

IMAGE TECHNICAL SERVICES, INC. V. EASTMAN KODAK CO.

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The ten-year saga of Eastman Kodak (Kodak) Co.'s legal battle with Image Technical Services has generated the well-known principles that a single brand of a product or service can be a relevant market under the Sherman Act,¹ the "fall" of Chicago School antitrust analysis,² and that summary judgment motions do not place a special burden on plaintiffs.³

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1. See *Eastman Kodak Co. v. Image Technical Services, Inc.* 504 U.S. 451, 481-82 (1992) [hereinafter *Kodak*].

2. See, e.g., Ronald S. Katz & Janet S. Arnold, *Eastman Kodak v. ITS: The Downfall of the Chicago School*, 9 No. 7 COMPUTER LAW. 1 (July 1992); Eleanor M. Fox, *Eastman Kodak Company v. Image Technical Service, Inc.—Information Failure as Soul or Hook?*, 62 ANTITRUST L.J. 759 (1994); Louis Kaplow, *Extension of Monopoly Power Through Leverage*, 85 COLUM. L. REV. 515 (1985); Lawrence T. Festa, *Eastman Kodak Co. v. Image Technical Services, Inc.: The Decline and Fall of the Chicago Empire?* 68 NOTRE DAME L. REV. 619 (1993); cf. Carl Shapiro, *Aftermarkets and Consumer Welfare: Making Sense of Kodak*, 63 ANTITRUST L.J. 483 (1995). But see Herbert Hovenkamp, *Market Power in Aftermarkets: Antitrust Policy and the Kodak Case*, 40 UCLA L. REV. 1447 (1993).

3. See *Kodak*, 504 U.S. at 468-69. See also *Matsushita Electric Industrial Co. v. Zenith Radio Corp.*, 475 U.S. 574, 586 (1986). In *Matsushita*, the Supreme Court held that if a court determines a plaintiff's underlying theory is economically implausible, to defeat a summary judgment motion the plaintiff must "do more than simply show that there is some metaphysical doubt as to the material facts." *Id.* at 586. Indeed, the plaintiff must produce unambiguous evidence that "inference of conspiracy is reasonable in light of the competing inferences of independent action or collusive action that could not have harmed" it. *Id.* at 588. Although some commentators did not see *Matsushita* as a "special set of instructions" about the burden of proof in summary judgment motions, under its rule, "the percentage of antitrust cases resolved by summary judgment (most often on the defendant's motion) increased dramatically." HERBERT HOVENKAMP, FEDERAL ANTITRUST POLICY: THE LAW OF COMPETITION & ITS PRACTICE § 16.8b. (1994) (citing Calkins, *Equilibrating Tendencies in the Antitrust System, with Special Attention to Summary Judgment and to Motions to Dismiss*, in PRIVATE ANTITRUST LITIGATION: NEW EVIDENCE, NEW LEARNING 208-211, n.7 (L. White, ed. 1988)). The Supreme Court clarified *Matsushita* in *Kodak*, explaining "[t]he Court did not hold that if the moving party enunciated any economic theory supporting its behavior, regardless of its accuracy reflecting the actual market, it is entitled to summary judgment. *Matsushita* demands only that the nonmoving party's inferences be reasonable in order to reach the jury . . ." See *Kodak*, 504 U.S. at 468.

The case gave rise to another ruling in August 1997 when the United States Court of Appeals for the Ninth Circuit considered it for the second time.⁴ The Ninth Circuit affirmed a jury verdict that awarded independent service organizations (ISOs) \$71.8 million in treble damages on section 2 Sherman Act claims and upheld, with minor modifications, a ten year permanent injunction that requires Kodak to sell the ISOs all parts for its copier and micrographic machines at reasonable, non-monopoly prices and without term or price discrimination.⁵

At issue in this case was whether Kodak used its monopoly in the photocopier and micrographic parts market to monopolize, or attempt to monopolize, the service market. The Ninth Circuit considered, on first impression, the relationship between section 2 Sherman Act monopolization claims and the intellectual property (IP) defense offered by Kodak. The court held that IP rights, such as those afforded by patents and copyrights, constitute a presumptively legitimate business justification for refusing to deal with competitors.⁶ The antitrust plaintiff may rebut the presumptive justification.

On its face, the court's willingness to grant the presumption in favor of intellectual property holders signals the court's support of strong IP rights. The court suggests that technology companies, free to develop their legally granted monopolies under the patent and copyright laws into any number of aftermarkets that "naturally" flow from them, can strategically structure their long-term business plans without concern for the antitrust laws. The court's decision, however, is far from a strong rule in favor of technology companies with patents and copyrights and may be of limited practical value. The Ninth Circuit concluded that the ISOs in this case effectively rebutted the presumption, but it did so without a clear test or explanation to make its reasoning transparent. Without a test to articulate the values underlying the very existence of a rebuttable presumption, or the patent/copyright behavior most offensive to antitrust law, the court's holding offers only provisional guidance to the technology community. Moreover, the court's holding says very little about how courts or companies should resolve what it acknowledges as the "obvious tension"⁷ between antitrust law and the law of patents and copyright. Specifically, the

4. *See* Image Technical Services, Inc. v. Eastman Kodak Co., 125 F.3d 1195 (9th Cir. 1997) [hereinafter *ITS*].

5. *See id.*

6. *See id.* at 1218.

7. *Id.* at 1215 (quoting *United States v. Westinghouse Electric Corp.*, 648 F.2d 642, 646 (9th Cir. 1981)).

court's analysis does not clarify the scope of patents and copyrights in a section 2 Sherman Act context.

I. BACKGROUND

Kodak manufactures, sells, and services high volume photocopiers and micrographic equipment. Insofar as the micrographic and software programs that operate on Kodak machines are not compatible with competitors' machines and cannot be used interchangeably with parts for those machines, Kodak equipment is unique.⁸ Nevertheless, intrabrand competition in the photocopier and micrographic markets is strong, and Kodak's competitors include Xerox, IBM, and Canon.⁹

Prior to 1982, Kodak serviced all of its micrographic and copier equipment but would sell parts to any party that wanted to use them to repair Kodak equipment. It is not clear from the record whether Kodak ever licensed its parts. Relying on Kodak's practice of selling replacement parts, ISOs entered the service market.¹⁰ The ISOs maintained regular inventories of Kodak parts and were able to compete significantly with Kodak by 1984 and 1985, often offering service for as little as half of Kodak's price.¹¹ Some customers expressed that ISO service was better and less expensive than Kodak service.¹² In 1985, faced with increased competition from ISOs, Kodak reviewed its replacement parts policy and decided not to sell replacement parts to ISOs or to customers who used ISOs.¹³ Kodak also secured agreements from its contracted original-equipment manufacturers not to sell parts to ISOs.¹⁴ The Ninth Circuit concluded that "[t]hese parts restrictions limited the ISOs' ability to compete in the service market for Kodak machines. Competition in the service market requires the service providers have ready access to all parts."¹⁵ The ISOs filed suit in 1987 against Kodak for severely limiting, and virtually eliminating, the availability of replacement parts for Kodak's equipment.

8. See *Kodak*, 504 U.S. at 456-57.

9. See *ITS*, 125 F.3d at 1200.

10. See *Image Technical Services, Inc. v. Eastman Kodak Co.*, 903 F.2d 612, 614 (9th Cir. 1990).

11. See *id.*

12. See *id.*; see also *Kodak*, 504 U.S. at 457-58; *ITS*, 125 F.3d at 1200.

13. See *Kodak*, 504 U.S. at 457-58.

14. See *ITS*, 125 F.3d at 1200, 1207 (Kodak controlled the sale of original equipment through tooling clauses, engineering clauses, and other proprietary contracts).

15. *Id.* at 1200.

The ISOs alleged that Kodak violated sections 1 and 2 of the Sherman Act¹⁶ by tying the sale of service for its machines to the sale of parts and by monopolizing, or attempting to monopolize, the sale of service and parts for the machines. The District Court for the Northern District of California entered summary judgment for Kodak.¹⁷ The United States Court of Appeals for the Ninth Circuit reversed and remanded.¹⁸ The United States Supreme Court granted certiorari and affirmed.¹⁹

On remand, the District Court for the Northern District of California found Kodak had violated section 2 of the Sherman Act, awarded the ISOs trebled damages, and drafted a permanent ten-year injunction against Kodak.²⁰ Kodak filed a timely appeal with the United States Court of Appeals for the Ninth Circuit challenging the jury verdict, the ISOs' evidence, jury instructions, damage awards, and the permanent injunction. On August 26, 1997, the Ninth Circuit affirmed the jury decision, reversed in part, and remanded with instructions to modify the injunction.

II. THE NINTH CIRCUIT'S DECISION

Although it considered a number of challenges to the jury verdict and district court's injunction,²¹ the most significant aspect of the Ninth Circuit's review of this case was its affirmation of Kodak's liability under section 2 of the Sherman Act and its consideration, although ultimate rejection, of Kodak's IP defense.

A. ISOs' Claims

Under section 2 of the Sherman Act, "[e]very 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" is guilty of an antitrust violation.²² Mere possession of monopoly power, however, is not a section 2 violation and the section does not prohibit "natural" monopolies that result from a superior

16. 15 U.S.C. §§ 1, 2 (1988 ed., Supp. II).

17. *See* Image Technical Services, Inc. v. Eastman Kodak Co., No. C-87-1686-WWS, 1988 WL 156332 (N.D. Cal. 1988).

18. *See* Image Technical Services, Inc. v. Eastman Kodak Co., 903 F.2d 612 (9th Cir. 1990).

19. *See* Kodak, 504 U.S. at 451.

20. *See* Image Technical Service, Inc. v. Eastman Kodak, Co., No. C87-1686 AWT, 1996 WL 101173 (N.D. Cal. 1996).

21. *See* ITS, 125 F.3d at 1220-27.

22. 15 U.S.C. § 2 (1988 ed., Supp. II).

product, good business decisions, historic accident,²³ or IP rights. Thus, the ISOs had to prove that Kodak not only possessed monopoly power in a relevant market, but that it also acted anticompetitively to get or maintain that power.²⁴

Monopoly power is the power to control price or exclude competition in a relevant market²⁵ or the power "to force a purchaser to do something that he would not do in a competitive market."²⁶ Although monopoly power is often measured by market power, market power, in itself, is not determinative of monopoly power. The Ninth Circuit held that:

[t]o demonstrate market power by circumstantial evidence, plaintiffs must 1) define the relevant market, 2) show that the defendant owns a dominant share of that market, and 3) show that there are significant barriers to entry and show that existing competitors lack the capacity to increase their output in the short run.²⁷

The Ninth Circuit started its analysis of the relevant market, "the field in which meaningful competition exists,"²⁸ from two principles established by the Supreme Court when it considered the case: first, service and parts can constitute separate markets; and, second, a single brand can constitute its own market.²⁹ The Ninth Circuit accepted the ISOs' definition of the relevant markets and held that the relevant market included "all parts."³⁰ It did so because, from the commercially realistic perspective of the Kodak machine owner or service provider, there must be access to all parts to compete in the service market. The Ninth Circuit thus rejected Kodak's proposition that each individual part constituted its own relevant market and that there were thousands of individual parts markets.³¹ Instead, it found that there were two relevant parts markets: the photocopier parts market and the micrographic parts market.³²

After noting that courts usually require a 65% market share to establish a prima facie showing of market power, the Ninth Circuit found that

23. See *United States v. Grinnell Corp.*, 384 U.S. 563, 570-71 (1966).

24. See *ITS*, 125 F.3d at 1202 (citing *Rebel Oil Co., Inc. v. Atlantic Richfield, Co.*, 51 F.3d 1421, 1434 (9th Cir. 1995)).

25. See *United States v. E.I. du Pont*, 351 U.S. 377, 391-95 (1956).

26. *Jefferson Parish Hospital Dist. v. Hyde*, 466 U.S. 2, 13-14 (1984).

27. *ITS*, 125 F.3d at 1202-03.

28. *Id.*

29. See *id.* at 1203; see also *Kodak*, 504 U.S. at 462-63, 481-82 (1992).

30. *ITS*, 125 F.3d at 1203-04; see also *supra* note 15 and accompanying text.

31. See *ITS*, 125 F.3d at 1203-04.

32. See *id.* at 1203.

Kodak had a dominant market share in the relevant markets. Kodak met this second element of market power "easily" because "Kodak controls nearly 100% of the parts market and 80% to 90% of the service market, with no readily available substitutes."³³ Although it was possible to draw two inconsistent conclusions from the evidence the ISOs offered about Kodak's possession of market share, the Ninth Circuit held that substantial evidence supported the jury's finding that Kodak controlled a monopoly share in the market for Kodak parts.³⁴

The Ninth Circuit concluded its market power analysis by noting that there were significant barriers to entry in the parts and service markets, especially after Kodak changed its parts policies. "Kodak has 220 patents and controls its designs and tools, brand name power and manufacturing ability[,] ... controls original equipment manufacturers through contracts," and operates on an economy of scale.³⁵ These characteristics of Kodak's monopoly, in the aggregate, made it unlikely, if not impossible, that ISOs could enter and compete in the service market for photocopier and micrographic machines if parts were no longer available.

Once the Ninth Circuit determined that Kodak possessed monopoly power in the relevant parts markets, it considered whether Kodak engaged in exclusionary conduct and used that monopoly power "to foreclose competition, gain competitive advantage, or destroy competitors."³⁶ It analyzed Kodak's use of monopoly power primarily under a leveraging theory, although it also reviewed Kodak's actions under a unilateral refusal to deal theory.

*Jefferson Parish Hospital District v. Hyde*³⁷ defined leveraging "as a supplier's ability to induce his customer for one product to buy a second product from him that would not otherwise be purchased solely on the merit of that second product."³⁸ Based on the number of customers who chose ISOs for their service needs, it is clear that at least some Kodak machine owners did not choose Kodak service on its merit alone.³⁹ For those customers, Kodak's refusal to sell parts to the ISOs forced them to purchase Kodak service solely because they had purchased Kodak machines

33. *Id.* at 1206 (citing *Kodak*, 504 U.S. at 481).

34. *See ITS*, 125 F.3d at 1206-07.

35. *Id.* at 1208.

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

37. 466 U.S. 2 (1984).

38. *Id.* at 14 (quoting V.P. AREEDA & D. TURNER, *ANTITRUST LAW* ¶ 1134a, at 202 (1980)).

39. *See Kodak*, 504 U.S. at 457.

and needed Kodak parts. The Ninth Circuit agreed with the ISOs and the Supreme Court that, in this regard, Kodak used its parts monopoly to gain or attempt to gain a monopoly in the service market.⁴⁰

Under its precedent in *Alaska Airlines, Inc. v. United Airlines, Inc.*,⁴¹ the Ninth Circuit could not find a section 2 violation unless Kodak leveraged its monopoly from one market to monopolize or attempt to monopolize another.⁴² Kodak had a 95% share of the Kodak photocopier service market, an 88% share of the micrographic service market, and several ISOs left the service market or restricted their service because of the unavailability of parts.⁴³ Based on that information, the Ninth Circuit was satisfied that Kodak actually established a monopoly in the service market based on its monopoly in the parts market and thus met the *Alaska Airlines* leveraging test.⁴⁴

Once the Ninth Circuit concluded that Kodak, with its monopoly power, had engaged in exclusionary conduct by changing its parts policy and refusing to sell its parts, the central issue in the court's review of the district court's decision was whether or not Kodak had a legitimate business justification for refusing to deal with the ISOs. Absent a legitimate business justification, exclusionary conduct is inferred from a monopolist's refusal to deal.⁴⁵ Even if there is a stated business justification, the antitrust plaintiff can rebut it by showing that it either fails to legitimately promote competition or that it is pretextual.⁴⁶

B. Kodak's Defense

Kodak argued not only that it had such a justification, but that the jury instructions did not allow the jury to give adequate weight to it. Kodak objected to the fact that all of its parts, regardless of whether they were patented or copyrighted, were viewed the same by the district court and that the jury was told "the fact that some of the replacement parts are patented or copyrighted does not provide Kodak with a defense against any of

40. See *ITS*, 125 F.3d at 1208-12.

41. 948 F.2d 536 (9th Cir. 1991).

42. See *id.* The Ninth Circuit's ruling in *Alaska Airlines* rejected the Second Circuit's more lenient holding in *Berkey Photo Inc. v. Eastman Kodak Co.*, 603 F.2d 263 (2d Cir. 1979), that section 2 liability could be established if a firm used its monopoly power in one market to gain a mere advantage in another, even if that advantage did not constitute a monopolization or an attempted monopolization of the second market.

43. See *ITS*, 125 F.3d at 1212.

44. See *id.*

45. See *Aspen Skiing Co. v. Aspen Highlands Skiing Corp.*, 472 U.S. 585 (1985).

46. See *Kodak*, 504 U.S. at 483-84 (citing *Image Technical Services, Inc. v. Eastman Kodak Co.*, 903 F.2d 612, 618 (9th Cir. 1990)).

th[e] antitrust claims” if the jury were to find that Kodak misused its parts monopoly and monopolized, or attempted to monopolize, the service market.⁴⁷

When it decided *Kodak*, the United States Supreme Court indicated in a lengthy footnote that market power achieved through some “natural and legal advantage such as a patent, copyright or business acumen” was not immune from the reach of antitrust laws if the purveyor of that power used it to expand from one market into another.⁴⁸ The Court concluded that in a leveraging analysis, aftermarket were not different from any other separate market.⁴⁹ For the purpose of analyzing the relationship between antitrust and patent and copyright law, the Ninth Circuit reasoned that the Court’s statement, although made in the context of a section 1 Sherman Act tying claim, applied in a section 2 leveraging context.

After reviewing the policies behind antitrust laws, as well as those behind the patent and copyright laws, the Ninth Circuit concluded that IP rights should be given “some weight” as a legitimate business justification and not explicitly removed from jury consideration.⁵⁰ To that end, the Ninth Circuit adopted a rebuttable presumption whereby firms with patents and copyrights may refuse to deal with competitors under the aegis of protecting their proprietary rights.⁵¹ A similar rule was adopted by the First Circuit in *Data General v. Grumman Systems Support*⁵² where the court explained that it did not adopt a rule that always gave those with patents or copyrights an unquestioned defense to antitrust laws because “there may be rare cases in which imposing antitrust liability is unlikely to frustrate the objectives of the Copyright Act.”⁵³

The Ninth Circuit acknowledged the principle that patent and copyright holders categorically may refuse to sell or license the protected work, and that no court has imposed antitrust liability for a unilateral refusal to

47. *ITS*, 125 F.3d at 1214. Kodak denied that its conduct and parts policy constituted exclusionary conduct and argued that even if its actions were seen as prima facie exclusionary conduct, its parts policy was justified because it existed to guard Kodak against inadequate service, to remove inventory costs, to prevent ISOs from free-riding on Kodak’s investment in copier and micrographic machines, and to protect its patented and copyrighted parts. Kodak only appealed the jury’s consideration of the latter justification.

48. *Kodak*, 504 U.S. at 479 n.29.

49. *See id.*

50. *ITS*, 125 F.3d at 1217.

51. *See id.* at 1217-18.

52. 36 F.3d 1147 (1st Cir. 1994).

53. *Id.* at 1187 n.64.

sell or license such work.⁵⁴ Although this first principle informs the court's presumption in favor of patent and copyright holders, it is limited by a second principle, which recognizes that holding patents and copyrights does not place a company beyond the reach of antitrust laws. If the patent or copyright is acquired by fraud, or used to extend the lawful and statutorily granted monopoly beyond the scope of the patent, the patentee or copyright holder will be open to antitrust liability.⁵⁵

Because the ISOs did not challenge the validity or enforceability of Kodak's patents and copyrights, the Ninth Circuit implicitly reasoned that the ISOs could overcome the presumptive validity of Kodak's refusal to deal only if their evidence showed that Kodak's proffered "justification" was really a pretextual excuse for its exclusionary conduct and therefore not excluded from antitrust liability. The court weighed the following evidentiary considerations: First, Kodak's parts manager testified that protecting IP rights "did not cross [his] mind" when Kodak started its exclusionary parts policy; second, Kodak did not distinguish between the "proprietary" parts covered by patent or copyright and those covered by contract; and third, the defense was too broad—photocopier and micrographic machines use thousands of parts of which only 65 were patented.⁵⁶ Based on these reasons, the Ninth Circuit concluded "it is more probable than not that the jury would have found Kodak's presumptively valid business justification rebutted on grounds of pretext."⁵⁷

54. See *ITS*, 125 F.3d at 1216; see, e.g., *Data General*, 36 F.3d at 1147 (holding manufacturer's refusal to license its software was not a monopolization violation); *United States v. Westinghouse Electric*, 648 F.2d 642, 647 (9th Cir. 1981) (to avoid an antitrust violation a patentee is not required to "grant further licenses to potential competitor merely because it has granted them some license"); *SCM Corp. v. Xerox Corp.*, 645 F.2d 1195 (2d Cir. 1981) (holding where a patent has been lawfully acquired, subsequent conduct permissible under the patent laws cannot trigger any liability under the antitrust laws); *Mallinckrodt v. Medipart*, 976 F.2d 700 (Fed. Cir. 1992) (holding that prohibiting buyer from reusing device was enforceable under patent law if manufacturer's restrictions was reasonably within patent grant).

55. See *Data General*, 36 F.3d at 1186; see also *Westinghouse*, 648 F.2d at 647; *Mercoid v. Mid-Continent Inv. Co.*, 320 U.S. 661, 665 (1944) (holding that although a patent grants the holder a limited monopoly, "the protection of the public in a system of free enterprise ... 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.").

56. *ITS*, 125 F.3d at 1219-20. The court noted that in other cases, the protection of IP rights was more narrowly tailored to the actual IP portfolio.

57. *Id.* The Ninth Circuit found that while the district court's failure to give any weight to Kodak's IP rights was an abuse of discretion, the error was harmless. Under

III. DISCUSSION

The Ninth Circuit made several conceptual decisions in its analysis of the ISOs' claims and Kodak's IP defense. The first was to consider Kodak's alleged monopolization behavior under a leveraging theory. Although the Supreme Court indicated that such a theory was theoretically legitimate because parts and service could constitute two different markets,⁵⁸ it is not clear from an economic standpoint that such a theory is the best way to analyze Kodak's behavior. The leveraging theory implies that by extending its monopolization from one market into another, Kodak could extend or increase its monopoly profits. Presumably, the imperialistic motivation to move from one market to another is not simply power for its own sake, but for what the power can be used to extract: higher monopoly profits. But any profits Kodak would reap as a monopolist in the service market would also be available to it because of its monopoly in the parts markets; it simply could have charged ISOs and Kodak machine owners higher prices for its photocopier and micrographic parts or licensed them with restrictions. Because parts for Kodak machines are not interchangeable with parts from other machines, customers would have been forced to buy at whatever monopoly price Kodak established.⁵⁹

Once the Ninth Circuit accepted the leveraging theory in the section 2 context, however, it had to address Kodak's IP defense within a certain framework—a framework that made the court's analysis conceptually murky. A leveraging analysis presupposes at least two markets. There can be a limited, legitimate monopoly in the first market without antitrust repercussion. Antitrust liability may follow, however, if the monopoly in the legitimate market is extended, renegade style, into a second market through exclusionary conduct. In this case, Kodak extended its parts monopoly into the service market by refusing to sell parts to the ISOs. The court concluded that Kodak's movement to monopolize the service market

Jenkins v. Union Pacific R. Co., 22 F.3d 206, 210 (9th Cir. 1994), a jury instruction error does not require reversal if it is more probably than not harmless.

58. See *Kodak*, 504 U.S. at 463.

59. In its *Kodak* decision, the Supreme Court seemingly rejected the "one monopoly profit" idea not necessarily because of any theoretical shortcoming, but because Kodak failed to present any data to support its position that competition in the equipment market prevented it from leveraging its monopoly into the derivative parts and service markets. Kodak argued that it "could not raise the prices of service and parts above the level that would be charged in a competitive market because any increase in profits from a higher price in the aftermarket at least would be offset by a corresponding loss in profits from lower equipment sales." *Kodak*, 504 U.S. at 466.

was justified, at least presumptively, because of its stated desire to protect its proprietary rights.

Because the court did not engage in a nuanced consideration of the substantive relationship between antitrust and IP law, it was forced to follow a more formal approach that allowed it only four analytical options.⁶⁰ First, it could allow IP rights to work as an absolute defense that ended the antitrust inquiry. Second, it could allow the presumption that IP rights constitute a legitimate business justification for exclusionary conduct and allow the antitrust plaintiff to rebut it. Third, it could presume that IP rights do not constitute a legitimate business justification for such conduct unless the antitrust defendant can prove that they do. Fourth, it could refuse to recognize IP rights as a legitimate reason a firm might engage in exclusionary conduct. The court chose the second option.

The Ninth Circuit correctly dismissed the fourth option of not allowing IP rights to play *any* role in an antitrust defense. To do so would be to undermine the public interest in the patent and copyright statutes.⁶¹ While it is not the case that such statutes should always be allowed to trump antitrust law, it would equally be a mistake to adopt a *per se* rule that excluded them from what a court might consider when conducting an inquiry under section 2 of the Sherman Act.

The court could not easily adopt the first position either. If the service market were properly within the scope of the patent and copyright, and IP rights were an absolute defense to the antitrust inquiry, the court's leveraging analysis would be misplaced entirely, but for different reasons than those stated earlier. Antitrust law, at least as the Ninth Circuit approached it, would have nothing else to say in this case. Kodak could not be liable for section 2 monopolization or attempted monopolization under a leveraging theory because monopolies in the parts market and the service market both would be within the scope of the monopoly granted to it by the patent and copyright statutes.

It might very well be the case that the Ninth Circuit did not want to be in a position where the antitrust laws had nothing else to say and where

60. The Court speaks only in broad terms about the goals of antitrust, patent, and copyright law and does not grapple with how the incentives of each should affect the others. See *ITS*, 125 F.3d at 1214-15.

61. See *ITS*, 125 F.3d at 1214-16 ("Patent laws 'reward the inventor with the power to exclude others from making, using or selling [a patented] invention throughout the United States'" and the Copyright Act "encompasses the right to 'refrain from vending or licensing' as the owner may 'content [itself] with simply exercising the right to exclude others from its property.'"). The idea is that if the IP holder were easily liable under antitrust law, there might be less incentive to invent.

Kodak, once it waved its patents and copyrights to the jury during trial, had free run of any vertical market it chose to pursue. Thus, under the second option, the court made the concession that IP rights should be considered a legitimate business justification. The court said, however, that (1) the presumption was rebuttable and (2) the antitrust plaintiff can overcome it in the same way that one can overcome patent and copyright enforcement in general—by showing fraud or pretext.⁶²

But to frame the analysis in this manner side-steps the intellectual property question most implicated by this case: Is the service market in or out of the monopoly scope granted by Kodak's patents and copyrights? The court noted:

[p]arts and service here have been proven separate markets in the antitrust context, but this does not resolve the question whether the service market falls 'reasonably within the patent [or copyright] grant' for the purpose of determining the extent of the exclusive rights conveyed ... These are separate questions, which may result in contrary answers. 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.⁶³

The Ninth Circuit's analysis does not harmonize this "field of dissonance" directly. Kodak's behavior was condemned, and its IP defense rejected, not because the court found that the limited scope of its patents and copyrights did not extend to aftermarkets, but because the court did not find its defense convincing based on the evidence. Considering the patents and copyrights only within the context of deciding whether Kodak's defense was pretextual, however, prevented the court from looking more substantively at whether or not the scope of those rights *should* have extended to the service market.

The Ninth Circuit acknowledged that it is unlawful to extend a patent or a copyright beyond the scope of its grant, but the court did not address what the hard-edged limits of the scope are, which markets are close enough to the "heart of the property right"⁶⁴ to be given protection from antitrust liability, and which ones are too far away. There may well be a limit to the number of markets a patent or copyright holder can monopolize,⁶⁵ a point at which the relationship between the "heart of the property

62. *See id.* at 1219.

63. *Id.* at 1217.

64. *Id.*

65. *United States v. Westinghouse Electric*, 648 F.2d 642, 646 (9th Cir. 1981) ("[T]he use of a patent to acquire a monopoly which is not plainly within the terms of the

right” and the derivative market is too tenuous to warrant legal protection. But that limit will never be identified by the court’s analysis of Kodak’s behavior under a rubric of pretext.

After this decision, however, lower courts only have the pretextual rule. In many ways, it seemingly becomes the surrogate for a scope analysis. The evidentiary factors the court considered to find pretext, however, while certainly sensitive to the “actual market realities”⁶⁶ faced by the ISOs, are necessarily highly specific to this case. As a result, it is not clear that they offer much insight or guidance as to how this court will, or any other court should, review firms’ actions for pretext.

Based on the factors in this case, the Ninth Circuit reached the right outcome: Kodak must sell or license parts to the ISOs. It even reached it for some of the right reasons, namely that Kodak’s defense was too broad.⁶⁷ But, it might have reached that outcome under the third analytical option, which the court, without an explanation, chose not to use. Even though it was confined to the context of a pretextual analysis, the court should have looked at the purpose and effect of patents and copyrights and to whether the monopoly needed to be extended to the service market to protect that purpose and effect. Such an analysis would have been more likely under the third option because the court would have reviewed the evidence presented by the antitrust defendant.

One purpose of the patent and copyright system is to offer the inventor some incentive to disclose her work and make it available to the public. The court notes that one of the incentives under the patent system is the manner in which the patent monopoly allows the inventor to recoup, with profit, “the often enormous costs in terms of time, research and development.”⁶⁸ Thus, in assessing whether Kodak’s defense was pretextual, the court also should have considered whether Kodak needed to monopolize the service market as well as the parts market to meet its research and development costs and thus effectuate the value of its patents or copyrights. Presumably, Kodak could have recouped its costs in the parts market alone.

grant, as by a tying [or leveraging] agreement, may violate the antitrust laws as may an agreement among patent holders or licensees to set prices or to refuse to grant licenses except on condition that royalties be paid on unpatented products. Nor may a patentee attempt to monopolize an industry by acquiring all present and future patents relevant to that industry.”) (citations omitted).

66. *ITS*, 125 F.3d at 1218 (quoting *Kodak*, 504 U.S. at 466-67).

67. See *supra* note 56 and accompanying text.

68. *ITS*, 125 F.3d at 1218.

If there were no way for Kodak to recoup its investment in developing parts and machines other than to effectuate its patent and copyright monopoly in the service market, there would be strong reasons for allowing it to do so. It might be the case that the short-term harm to consumers of allowing Kodak to monopolize the parts and the service markets is less than the long-term harm of not providing firms like Kodak with adequate incentive to enter a competitive market and develop new products. It is not entirely clear, however, that the patent and copyright systems should be used to subsidize Kodak's inability to compete in the service market against the ISOs, who might provide better service to consumers for less money.⁶⁹

The court also should have considered whether the patented or copyrighted parts were designed for a service context, which might have given Kodak a more convincing reason to monopolize the service market. In *Triad Systems Corporation v. Southeastern Express Company*,⁷⁰ the court's primary reason for extending Triad's software copyright in a product market to the service market was that the software was intended for use in the service market. Triad's software was service software, and, by using it, Southeastern was "using it for the very purpose for which, and in precisely the manner in which, it was designed to be used. As a result, the copies made by Southeastern while servicing Triad computers ... undoubtedly diminished the value of Triad's copyright."⁷¹ Because of the close relationship between the product and the service market, the court held that it was within the scope of the original monopoly granted by the copyright. In the present case, however, it is not clear whether there was a close relationship between a part designed for a machine and the service of that machine, nor is it clear whether the value of Kodak's patents or copyrights was diminished at all by sale of parts to ISOs. Kodak retained the ability to sell or license the products at a monopoly price.

IV. CONCLUSION

The Ninth Circuit's decision in this case is significant because it found that patents and copyrights constitute a presumptively legitimate business justification for a firm to leverage its monopoly between two markets without violating section 2 of the Sherman Act. Unfortunately, given the importance of attributing more weight to the actual market realities in each case rather than to theory, the lack of any clear test that an antitrust plain-

69. See *Kodak*, 504 U.S. at 456.

70. 64 F.3d 1330 (9th Cir. 1995).

71. *Id.* at 1337.

tiff must meet to rebut the presumption, and the court's unwillingness to address the limits of patent or copyright scopes, it is not clear that the Ninth Circuit's ruling will be of much practical use to the technology companies most likely to be affected by it.

