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## The Intersection of Intellectual Property and Antitrust Law: In re Independent Service Organizations Antitrust Litigation

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# The Intersection of Intellectual Property and Antitrust Law: *In re* Independent Service Organizations Antitrust Litigation\*

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## I. INTRODUCTION

The legal, academic, and business communities are currently focusing attention on the intersection of intellectual property law and antitrust law. Recently, the Federal Trade Commission (FTC) and the Antitrust Division of the Department of Justice began hearings (“joint FTC/DOJ hearings”) on the role and interaction of

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these two bodies of law.<sup>1</sup> In the highly publicized *Napster* case, Federal District Court Judge Patel of the Northern District of California raised the question of whether the recording industry may have violated antitrust law.<sup>2</sup> Furthermore, the National Academy of Sciences has formed a committee which is investigating the economic impact of changes in patent law and administration over the past twenty-five years.<sup>3</sup>

There is a growing view that the legal protection given to intellectual property has increased tremendously in the past twenty years, and has begun to adversely affect competition and innovation in the United States and across the globe.<sup>4</sup> As the United States economy has become increasingly based upon information and technology, the importance of intellectual property law has likewise increased. Accordingly, there has been a demand for greater intellectual property protection.

In addition, the development and expansion of the Internet has increased the ability of copyists to distribute, use, and publish information which may infringe an author's or inventor's intellectual property law rights. The Internet, and its disregard for geographic borders, has led to new legislation—such as the Digital Millennium Copyright Act (DMCA)<sup>5</sup>—which concerns intellectual property and arguably expands the protection for intellectual property to the detriment of competition. Thus, many believe that the growing protection for intellectual property has overcome the protection of competition provided by antitrust law.<sup>6</sup>

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1. See Federal Trade Commission, *FTC/DOJ Hearings to Highlight the Intersection of Antitrust and Intellectual Property Law and Policy*, at <http://www.ftc.gov/opa/2002/04/iplaw2.htm> (last visited May 5, 2002) (copy on file with *The Transnational Lawyer*).

2. See Brenda Sandburg, *Napster Judge Sings an Antitrust Tune*, THE RECORDER, Feb. 25, 2002, available at <http://www.law.com/cgi-bin/gx.cgi/AppLogic+FTContentServer?pagename=law/View&c=Article&cid=ZZZR3QWT0YC&live=true&cst=1&pc=0&pa=0&s=News&ExpIgnore=true&showsummary=0> (last visited May 5, 2002) (copy on file with *The Transnational Lawyer*).

3. See *FTC/DOJ Joint Hearings on Competition and Intellectual Property Law, Testimony of Richard C. Levin*, at <http://www.ftc.gov/os/comments/intelpropertycomments/levinrichardc.htm> (last visited May 5, 2002) (copy on file with *The Transnational Lawyer*).

4. For example, the Australian Competition and Consumer Commission (ACCC) is intervening as amicus curiae in a copyright case filed by Sony. The ACCC is concerned about the interpretation of anti-circumvention provisions and the consequent effect on competition. See *Kabushiki Kaisha Sony Computer Entertainment v. Stevens* [2001] FCA 1379, at <http://www.austlii.edu.au/cgi-bin/disp.pl/au/cases/cth/federal%5ftc/2001/1379.html?query=%22sony%22+and+%22acc%22> (last visited May 5, 2002) (copy on file with *The Transnational Lawyer*); see also *ACCC Defends the Rights of Playstation Owners*, at [http://203.6.251.7/acc.internet/digest/view\\_media.cfm?RecordID=595](http://203.6.251.7/acc.internet/digest/view_media.cfm?RecordID=595) (last visited May 5, 2002) (copy on file with *The Transnational Lawyer*) (defending ACCC intervention).

5. Digital Millennium Copyright Act, Pub. L. No. 105-304, 112 Stat. 2860 (codified in 17 U.S.C. §§ 512, 1201-1205, 1301-1332, 4001) (1998) [hereinafter DMCA].

6. While some argue that the legal protection that is provided to intellectual property has increased greatly, in some areas that legal protection has been curtailed or not extended. For example, the United States Court of Appeals for the Federal Circuit has recently limited the scope of the doctrine of equivalents in *Festo Corp. v. Shoketsu Kinzoku Kabushiki Co., Ltd.*, 234 F.3d 558 (Fed. Cir. 2000), cert. granted, 533 U.S. 915 (2001) and *Johnson & Johnston, Inc. v. R.E. Service Co., Inc.*, 285 F.3d 1046 (Fed. Cir. 2002). The Federal Circuit also recently created a doctrine which operates as a defense known as “prosecution laches” in the recent decision of *Symbol Technologies, Inc., et al. v. Lemelson Medical, Education, and Research Foundation*, 277 F.3d 1361 (Fed. Cir.

At first blush, intellectual property laws and antitrust laws appear to conflict. Intellectual property law provides the principle legal framework for the protection of information and technology. The basic rationale of providing intellectual property law—copyright and patent—protection is found in the Constitution of the United States.<sup>7</sup> The Constitution provides that “[t]he Congress shall have power . . . [t]o promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries.”<sup>8</sup> Thus, a monopoly-like right is provided to the author or inventor for a limited time in order to encourage innovation—the creation of new inventions and works of authorship.

The antitrust laws apparently prevent monopoly-like rights.<sup>9</sup> However, both areas of law directly or indirectly serve a similar interest—the promotion of consumer welfare—and thus, complement one another. Due to the fact that both sets of laws can co-exist with one another, the question becomes where the line is drawn between one set of laws and the other. When those two sets of laws intersect, should antitrust law dominate or should intellectual property law dominate? These are some of the questions that are being asked at the joint FTC/DOJ hearings.<sup>10</sup>

Specifically, one of the issues presented at the joint FTC/DOJ hearings concerns the role of the United States Court of Appeals for the Federal Circuit (“Federal Circuit”) in this controversy,<sup>11</sup> and the Federal Circuit’s recent decision in *Copier Services Unlimited, Inc. (CSU) v. Xerox Corporation*,<sup>12</sup> where the Federal Circuit was squarely confronted with the intersection and apparent conflict of antitrust and patent laws.<sup>13</sup> Accordingly, the purpose of this article is to provide an overview of the *CSU v. Xerox* case, with limited comment, to address some of the many implications of the decision.<sup>14</sup> However, the article will first discuss the state of

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2002). Moreover, Congress has thus far declined to provide additional legal protection to electronic databases beyond that which is already provided by copyright law. Cf. European Parliament Council, Directive 96/9/EC of the European Parliament and of the Council of 11 March 1996 on the Legal Protection of Databases, available at <http://leon.law.harvard.edu/h2o/property/alternatives/directive.html> (last visited May 5, 2002) (copy on file with *The Transnational Lawyer*).

7. See U.S. CONST. Art. 1, §8, cl. 8.

8. *Id.*

9. See Sherman Act, 15 U.S.C. §§1, 2 (Supp. 1992) [hereinafter Sherman Act] (condemning agreements or conspiracies to restrict interstate and international trade or commerce).

10. See *supra* note 1 and accompanying text.

11. See Federal Trade Commission, *Muris Announces Plans for Intellectual Property Hearings*, Nov. 15, 2001, at <http://www.ftc.gov/opa/2001/11/iprelease.htm> (last visited May 5, 2002) (copy on file with *The Transnational Lawyer*).

12. 203 F.3d 1322 (2000), *cert. denied*, 531 U.S. 1143, 148 L. Ed. 2d 954, 121 S. Ct. 1077 (2001).

13. See generally *id.*

14. See *infra* Part III (discussing the background and analysis of the *CSU v. Xerox* case). This article is not intended to provide an exhaustive analysis of the case. For further discussion of this case, see Nicolas Oettinger, Comment, *Refusal to License: In re Independent Service Organizations Antitrust Litigation*, 16 BERKELEY TECH. L.J. 323 (2001); see also Michelle M. Burtis & Bruce H. Kobayashi, *Why an Original Can Be Better Than a Copy: Intellectual Property, The Antitrust Refusal to Deal, and ISO Antitrust Litigation*, 9 S. CT. ECON. REV. 143 (2001).

patent law prior to creation of the Federal Circuit, and outline some of the basic principles of patent and antitrust law.<sup>15</sup>

## II. BACKGROUND AND PRINCIPLES OF PATENT AND ANTITRUST LAW

### A. *The State of Patent Law Prior to Creation of the United States Court of Appeals for the Federal Circuit*

Prior to the formation of the Federal Circuit in 1982,<sup>16</sup> the circuit courts of appeal in the United States viewed patents with skepticism.<sup>17</sup> As discussed above, the legal protection provided by a patent—the statutory right to exclude others from making, using or selling an invention—apparently conflicts with the antitrust law’s antipathy toward monopolies. However, it is now well-accepted that the grant of a patent does not automatically confer market power.<sup>18</sup> At least one reason for this is because there may be an acceptable substitute for the patented product or method.<sup>19</sup> In fact, in some jurisdictions, the grant of a patent is not even presumed to convey market power.<sup>20</sup> Thus, the possession of a patent or other intellectual property does not equate to an impermissible monopoly or exercise of prohibited monopoly power.

Historically, the law abhors a monopoly, much like a forfeiture. Thus, when appellate courts were presented with a patent, the appellate court saw an evil monopoly. This misconception led to the inconsistent and misapplication of patent law. Basically, in some circuits, patents were viewed as impermissible monopolies and were struck down as invalid or unenforceable, while in other circuits patents were held valid and enforceable, but often were construed very narrowly.<sup>21</sup> The following tale illustrates the problem:

The story is told of then-Second Circuit Court of Appeals Judge Thurgood Marshall when he was visiting Senators in preparation for his confirmation hearing as President Johnson’s nominee to the Supreme Court. One well-known Senator asked Judge Marshall what his views were on patents. The Judge reportedly responded, “I haven’t given patents much thought,

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15. See *infra* Part II.

16. See Simone A. Rose, *Patent “Monopolyphobia”: A Means of Extinguishing the Fountainhead?*, 49 CASE W. RES. 509, 539-45 (1999) (discussing the formation of the federal circuit).

17. See *id.* at 535.

18. See *Abbott Lab. v. Brennan*, 952 F.2d 1346, 1355 (Fed. Cir. 1991).

19. See *id.*

20. See *id.*

21. See Rose, *supra* note 16, at 535.

Senator, because I'm from the Second Circuit and as you know we don't uphold patents in the Second Circuit."<sup>22</sup>

The splits in the circuits led to forum shopping and a national patent system that did not make sense. While the system was supposed to provide a limited right to exclude others from making, using, or selling the patented invention in order to provide an incentive to innovate, patents were sometimes not worth the paper they were written on depending upon the circuit in which a case was filed. Thus, business executives and their counsel were unable to make informed decisions whether to invest in research and development to create new products or services because the value or scope of the corresponding statutory patent right was unclear.<sup>23</sup> To respond to this uncertainty, the Carter Administration conceived of the idea of creating a federal appellate court that would have exclusive jurisdiction over all patent appeals from the United States District Courts.<sup>24</sup> The idea was that such a court would provide certainty to the development and application of patent law and eliminate forum shopping.<sup>25</sup> The hope was that this would encourage companies and individuals to invest in research and development, and create new products and technology.<sup>26</sup> While the Carter Administration did not get the idea off the ground, it was picked up by the Reagan Administration, and in 1982, the United States Court of Appeals for the Federal Circuit was created.<sup>27</sup>

Twenty years have now passed since the formation of the Federal Circuit. The number of patents issued annually has skyrocketed from 66,000 in 1980 to 175,000 in 2000.<sup>28</sup> Royalties from patent licenses also grew from \$3 billion to nearly \$110 billion between 1980 and 1999.<sup>29</sup> Arguably, business executives and their counsel can look to a coherent and consistent body of patent law which can guide their research and development decisions.<sup>30</sup> At least in the view of some, the Federal Circuit has been a success.<sup>31</sup>

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22. Hon. Gerald Mossinghoff, *The Creation of the Federal Circuit*, in DONALD S. CHISUM, ET AL., PRINCIPLES OF PATENT LAW 31 (1998).

23. *See id.*

24. *See id.*

25. *See id.*

26. *See id.*

27. *See id.*

28. *See* Brenda Sandburg, *Under the Microscope*, THE RECORDER, Feb. 26, 2002, available at [http://pirate.shu.edu/~jenninju/InternetLaw/03\\_Patent/FTCDoJHearingsPatentsLawComFeb02.htm](http://pirate.shu.edu/~jenninju/InternetLaw/03_Patent/FTCDoJHearingsPatentsLawComFeb02.htm) (last visited May 5, 2002) (copy on file with *The Transnational Lawyer*).

29. *See id.*

30. *See* Mossinghoff, *supra* note 22, at 31.

31. *See id.*; *see also* Prepared Remarks of James E. Rogan, Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office, Hearings on Competition and Intellectual Property Law and Policy in the Knowledge-Based Economy, Feb. 6, 2002, available at <http://www.ftc.gov/opp/intellect/rogan.htm> (last visited May 5, 2002) (copy on file with *The Transnational Lawyer*) (stating that "[s]everal independent developments in the last twenty years also have affected patent policy). "One was the establishment of the Court of Appeals for the Federal Circuit. The existence of a court of national jurisdiction for

B. *Basic Principles of Patent Law*

As explained previously, the principal purpose of patent law is set forth in the United States Constitution.<sup>32</sup> Congress exercised its power to create a patent law by enacting the Patent Act.<sup>33</sup> Patents provide the patent owner with the right to exclude others from making, using, or selling the patented invention.<sup>34</sup> This right to exclude others is provided in exchange for public disclosure of the invention.<sup>35</sup>

Patent rights do not arise automatically. The inventor must apply for a patent with the United States Patent and Trademark Office (“USPTO”).<sup>36</sup> The USPTO examines the patent application to ensure that it meets certain statutory standards. The applicant must demonstrate that the invention is novel,<sup>37</sup> non-obvious,<sup>38</sup> useful,<sup>39</sup> and falls within allowable statutory subject matter.<sup>40</sup> Furthermore, the applicant must satisfy several other requirements, including the written description, enablement, and best mode requirements, which basically ensure that the applicant has fully disclosed her invention to the public.<sup>41</sup>

Infringement of the right to exclude others from making, using, or selling the patented invention provides the patent holder a claim against the alleged infringer.<sup>42</sup> A direct infringement action is proven either through literal infringement or infringement by the doctrine of equivalents.<sup>43</sup> Literal infringement occurs when

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cases involving patents has been an invaluable tool. By reducing the jurisdictional conflicts that had preceded the court's formation, the Federal Circuit has made for a more stable patent system.”

32. See *supra* note 8 and accompanying text (quoting Article 1, section 8, clause 8 of the United States Constitution).

33. The Patent Act is codified at 35 U.S.C. §§1-376 (2002).

34. 35 U.S.C. §154(a)(1) (2002) (stating that “[e]very patent shall contain a short title of the invention and 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 throughout the United States or importing the invention into the United States, and, if the invention is a process, of the right to exclude others from using, offering for sale or selling throughout the United States, or importing into the United States, products made by that process, referring to the specification for the particulars thereof”).

35. See *Scott Paper Co. v. Marcalus Mfg. Co.*, 326 U.S. 249, 255 (1945).

36. See United States Patent and Trademark Office, *How To Get a Patent*, at <http://www.uspto.gov/web/patents/howtopat.htm> (last visited May 5, 2002) (copy on file with *The Transnational Lawyer*).

37. 35 U.S.C. §102 (2002).

38. *Id.* §103.

39. *Id.* §101.

40. *Id.*

41. *Id.* §112.

42. *Id.* § 271.

43. See *Conroy v. Reebok Int'l Ltd.*, 14 F.3d 1570, 1573 (Fed. Cir. 1994) (explaining that the patent owner must prove that “the accused device embodies every limitation in the claim, either literally or by a substantial equivalent”); see also *Key Mfg., Inc. v. Microdot, Inc.*, 925 F.2d 1444, 1449 (Fed. Cir. 1991) (stating that, “[t]o support an infringement determination, an accused device must embody exactly each claim limitation or its equivalent”).

every limitation in the patent claim is present in the accused device.<sup>44</sup> Infringement through the doctrine of equivalents occurs when every limitation or its equivalent in the patent claim is present in the accused device.<sup>45</sup> The infringement action is subject to several defenses, such as patent invalidity and unenforceability.<sup>46</sup> The remedy for patent infringement usually includes injunctive relief and damages.<sup>47</sup>

### C. Basic Principles of Antitrust Law

The goal of antitrust law is to preserve and enhance competitive market forces.<sup>48</sup> Its vision is that competitive markets will ensure the most efficient economy, the lowest prices, the widest consumer choice, and the greatest consumer welfare.<sup>49</sup> It therefore abhors agreements among would-be competitors not to compete.<sup>50</sup> This abhorrence is codified in Section 1 of the primary federal antitrust law, the Sherman Act.<sup>51</sup> Antitrust law, specifically, section 2 of the Sherman Act, also despises monopolies and monopoly power, for they are the antithesis of competitive market forces.<sup>52</sup>

However, it is important to note the language of Section 2. It does not forbid a “monopoly” per se, but instead bars “monopolization” and attempts to monopolize.<sup>53</sup> The focus is thus upon the manner in which a monopolist has obtained or attempted to obtain its market power. As Judge Learned Hand explained in the famous case of *United States v. Aluminum Co. Of America (Alcoa)*, “[a] single producer may be the survivor out of a group of active companies, merely by virtue of his superior skill, foresight, and industry . . . . The successful competitor, having been urged to compete, must not be turned upon when he wins.”<sup>54</sup> Thus, Section 2 focuses not on the fact of monopoly alone, but rather on how a monopoly has been gained or sustained. To engage in illegal monopolization, the defendant must possess monopoly power, and must have used improper exclusionary acts to gain or protect

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44. See Lawrence M. Sung, Ph.D., *Judicial Issues: Stranger In A Strange Land: Biotechnology and the Federal Circuit*, 2 WASH. U. J. L. & POL’Y 167, 192 (2000) (defining “literal infringement”).

45. See *Graver Tank & Mfg. Co. v. Linde Air Products Co.*, 339 U.S. 605, 608 (1950) (defining the doctrine of equivalents”).

46. See 35 U.S.C. §282.

47. See *id.* §281.

48. See, e.g., James M. Fesmire, *Maximum Vertical Price Fixing from Albrecht Through Brunswick to Khan: An Antitrust Odyssey*, 24 SEATTLE UNIV. L. R. 721, 739 (2001).

49. See *id.*

50. See Sherman Act, *supra* note 9, at §1.

51. See *id.*

52. See *id.* at §2 (stating that “[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, or with foreign nations, shall be deemed guilty of a felony, and, on conviction thereof, shall be punished by fine not exceeding \$10,000,000 if a corporation, or, if any other person, \$350,000, or by imprisonment not exceeding three years, or by both said punishments, in the discretion of the court”).

53. See *id.*

54. 148 F.2d 416, 430 (2d Cir. 1945).



that power.<sup>55</sup> Furthermore, treble damages may be awarded for a violation of the antitrust laws.<sup>56</sup>

### III. CSU V. XEROX

#### A. *Background and District Court's Decision*

Xerox, a manufacturer, seller, and servicer of high volume copiers, established a policy of not selling its copier parts to independent service organizations (“ISOs”), including CSU.<sup>57</sup> Because this practice threatened to eliminate ISOs as competitors in the service market for copiers, CSU filed suit against Xerox alleging that Xerox violated the Sherman Act by setting the prices on its patented parts much higher for ISOs than for end-users in an attempt to force ISOs to raise their prices.<sup>58</sup> However, “Xerox counterclaimed for patent and copyright infringement and contested CSU’s antitrust claims as relying on injury solely caused by Xerox’s lawful refusal to sell or license patented parts and copyrighted software.”<sup>59</sup>

Procedurally, “[t]he district court granted summary judgment to Xerox dismissing CSU’s antitrust claims and holding that if a patent or copyright is lawfully acquired, the patent or copyright holder’s unilateral refusal to sell or license its patented invention or copyrighted expression is not unlawful exclusionary conduct under the antitrust laws, even if the refusal to deal impacts competition in more than one market.”<sup>60</sup> The district court further held that the right holder’s intent in refusing to deal, and any other alleged exclusionary acts committed by the right holder, are not relevant to antitrust law.<sup>61</sup>

#### B. *Federal Circuit's Analysis*

First, the Federal Circuit stated that the issue of whether the district court’s grant of summary judgment as to CSU’s antitrust claims arising from Xerox’s refusal to

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55. See generally *Eastman Kodak Co. v. Image Technical Services, Inc.*, 504 U.S. 451 (1992); *Grinnell Corp. v. United States*, 384 U.S. 563 (1966).

56. See Sherman Act, *supra* note 9, at §15.

57. See *Xerox*, 203 F.3d at 1324.

58. See *id.* In *CSU v. Xerox*, CSU, the plaintiff, asserted a cause of action for the violation of the Sherman Act as well as misuse defenses to Xerox’s infringement claims. See *id.* Often an antitrust cause of action is raised as a counterclaim in a patent or copyright infringement action. Thus, the antitrust cause of action is an independent claim. The use of antitrust law in this manner should be distinguished from the patent or copyright misuse defense. While patent misuse and copyright misuse often involve antitrust principles, the application of the copyright or patent misuse defense does not mean that there is a viable independent claim for an antitrust violation. In the *Napster* case, District Court Judge Patel raised the issue of whether Napster can raise copyright misuse as a defense to a copyright infringement claim. See *A&M Records v. Napster, Inc.*, 239 F.3d 1004, 1027 (9th Cir. 2001).

59. *Xerox*, 203 F.3d at 1324.

60. *Id.*

61. See *id.*

sell its patented parts is reviewed as a matter of Federal Circuit law.<sup>62</sup> Second, the Federal Circuit held that Xerox's refusal to sell its patented parts did not exceed the scope of the patent grant, and thus, the district court did not err by granting summary judgment in Xerox's favor.<sup>63</sup> The Court stated that "Xerox was under no obligation to sell or license its patented parts and did not violate the antitrust laws by failing to do so."<sup>64</sup>

In reaching its second holding, the Court stated that while "[i]ntellectual property rights do not confer a privilege to violate the antitrust laws. . . the antitrust laws do not negate the patentee's right to exclude others from patent property."<sup>65</sup> The Court pointed to 35 U.S.C. § 271(d) as support for the proposition that a patentee has the unilateral right to refuse to sell or license a patent.<sup>66</sup> Section 271(d) provides in part that "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 . . ."<sup>67</sup>

The Court noted, however, that the patentee's right to exclude is limited by two exceptions.<sup>68</sup> Specifically, "a patent owner who brings suit to enforce the statutory right to exclude others from making, using, or selling the claimed invention is exempt from antitrust laws, even though such a suit may have an anticompetitive effect, unless the infringement defendant proves one of two conditions."<sup>69</sup> Those two conditions are: "that the asserted patent was obtained through knowing and willful fraud"—the so-called Walker Process claim; or "that the infringement suit was a mere sham to cover what is actually no more than an attempt to interfere with the business relationships of a competitor."<sup>70</sup> The Court stated that CSU failed to make a claim that Xerox obtained its patents through fraud in the USPTO, and that while CSU alleged that Xerox misused its patents, CSU failed to claim that Xerox's patent infringement claims were shams.<sup>71</sup>

The Court then rejected CSU's argument that Xerox illegally sought to leverage its presumably legitimate dominance in the equipment and parts market into dominance in the service market.<sup>72</sup> The Court stated that "we have expressly held

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62. *See id.* at 1325 (quoting *Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059, 1068 (Fed. Cir. 1998) stating that "[w]hether conduct in procuring or enforcing a patent is sufficient to strip a patentee of its immunity from the antitrust laws is to be decided as a question of Federal Circuit law").

63. *See id.* at 1330.

64. *See id.* at 1328.

65. *See id.* at 1325.

66. *See id.* at 1326.

67. 35 U.S.C. §271(d) (2002).

68. *Xerox*, 203 F.3d at 1324.

69. *See id.* at 1326.

70. *See id.*

71. *See id.*

72. *See id.* at 1326-27.

that, absent exceptional circumstances, a patent may confer the right to exclude competition altogether in more than one antitrust market.”<sup>73</sup>

The Court then declined to follow the Ninth Circuit case *Eastman Kodak Co. v. Image Technical Services, Inc.*,<sup>74</sup> which stated that a patent holder’s desire to exclude others from its patented invention is a presumptively valid business justification for any immediate harm to consumers.<sup>75</sup> The Court refused to endorse the *Eastman Kodak Co.* court’s apparent allowance of an evaluation of the patentee’s subjective motivation for refusing to sell or license its patented products for pretext to overcome the presumptively valid business justification.<sup>76</sup> Instead, the Court followed its prior precedent which states that “if a [patent infringement] suit is not objectively baseless, an antitrust defendant’s subjective motivation is immaterial.”<sup>77</sup> The Court reasoned that “[w]e see no more reason to inquire into the subjective motivation of Xerox in refusing to sell or license its patented works than we found in evaluating the subjective motivation of a patentee in bringing suit to enforce that right.”<sup>78</sup>

The Court also declined to inquire into the subjective motivation of the patentee in exerting his statutory rights unless the anticompetitive effect is illegally extended beyond the statutory patent grant.<sup>79</sup> The Court stated that “[i]n the absence of any indication of illegal tying, fraud in the Patent and Trademark Office, 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.”<sup>80</sup> Furthermore, the Court explained that the infringement defendant has the burden of demonstrating that one of those exceptional circumstances exist and in the absence of such proof, the Court will not inquire into the patentee’s subjective motivations for asserting his statutory right to exclude.<sup>81</sup> The Court added that even if the infringement defendant has met this burden, the defendant must also prove the elements of a Sherman Act violation.<sup>82</sup> The Court concluded that CSU failed to meet its burden, and that Xerox’s refusal to sell its patented parts did not exceed the scope of the patent grant.<sup>83</sup>

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73. *Id.* at 1327.

74. 504 U.S. 451 (1992).

75. *See Xerox*, 203 F.3d at 1327.

76. *See id.*

77. *Id.*

78. *Id.*

79. *See id.*

80. *Id.*

81. *See id.* at 1328.

82. *See id.*

83. *See id.* The Court also found that the district court did not err in granting summary judgment to Xerox because CSU failed to defeat the presumption that Xerox’s desire to exclude CSU from use of its copyrighted works was a presumptively valid business justification for any resulting harm to consumers. *See id.* at 1327.

#### IV. COMMENTS AND CONCLUSION

The Federal Circuit struck the proper balance between antitrust law and patent law in the *CSU v. Xerox* case. The right provided by the statutory patent grant is the right to exclude others from making, using, or selling the patented invention.<sup>84</sup> The heart of that right is the right to refuse to sell or license the patented invention to others. The balance between the need to encourage innovation and the strength or viability of a patent would be threatened by allowing infringement defendants or competitors to raise the threat of antitrust treble damages and a potential inquisition into the subjective motivation behind the patent holder's desire to refuse to deal every time a patent holder refuses to license or sell its patented invention.

While the Federal Circuit refused to look to the subjective intent of the patentee in refusing to deal, the Federal Circuit did state that the patentee's right to refuse to deal is qualified by several exceptions, including the sham or baseless litigation exception, the illegal tying exception, and the fraud on the patent office exception.<sup>85</sup> The patentee also only may refuse to deal as long as the anticompetitive effect is not illegally extended beyond the statutory patent grant.<sup>86</sup>

The Federal Circuit correctly decided to apply its own circuit law to decide the question of whether “conduct in procuring or enforcing a patent is sufficient to strip a patentee of its immunity from the antitrust laws.”<sup>87</sup> If the Federal Circuit did not apply its own law, and instead applied the law of the regional circuits to decide this question, the issue of forum shopping and the development of inconsistent law applicable to patents would be raised again—the very problems the Federal Circuit was created to overcome.<sup>88</sup>

Intellectual property laws and the antitrust laws can and should coexist and work together to increase consumer welfare. In *Xerox v. CSU*, the Federal Circuit struck a balance between the two sets of laws that is sensible and workable. While antitrust concerns were kept in focus, the Court did not lose sight of the purpose and function of the statutory patent grant.

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84. See *supra* note 34 and accompanying text.

85. See *supra* note 68 and accompanying text.

86. See *supra* note 68 and accompanying text.

87. See *Xerox*, 203 F.3d at 1325.

88. See *Burtis & Kobayashi*, *supra* note 14, at 145.

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