to or the purchase of his patented invention is subject to all other laws protecting this nation's trade and commerce." Making such an amendment would provide a clear statement to courts and patent holders that the exercise of patent rights is subject to antitrust limitations.[195]

[62] An alternative method for creating a settled standard for analysis of refusals to deal in patented property would be for the Supreme Court to grant certiorari in a future case where a litigant alleges that a refusal to deal in patented property is a violation of antitrust laws.[196] Should this occur, the Supreme Court should affirm *Kodak II*; doing so would be consistent with the Court's own precedent and also with the analysis that many courts apply to § 2 monopolization cases. Although affirming *Kodak II* would require that courts perform a labor-intensive examination of the business justifications underlying a patentee's refusal to deal in their

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[193] 35 U.S.C. § 154 (2000).

[194] In relevant part, § 154(a)(1) states, "[e]very patent shall contain . . . a grant to the patentee, his heirs or assigns, of the right to exclude others from making, using, offering for sale, or selling the invention." *Id.* § 154(a)(1).

[195] Some commentators have suggested that Congress amend the language of 35 U.S.C. § 271(d)(4) to state that a patent owner shall not be guilty of misuse or illegal extension of their patent for a refusal to license that patented good "in the primary market for the patent good." *E.g.*, Patrick H. Moran, Comment, *The Federal and Ninth Circuits Square Off: Refusals to Deal and the Precarious Intersection Between Antitrust and Patent Law*, 87 MARQ. L. REV. 387, 421 (2003).

[196] The Supreme Court denied certiorari in both *Kodak II*, Image Technical Services., Inc. v. Eastman Kodak Co., 125 F.3d 1195 (9th Cir. 1997), *cert. denied*, 523 U.S. 1094 (1998), and *Xerox Corp.*, CSU, L.L.C. v. Xerox Corp., 203 F.3d 1322, 1327 (Fed. Cir. 2000), *cert. denied*, 531 U.S 1143 (2001).

patented property, courts already perform such examinations in antitrust cases,[197] and such a rule would be consistent with the Supreme Court's own precedent in *Kodak I*.[198]

IV. SUMMARY AND CONCLUSION

[63] The question of whether a patent holder who refuses to license his patented property should be immune from antitrust liability is a difficult one, and appellate courts have reached different conclusions on this issue. Given the current state of the law, patentees are faced with considerable uncertainty as to how far they may extend their patent rights and it is not clear what effect that uncertainty will have on future innovation and competition.

[64] While the above-discussed cases differ in their conclusions as to whether a patent holder who refuses to license his patent should incur antitrust liability, courts agree that a refusal to license patented goods violates the antitrust laws in certain situations.[199] First, a patentee who (1) engages in patent misuse by asserting a patent obtained through fraud on the USPTO or (2) initiates a sham infringement proceeding against a defendant in an effort to interfere with the defendant's own business relationships is subject to antitrust liability if the patentee's opponent can show that the two elements of a § 2 monopolization claim are met.[200] Second, a patentee may not tie the sale of his patented product to the purchase of a different product in a separate market.[201]

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[197] *See generally* United States v. Microsoft Corp., 253 F.3d 34 (D.C. Cir. 2001) (performing an exhaustive examination of a software company's proffered business-related justifications for allegedly anticompetitive licensing and product integration).

[198] *See* Eastman Kodak Co. v. Image Technical Servs., 504 U.S. 451, 483 (1992) (*Kodak I*) (stating that antitrust liability for firms accused of leveraging a monopoly from one market into another depends on whether "'valid business reasons'" could explain the firm's actions) (quoting Aspen Skiing Co. v. Aspen Highlands Skiing Corp., 472 U.S. 585, 605 (1985) (*Aspen Skiing II*)).

[199] *See* Intergraph Corp. v. Intel Corp., 195 F.3d 1346, 1362 (Fed. Cir. 1999). A patentee's refusal to deal in patented property can lead to antitrust liability only where the patentee and the would-be licensee are direct competitors. *See id.* at 1363.

[200] *See Xerox Corp.*, 203 F.3d at 1326; *see also* Glass Equip. Dev., Inc. v. Besten, Inc., 174 F.3d 1337, 1343 (Fed. Cir. 1999).

[201] *See Xerox Corp.*, 203 F.3d at 1327.

[65] The *Kodak II* and *Xerox* decisions demonstrate two differing approaches to resolving the tension between patent law and antitrust law from a refusal to deal in patented goods, and each approach will lead to different repercussions for the nation's consumers. The Federal Circuit's *Xerox* decision elevates patent rights above antitrust limitations and does not consider a patentee's subjective motivation for his refusal to deal in his patented goods. *Xerox* thus enables a patentee to avoid antitrust immunity by simply invoking his statutorily-granted patent right to exclude. This decision has the potential to deter competition and innovation in derivative markets related to the primary market for a patented good, and the deterrence of innovation runs counter to the goals of both antitrust and patent law.

[66] By comparison, the Ninth Circuit in *Kodak II* did not prioritize patent rights over antitrust limitations because that court considered whether a patentee's business motives could legitimately support a refusal to license his patented property. However, a *Kodak II*-style subjective analysis of a patentee's motivations is inherently unpredictable and may leave patent holders without clear boundaries on extending their patent rights into new markets. As a consequence of *Kodak II*, some firms may decline to invest in innovative activities for fear of incurring antitrust liability from inadvertently overextending their patent rights. Until either Congress or the Supreme Court takes the initiative to resolve the current discord in the law governing refusals to deal in patented property, patent holders and those who are denied access to patented goods will continue to operate in a state of uncertainty.