

**A BITTER PILL TO SWALLOW:
PATENT LAW, A TRUE EXCEPTION TO ANTITRUST LAW
*SCHOR V. ABBOTT LABORATORIES***

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I. INTRODUCTION

In today's marketplace, companies spend millions of dollars to develop pharmaceuticals to treat a variety of terrible diseases. Although it would be wonderful to believe that these companies might make their pharmaceuticals available for little or no cost, to the chagrin of many, these companies sell their pharmaceuticals for profit. However, these profits fund further pharmaceutical developments. Without such profits,

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how is such funding obtained? One could argue the government should provide funding through tax dollars. However, if this were the case, a world of high taxes, limited market competition, and limited product selection would emerge. Fortunately, our nation's founders envisioned something much grander—a world that protects innovation over normal market rules, fostering an environment with sustained competition, technological advancement, and societal advancement.¹ While our founders' vision has allowed the United States to become a world leader in technology, diverging judicial opinions have convoluted the means to achieve and maintain this vision. More specifically, courts fail to find common ground when adjudicating claims that involve both antitrust and patent issues. Time is ripe to eliminate the inconsistency among courts in this regard, and one court is progressing in the right direction.

A recent court ruling from the Northern District of Illinois highlights the aforementioned tension and complication in the law.² In March of 2005 Gary Schor brought suit against Abbott Laboratories (Abbott) for Sherman Antitrust violations, specifically a violation of 15 U.S.C. § 2.³ Abbott is a pharmaceutical company that manufactures an AIDS treatment drug, Norvir®.⁴ Abbott owns the patent rights to Norvir, and no generic version is available.⁵ After Abbott raised the price of Norvir by over 400%, Schor, an AIDS patient taking medication that incorporated Norvir, sued the pharmaceutical company.

Norvir is a protease inhibitor (PI), which, like other protease inhibitors, is an "anti-retroviral [pharmaceutical] that inhibit[s] the AIDS virus from copying itself into new cells."⁶ While Norvir's initial design was for stand-alone use, it became clear that harsh side effects prohibited a stand-alone application.⁷ However, PIs taken with small doses of Norvir treat AIDS more effectively than PIs taken without a Norvir boost.⁸ Abbott currently produces a Norvir-boosted PI called

1. See U.S. CONST. art. I, § 8, cl. 8.

2. Schor v. Abbott Labs., 378 F. Supp. 2d 850 (N.D. Ill. 2005), *aff'd*, 457 F.3d 608 (7th Cir. 2006), *petition for cert. filed*, 2006 WL 3037912 (U.S. Oct. 24, 2006) (No. 06-577).

At the time this Casenote was written and selected for publication (December 2005), the Schor decision was pending appeal to the Seventh Circuit. On July 26, 2006, Circuit Judge Easterbrook decided the appeal, affirming the district court ruling. See Schor v. Abbott Labs., 457 F.3d 608 (7th Cir. 2006). On October 24, 2006, a petition for certiorari was filed and is currently pending before the Supreme Court.

3. Schor, 378 F. Supp. 2d at 851–52. Schor also brought state claims for consumer fraud and unjust enrichment. *Id.* The focus of this Casenote is limited to the federal antitrust claim.

4. *Id.* at 852.

5. *Id.*

6. *Id.*

7. *Id.*

8. *Id.*

Kaletra®.⁹ Furthermore, Abbott sells Norvir to pharmacies, which then sell Norvir to consumers to boost their PI medications from other manufacturers.¹⁰

Schor argued that Abbott leveraged its monopoly on Norvir as a stand-alone drug to “unfairly injure competition in the market for PIs boosted by Norvir.”¹¹ Schor stated that Norvir’s 400% price increase made other manufacturers’ Norvir-boosted PIs more expensive while keeping Abbott’s boosted version comparatively inexpensive because Abbott had access to Norvir at its manufacturing cost, rather than its retail cost.¹² Schor argued that this conduct violated section 2 of the Sherman Act under a monopoly leveraging theory.¹³

Abbott moved to dismiss the complaint for failure to state a claim under rule 12(b)(6) of the Federal Rules of Civil Procedure.¹⁴ Schor moved to preclude Abbott’s motion based on similar California federal court cases¹⁵ where Abbott’s motion to dismiss in those cases was denied.¹⁶ However, the Illinois district court did not give preclusive effect based on the California federal cases, and instead granted Abbott’s motion to dismiss.¹⁷

9. *Id.*

10. *Id.* The production of various PIs is critical in treating AIDS because patients build up a resistance to the drugs. *Id.* Switching the type of PI is common to establish an effective long-term treatment. *Id.* At the time of this case, there were seven non-Abbott PIs commonly boosted by Norvir. The names and manufacturers of those drugs are as follows: Agenerase® and Lexiva® by GlaxoSmithKline, Crixivan® by Merck, Fortovase® and Invirase® by Hoffmann-La Roche, Reyataz® by Bristol-Meyers Squibb, and Viracept® by Pfizer. *Id.* (drug manufacturer information available at <http://www.gsk.com/products/prescriptionmedicines.jsp>; <http://www.rocheusa.com/products/invirase>; <http://www.crixivan.com>; <http://www.fortovase.com>; <http://www.lexiva.com/>; <http://www.reyataz.com>; <http://www.viracept.com>).

11. *Schor*, 378 F. Supp. 2d at 855.

12. *Id.* at 852.

13. *Id.* at 855. For explanation of the monopoly leveraging theory, see discussion *infra* at Part II.A.1.

14. *Schor*, 378 F. Supp. 2d at 852.

15. *Doe v. Abbott Labs.*, No. 04-1511 2004 WL 3639688 (N.D. Cal. Oct. 21, 2004); *Serv. Employees Int’l Union Health and Welfare Fund v. Abbott Labs.*, 2005 WL 528323 (N.D. Cal., Mar. 2, 2005). The identical section 2 Sherman Act claims were made in the California cases in addition to other state unfair competition claims. *Schor*, 378 F. Supp. 2d at 853. The California cases involved nearly identical facts with the exception that the plaintiff in *Service Employees* was an organized fund that acted as a third-party payor of prescription drug benefits for several member employers. *Serv. Employees*, 2005 WL 528323 at *1.

16. *Schor*, 378 F. Supp. 2d at 853.

17. *Id.* at 854–55. The *Schor* court acknowledged that a denial of a motion to dismiss in another case may be sufficiently final for the purposes of collateral estoppel. *Id.* at 854. However, the *Schor* court denied applying collateral estoppel on two grounds. *Id.* at 854–55. First, the California cases relied upon by Schor were decided based on Ninth Circuit precedent which did not apply in Illinois. *Id.* at 854. Second, the *Schor* court declined to apply collateral estoppel because, “[T]he Seventh Circuit has held that the ‘denial of a motion to dismiss for lack of standing does not qualify as a final

In deciding whether Schor had a valid antitrust claim against Abbott for which relief could be granted, the United States District Court for the Northern District of Illinois looked to prior case law, which showed no applicable precedent within the Seventh Circuit and a circuit split between the Ninth and Federal Circuits.¹⁸ The *Schor* court followed the Federal Circuit, finding that Abbott's patent rights protected the pharmaceutical manufacturer's conduct from constituting any antitrust violation under the Sherman Act, and thus Schor had no valid antitrust claim at law.¹⁹

Part II of this Casenote develops the statutory provisions and related case law concerning the intersection between patent rights and antitrust violations. Part III presents the *Schor* decision in further detail and the court's reasoning. Part IV analyzes the *Schor* decision and argues that it correctly applies the Federal Circuit's approach, rather than that of the Ninth Circuit, to antitrust cases involving patents. Finally, Part V reiterates the correct application in *Schor* and suggests that as a matter of policy, Congress or the Supreme Court should address the circuit split in authority to provide clear guidance for future cases.

II. STATUTORY PROVISIONS AND RELATED CASES

To appreciate the issues addressed in *Schor* requires an understanding of the relevant statutory provisions and prior case law. Considering the relevant statutory provisions will provide the necessary framework for both an understanding of the substantive law and the policy goals that Congress aimed to achieve by enacting such laws. The case law is critical because it will bring attention to conflicting interpretations and applications of the law. To give the case law context, this discussion will begin with the statutory provisions.

A. Statutory Provisions

The relevant statutory provisions include the Sherman Act²⁰ and the Patent Act.²¹ Additionally, the jurisdictional statutes creating the Federal Circuit are instructive.²²

judgment," and the motions to dismiss in the California cases were based on lack of standing. *Id.* at 855.

18. *Id.* at 857.

19. *Id.* at 858.

20. Sherman Act 15 U.S.C. §§ 1–7 (2000).

21. Patent Act 35 U.S.C. §§ 154, 271 (2000).

22. In particular, the relevant jurisdictional statutes are 28 U.S.C. §§ 1295, 1338 (2000).

1. The Sherman Act

Section 2 of the Sherman Act states,

Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a felony, and, on conviction thereof, shall be punished by fine not exceeding \$10,000,000 if a corporation, or, if any other person, \$350,000, or by imprisonment not exceeding three years, or by both said punishments, in the discretion of the court.²³

This section is the basis for antitrust suits based on a monopoly leveraging theory.²⁴ Monopoly leveraging prohibits a company from employing “its dominant market position in one market as a lever to create, or attempt to create, a monopoly in another market.”²⁵ To support a monopoly leveraging theory, the party claiming an antitrust violation must show that the alleged violating party “(1) possessed monopoly power in one market; (2) used such power to foreclose competition, gain a competitive advantage, or destroy a competitor in another distinct market; and (3) caused an injury to competition as a result of such conduct.”²⁶

2. The Patent Act

The Patent Act involves numerous complex rules and regulations, but of importance to this Casenote are two central sections of Title 35 United States Code. First, 35 U.S.C. § 154 states,

Every 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 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.²⁷

Second, 35 U.S.C. § 271(d) states, “[n]o patent owner otherwise entitled to relief . . . shall be denied relief or deemed guilty of misuse or illegal

23. 15 U.S.C. § 2 (2000).

24. 54 AM. JUR. 2D *Monopolies* § 64 (1996).

25. *Id.*

26. *Id.* Various courts and legal encyclopedias articulate the test for a section 2 Sherman Act violation with slight variations. Although identifying the best variant would add clarity, this task is beyond the scope of this Casenote.

27. 35 U.S.C. § 154 (2000) (emphasis added).

extension of the patent right by reason of his having . . . (4) refused to license or use any rights to the patent”²⁸

These two sections of the Patent Act are the foundation that collectively grants patent owners a legal monopoly over their inventions. Thus, patent owners can restrict others’ access to their inventions, or even exclude others from their inventions entirely, without violating the law.

3. Judiciary and Judicial Procedure

Congress created the United States Court of Appeals for the Federal Circuit with the Federal Courts Improvement Act of 1982.²⁹ A primary reason for creating the Federal Circuit was to provide uniformity to the application and interpretation of United States patent laws.³⁰ Thus, in contrast to regional circuit courts, which have jurisdiction based on geography, the Federal Circuit has jurisdiction based solely on subject matter.³¹ At the same time, however, the Federal Circuit remains on the same tier as the regional circuit courts.³² Regarding jurisdiction, 28 U.S.C. § 1295 states,

(a) The United States Court of Appeals for the Federal Circuit shall have exclusive jurisdiction—

(1) of an appeal from a final decision of a district court . . . if the jurisdiction of that court was based, in whole or in part, on section 1338 of this title, except that a case involving a claim arising under any Act of Congress relating to copyrights, exclusive rights in mask works, or trademarks and no other claims under section 1338(a) shall be governed by sections 1291, 1292, and 1294 of this title;³³

Looking to 28 U.S.C. § 1338, subsections (a) and (b) state,

(a) The district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents, plant variety protection, copyrights and trademarks. Such jurisdiction shall be exclusive of the courts of the states in patent, plant variety protection and copyright cases.

(b) The district courts shall have original jurisdiction of any civil action

28. 35 U.S.C. § 271(d) (2000).

29. S. REP. NO. 97-275, at 2–7 (1982), as reprinted in 1982 U.S.C.C.A.N. 11, 12–17.

30. *Id.* at 2. See also Patrick H. Moran, *The Federal and Ninth Circuits Square Off: Refusal to Deal and the Precarious Intersection Between Antitrust and Patent Laws*, 87 MARQ. L. REV. 387, 398–400 (2003).

31. S. REP. NO. 275, at 3. 28 U.S.C. § 1294 captures which regional circuit court a district court falls under based on geography. 28 U.S.C. § 1294 (2000).

32. S. REP. NO. 275, at 2–3.

33. 28 U.S.C. § 1295 (2000).

asserting a claim of unfair competition when joined with a substantial and related claim under the copyright, patent, plant variety protection or trademark laws.³⁴

Therefore, in patent matters, Congress has given original jurisdiction to only federal district courts; furthermore, appellate jurisdiction lies only with the Federal Circuit. In contrast, in trademark and copyright matters, Congress has given original jurisdiction to federal district courts; however appellate jurisdiction lies with the regional circuit courts rather than the Federal Circuit.³⁵

It is further noteworthy that under 28 U.S.C. § 1367, the Federal Circuit can exercise supplemental jurisdiction over other claims,³⁶ and when doing so is “guided by the law of the regional circuit in which that district court sits.”³⁷ Hence, if the Federal Circuit is deciding a patent matter under its original jurisdiction, it can also decide supplemental claims involving trademark, copyright, or even antitrust. However, in deciding such supplemental claims, the Federal Circuit must apply the law of the regional circuit in which the originating district court sits.

B. Related Cases

This section focuses on a dispute between Image Technical Services, Inc. and Eastman Kodak Company,³⁸ and a similar dispute between an

34. 28 U.S.C. § 1338 (2000).

35. This is shown by reading 28 U.S.C. §§ 1291, 1292, and 1294. Section 1291 addresses appealability of district court final decisions, stating,

The courts of appeals (other than the United States Court of Appeals for the Federal Circuit) shall have jurisdiction of appeals from all final decisions of the district courts . . . except where a direct review may be had in the Supreme Court. The jurisdiction of the United States Court of Appeals for the Federal Circuit shall be limited to the jurisdiction described in sections 1292(c) and (d) and 1295 of this title.

28 U.S.C. § 1291 (2000). Section 1292 addresses interlocutory decisions in a similar fashion. 28 U.S.C. § 1292 (2000). Finally, § 1294 captures which regional circuit court a district court falls within based on geography. See § 1294, *supra* note 31.

36. 28 U.S.C. § 1367 provides:

[I]n any civil action of which the district courts have original jurisdiction, the district courts shall have supplemental jurisdiction over all other claims that are so related to claims in the action within such original jurisdiction that they form part of the same case or controversy under Article III of the United States Constitution.

28 U.S.C. § 1367 (2000).

37. *In re Indep. Serv. Org. Antitrust Litig.* (CSU), 203 F.3d 1322, 1325 (Fed. Cir. 2000).

38. This dispute spans several cases due to appeals and remands. Of these cases, the more significant ones discussed herein are *Eastman Kodak Co. v. Image Technical Servs. Inc.* (Kodak I), 504 U.S. 451 (1992), and *Image Technical Servs. Inc. v. Eastman Kodak Co.* (Kodak II), 125 F.3d 1195 (9th Cir. 1997).

independent service organization, CSU, and Xerox.³⁹ This section also frames the controversy generally by analyzing an earlier case, *Ethyl Gasoline Corp. v. United States*.⁴⁰ In presenting these cases, this section first addresses the pertinent Supreme Court cases and then considers the conflict between the Federal and Ninth Circuits.

1. The Supreme Court Cases

Ethyl Gasoline provided a 1940s view of the confounding intersect between patent and antitrust laws.⁴¹ Ethyl Gasoline owned patent rights on a lead-based fuel additive which improved the efficiency of engine fuel combustion.⁴² These patent rights included the additive itself and the fuel-additive mixture.⁴³ Ethyl Gasoline was found to have violated the Sherman Act though various licensing agreements made with fuel refiners and fuel resellers, which gave Ethyl Gasoline ability to control price after having licensed the patented product.⁴⁴

Despite finding that Ethyl Gasoline had substantial rights to control the sale and usage of its patented product, the Court held that in the context of a license, a patent holder cannot “enlarge his monopoly and thus acquire some other which the statute and the patent together did not give.”⁴⁵ According to the Court, a patent holder

may not, by virtue of his patent, condition his license so as to tie to the use of the patented device . . . the use of other devices, . . . *which lie outside of the monopoly of the patent licensed*; or condition the license so as to control conduct by the licensee not embraced in the patent monopoly; or upon the maintenance of resale prices by the purchaser of the patented article.⁴⁶

Ethyl Gasoline establishes the critical principle, as true today as it was sixty years ago, that a legally granted monopoly cannot extend beyond the scope of the patent.⁴⁷ Any such extension by whatever means violates the Sherman Act.⁴⁸

39. *CSU*, 203 F.3d at 1322.

40. 309 U.S. 436 (1940).

41. *Id.*

42. *Id.* at 446.

43. *Id.*

44. *Id.* at 457–58.

45. *Id.* at 456.

46. *Id.* at 456–57 (emphasis added) (citations omitted).

47. *Id.*

48. *See id.* at 458.

More recently, the Supreme Court decided *Eastman Kodak Co. v. Image Technical Services Inc. (Kodak I)*.⁴⁹ The case involved activity by Kodak relating to its parts and service business for its image reproduction equipment.⁵⁰ Kodak refused to sell replacement parts for its equipment to independent service organizations (ISOs).⁵¹ These ISOs sued Kodak for antitrust violations under sections 1 and 2 of the Sherman Act.⁵²

The section 1 claim related to an unlawful tying of the service market to the parts market.⁵³ Section 1 of the Sherman Act states, “Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is declared to be illegal.”⁵⁴ Specifically, “A tying arrangement is ‘an agreement by a party to sell one product but only on the condition that the buyer also purchases [sic] a different (or tied) product, or at least agrees that he will not purchase that product from any other supplier.’”⁵⁵ To prevail on a section 1 claim under the Sherman Act, the plaintiff must show that the defendant seller has “‘appreciable economic power’ in the tying product market and . . . the arrangement affects a substantial volume of commerce in the tied market.”⁵⁶

The section 2 claim alleged that Kodak “monopolized, or attempted to monopolize, the service and parts market”⁵⁷

At trial, the district court granted summary judgment to Kodak on both claims.⁵⁸ On appeal from the district court, the Ninth Circuit Court

49. 504 U.S. 451 (1992).

50. *Id.*

51. *Id.* at 455. Kodak implemented a new policy in 1985 of “selling replacement parts for micrographic and copying machines only to buyers of Kodak equipment who use Kodak service or repair their own machines.” *Id.* at 458. In addition, an aspect of this policy also included an agreement between Kodak and its Original Equipment Manufacturers (OEMs) for parts. This agreement consisted of the OEMs “not sell[ing] parts that fit Kodak equipment to anyone other than Kodak.” *Id.* The effect of these policies greatly limited the ISOs access to Kodak parts and thus their ability to offer service to companies that owned Kodak equipment. *Id.*

52. *Id.* at 456.

53. *Id.* at 459.

54. 15 U.S.C. § 1 (2000).

55. *Kodak I*, 504 U.S. at 461 (quoting *N. Pac. R.R. Co. v. United States*, 356 U.S. 1, 5–6 (1958)).

56. *Id.* at 462 (quoting *Fortner Enters., Inc. v. United States Steel Corp.*, 394 U.S. 495 (1969)).

57. *Id.* at 480–81. Section 2 of the Sherman Act is quoted at *supra* Part II.A.1.

58. *Kodak I*, 504 U.S. at 459. Regarding the section 1 tying claim, the district court considered the argument by the ISOs to consist of a tying between service and actual Kodak micrographic and copying equipment, not parts for that equipment. *Id.* Thus, the district court found “no evidence of a tying arrangement” *Id.* Regarding the section 2 claim, the district court held that “although Kodak had a ‘natural monopoly over the market for parts it sells under its name,’ a unilateral refusal to sell those parts to ISO’s did not violate § 2.” *Id.*

of Appeals reversed both claims.⁵⁹ Regarding the section 1 tying claim, the Ninth Circuit found that the district court misconstrued the ISO's tying claim as service tied to *equipment* instead of service tied to *parts*.⁶⁰ Nonetheless, Kodak argued for a rule of law that would prohibit a section 1 tying violation in derivative markets—namely parts and service markets—when the accused lacked monopoly power in the primary market—namely the equipment market.⁶¹ The reasoning of Kodak's argument was that lack of market power in the equipment market prevented it from making significant price increases in parts and service since such action would lead consumers to buy equipment from Kodak's competitors.⁶² The appellate court declined to create a broad rule regarding primary and derivative markets, and refused to uphold summary judgment in favor of Kodak stating that with the correct theory of tying service to parts the case presented a disputed issue of material fact.⁶³ Furthermore, the Ninth Circuit found a disputed issue of material fact regarding the section 2 "refusal to deal" claim.⁶⁴

After the Ninth Circuit's decision to remand the case for further discovery and resolution, the Supreme Court granted certiorari, ultimately affirming the appellate court before sending the case back to trial for further discovery and resolution.⁶⁵ Justice Blackmun's opening comments indicate that the Court granted certiorari specifically to review the section 1 tying issue of "whether a defendant's lack of market power in the primary equipment market precludes—as a matter of law—the possibility of market power in derivative aftermarkets."⁶⁶

In addition to affirming the appellate court's holding that lack of market power in the primary market does not preclude a section 1 tying violation in a derivative market under the Sherman Act, the Court in

59. *Id.* at 460.

60. *Image Technical Servs., Inc. v. Eastman Kodak Co.*, 903 F.2d 612, 615–616 (9th Cir. 1990). This citation refers to the first instance when this dispute came to the Ninth Circuit, before going to the Supreme Court in *Kodak I* and then back to the Ninth Circuit on remand in *Kodak II*.

61. *Id.* at 616.

62. *Id.* In other words, the natural market forces would check any monopoly power that a manufacturer would have in derivative markets.

63. *Id.* at 617.

64. *Id.* at 620. A refusal to deal claim is a term of art used to describe a party's refusal to sell or license its patented product. *Schor v. Abbott Labs.*, 378 F. Supp. 2d 850, 856 (N.D. Ill. 2005), *aff'd*, 457 F.3d 608 (7th Cir. 2006), *petition for cert. filed*, 2006 WL 3037912 (U.S. Oct. 24, 2006) (No. 06-577).

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

66. *Id.* at 455. In fact, 19 pages of the lengthy majority opinion directly address the section 1 tying claim, while six pages address the section 2 claim. Furthermore, when discussing the section 2 claim, the Court's analysis is very basic, merely discounting Kodak's three justifications for its policy—none of Kodak's justifications here were based explicitly on Kodak's patents—and concluding that the ISOs have enough to survive summary judgment based on the incomplete record before the Court. *Id.* at 480–86.

Kodak I addressed the section 2 claim of the ISOs.⁶⁷ The Court established two required elements for demonstrating a monopoly claim: “possession of monopoly power in the relevant market and . . . the willful acquisition or maintenance of that power as distinguished from growth or development as a consequence of a superior product, business acumen, or historic accident.”⁶⁸

Regarding the first element, possession of monopoly power in the relevant market, the Court held that “[t]he proper market definition in this case can be determined only after a factual inquiry into the ‘commercial realities’ faced by consumers.”⁶⁹ The Court here clearly emphasizes that the ability of consumers to substitute and interchange a product will be critically important in defining a relevant market for antitrust purposes.⁷⁰ In this case, the Court limited the relevant market to Kodak’s single brand of replacement parts and service. In considering the possession of monopoly power, the Court quickly noted a triable issue because of the ISOs’ “evidence that Kodak controls nearly 100% of the parts market and 80% to 95% of the service market.”⁷¹

The Court addressed the second element of a section 2 claim, gaining a competitive advantage, in light of a company’s ability or right to refuse to deal with other parties.⁷² The Court noted that “[i]t is true that as a general matter a firm can refuse to deal with its competitors. But such a right is not absolute; it exists only if there are legitimate

67. *Id.* 480–86.

68. *Id.* at 481. The Court states that these are the two elements for a violation of section 2 of the Sherman Act. *Id.* Often these two elements will be seen as three elements with the addition of, causing injury to competition. See *supra* note 26 and accompanying text. In addition to the Court’s noted exceptions to exercising monopoly power—superior product, business acumen, or historical accident—in a footnote to the opinion, the Court added to these, “[S]ome natural and legal advantage such as a patent [or] copyright.” *Kodak I*, 504 U.S. at 480 n.29.

69. *Kodak I*, 504 U.S. at 482. More specifically, the Court held that “a single brand of a product or service” can be a relevant market. *Id.* at 481. The Court stated that

[t]he relevant market for antitrust purposes is determined by the choices available to Kodak equipment owners. Because service and parts for Kodak equipment are not interchangeable with other manufacturers’ service and parts, the relevant market from the Kodak equipment owner’s perspective is composed of only those companies that service Kodak machines.

Id. at 481–82 (citation omitted).

70. *Id.*

71. *Id.* at 481. The possession of monopoly power is a critical inquiry into any section 2 Sherman Act violation. Much of the case law on this matter involves the question of what specific market percentages are required to constitute a monopoly. See *Image Technical Servs. Inc. v. Eastman Kodak Co.* (*Kodak II*), 125 F.3d 1195, 1206 (9th Cir. 1997). However, for the purposes of this Casenote, the inquiry into possession of monopoly power is unimportant because the marketshares in the cases discussed reach nearly 100%. *Kodak I*, 504 U.S. at 481.

72. See *Kodak I*, 504 U.S. at 483.

competitive reasons for the refusal.”⁷³

2. The Ninth and Federal Circuits Split

In *Image Technical Services, Inc. v. Eastman Kodak Co. (Kodak II)*,⁷⁴ the Supreme Court’s decision to remand in *Kodak I* found its way back to the Ninth Circuit Court of Appeals, but this time the ISOs brought only the section 2 Sherman Act claim.⁷⁵ On remand, the trial court jury awarded damages of \$71.8 million to the ISO plaintiffs.⁷⁶ Kodak then appealed to the Ninth Circuit.⁷⁷

In *Kodak II*, the Ninth Circuit addressed the section 2 Sherman Act violation on separate theories of monopoly and attempted monopoly by Kodak.⁷⁸ The Ninth Circuit outlined the requirements to succeed on an attempted monopoly claim as including: “(1) a specific intent to control prices or destroy competition; (2) predatory or anticompetitive conduct directed at accomplishing that purpose; (3) a dangerous probability of achieving ‘monopoly power,’ and (4) causal antitrust injury.”⁷⁹ For the ISOs to succeed on monopoly theory, the Ninth Circuit held that Kodak must have “(1) possessed monopoly power in the relevant market and (2) willfully acquired or maintained that power.”⁸⁰

The Ninth Circuit explained that under the monopoly theory, a plaintiff could prove monopoly power by circumstantial evidence if a plaintiff could “(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.”⁸¹

73. *Id.* at n.32. The Court found that liability for “exclusionary action to maintain . . . monopol[ies] and . . . strengthen . . . monopoly share” turns on whether there are “valid business reasons” to explain such actions. *Id.* at 483.

74. 125 F.3d 1195 (9th Cir. 1997).

75. *Id.* at 1201.

76. *Id.* at 1200. The trial court also issued an injunction which required Kodak “to sell all parts to ISOs on ‘reasonable and nondiscriminatory terms and prices.’” *Id.* at 1201.

77. *Id.* at 1195.

78. *Id.* at 1202. Prior to this point, *Kodak I* dealt with the section 2 violation based on a monopoly theory.

79. *Id.* at 1202.

80. *Id.* The Ninth Circuit noted that Kodak attacked the claim based on the monopoly theory since “success would likely upset the ‘attempt’ verdict as well.” *Id.* Notice that the monopoly elements here are the same as in *Kodak I* discussed *supra* note 68 and accompanying text; and, for all intents and purposes, the elements here are synonymous with the monopoly leveraging elements articulated *supra* at Part II.A.1.

81. *Kodak II*, 125 F.3d at 1202.

After concluding that Kodak had monopoly power and used that power to exclude competitors,⁸² the court stated that even if “Kodak has both attained monopoly power and exercised exclusionary conduct [our inquiry] does not end Kodak’s conduct may not be actionable if supported by a legitimate business justification.”⁸³

Kodak then attempted to justify its exclusionary business practice based on its patent rights in its parts, something it had not done in the earlier trials.⁸⁴ Kodak alleged that its intellectual property rights were a “natural competitive advantage[]”⁸⁵ that could be used without violating the antitrust laws.⁸⁶ This created a novel question for the Ninth Circuit because previous justifications had not been based upon statutory monopoly grants under the patent laws.⁸⁷ The key task for the Ninth Circuit was to “determine the significance of a monopolist’s unilateral refusal to sell or license a patented or copyrighted product in the context of a § 2 monopolization claim based upon monopoly leveraging.”⁸⁸

Proceeding gingerly, the Ninth Circuit discussed the policy aims behind patent and antitrust laws and then highlighted two principles regarding the intersection between these laws.⁸⁹ First, “neither patent nor copyright holders are immune from antitrust liability,”⁹⁰ and second, “patent and copyright holders may refuse to sell or license protected work.”⁹¹ Building on these principles, the Ninth Circuit quoted the Court in *Kodak I*, stating 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.’”⁹² Ultimately, the Ninth Circuit concluded that,

82. *Id.* at 1202–12.

83. *Id.* at 1212 (citing *Eastman Kodak Co. v. Image Technical Servs. Inc. (Kodak I)*, 504 U.S. 451, 483 (1992)). In the context of *Kodak I*, reference to a valid business justification referred to an earlier Supreme Court case, *Aspen Skiing Co. v. Aspen Highlands Skiing Corp.*, 472 U.S. 585, 602–605 (1985). *Aspen Skiing* explained that a valid business justification existed when a legitimate competitive reason supported the justification. *Kodak I*, 504 U.S. at 483 n.32.

84. *Kodak II*, 125 F.3d at 1214.

85. *Id.* at 1214.

86. *Id.*

87. *Id.* The justifications Kodak put forth in *Kodak I* 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.” *Kodak I*, 504 U.S. at 483.

88. *Kodak II*, 125 F.3d at 1214.

89. *Id.* at 1214–15.

90. *Id.* at 1215.

91. *Id.*

92. *Id.* (quoting *Kodak I*, 504 U.S. at 479 n.29).

To assure [adequate consideration of the legal monopoly rights of a patent holder] we . . . hold that ‘while exclusionary conduct can include a monopolist’s unilateral refusal to license a [patent or] copyright,’ or to sell its patented or copyrighted work, a monopolist’s ‘desire to exclude others from its [protected] work is a presumptively valid business justification for any immediate harm to consumers.’⁹³

However, the Ninth Circuit holding did not stop there, and allowed the plaintiff alleging antitrust violations to rebut the presumption of a justification based on patents.⁹⁴ According to the Ninth Circuit, a plaintiff could rebut the presumption in two ways. First, the plaintiff could show that the patent “acquired the protection of the intellectual property laws in an unlawful manner.”⁹⁵ Second, “[t]he presumption [could] be rebutted by evidence of pretext.”⁹⁶ In deciding against Kodak, the Ninth Circuit stated that since Kodak made a “blanket refusal [to deal] that included [patented] and [unpatented] products . . . it is more probable than not that the jury would have found Kodak’s presumptively valid business justification rebutted on the grounds of pretext.”⁹⁷ Thus, the Ninth Circuit adopted and applied a presumptively valid yet rebuttable presumption approach to a business justification based on patent rights.

Nearly three years later, the Federal Circuit decided *In re Independent Service Organizations Antitrust Litigation (CSU)*.⁹⁸ The case involved almost identical facts to the earlier Kodak case. CSU, an ISO, sued Xerox Corporation for a section 2 Sherman Act violation.⁹⁹ Like *Kodak I* and *Kodak II*, *CSU* was a refusal to deal case. In *CSU*, Xerox refused to sell patented parts, copyrighted manuals, and copyrighted software to CSU and other ISOs.¹⁰⁰ In contrast to *Kodak II*, which was appealed to the regional circuit court of appeals, *CSU* was appealed to the Federal Circuit Court of Appeals because Xerox counterclaimed for patent infringement, which invoked the Federal Circuit’s jurisdiction under 28

93. *Id.* at 1218. (quoting *Data Gen. Corp. v. Grumman Sys. Support Corp.*, 36 F.3d 1147, 1187 (1st Cir. 1994)) (second and third alterations in original). See *infra* note 169.

94. *Kodak II*, 125 F.3d at 1219.

95. *Id.* (citing *Data Gen.*, 36 F.3d at 1188).

96. *Id.* at 1219 (citing *Kodak I*, 504 U.S. at 484). In another part of its opinion, the court in *Kodak II* explained the rebuttable basis to the presumption as either pretext or not legitimately promoting competition. See *id.* at 1212. Although it is not clear what the *legitimately promoting competition* language adds to these rebuttable bases, this language is treated as merely a further explanation of what would qualify as a pretext under *Kodak II*.

97. *Id.* at 1219–1220. It is noteworthy that the Court made no finding that Kodak obtained any of its parts patents in an unlawful manner.

98. 203 F.3d 1322, 1325 (Fed. Cir. 2000).

99. *Id.* at 1324.

100. *Id.*

U.S.C. § 1295.¹⁰¹

In determining the outcome of whether Xerox's patents provided Xerox with immunity to antitrust laws, the Federal Circuit did not use the same rebuttable presumption standard of the Ninth Circuit. Instead the Federal Circuit compared this inquiry to the standards used when a patent owner sues for infringement.¹⁰² The Federal Circuit noted from its prior case law that

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 the antitrust laws, even though such a suit may have an anticompetitive effect, unless the infringement defendant proves one of two conditions. First, he may prove that the asserted patent was obtained through knowing and willful fraud Or he may demonstrate that the infringement suit was a mere sham to cover what is actually no more than an attempt to interfere directly with the business relationships of a competitor.¹⁰³

Developing further the sham exception, the Federal Circuit made clear that this exception included two requirements.¹⁰⁴ "[A]n antitrust plaintiff must prove that the suit was both *objectively* baseless and *subjectively* motivated by a desire to impose collateral, anti-competitive injury rather than to obtain a justifiable legal remedy."¹⁰⁵ Since the requirements here are conjunctive, if the suit was not objectively baseless, then the subjective motivation of the alleged antitrust violator in asserting his patent rights is irrelevant.¹⁰⁶

CSU argued that the Ninth Circuit's rebuttable presumption test allows CSU to rebut Xerox's patent rights justification by proving that Xerox's assertion of its patent rights was a pretext.¹⁰⁷ According to the Ninth Circuit's test, to accomplish this, CSU would have to prove that

101. *Id.* Xerox also had counterclaims for copyright infringement as well as contesting and defending against CSU's claims and defenses. *Id.* There has been controversy regarding how cases such as *CSU* find their way to the Federal Circuit Court of Appeals. This controversy rests on a defendant's counterclaim bringing patents into the purview of the court instead of the plaintiff's well-pleaded complaint. In this regard, some argue that only the plaintiff's well-pleaded complaint is relevant for determining the proper jurisdiction. Those who take this view believe cases like *CSU* should not go to the Federal Circuit, but rather to the regional circuit courts. See Patrick H. Moran, *The Federal and Ninth Circuits Square Off: Refusals to Deal and the Precarious Intersection Between Antitrust and Patent Law*, 87 MARQ. L. REV. 387, 398–404 (2003); see also *infra* notes 132–134 and accompanying text.

102. *CSU*, 203 F.3d at 1326.

103. *Id.* (citation omitted).

104. *Id.*

105. *Id.*

106. *Id.*

107. *Id.* at 1327.

Xerox's subjective motivation was anticompetitive in nature rather than simply a desire to protect its property rights.¹⁰⁸ The Federal Circuit rejected the Ninth Circuit test and CSU's argument, noting that it allowed for the subjective motivation of the party refusing to deal to be dispositive without considering the objective basis of, or justification for, the suit.¹⁰⁹

Thus, the Federal Circuit applied an established patent infringement standard to enforce a patent owner's right to refuse to sell or license patented works.¹¹⁰ The Federal Circuit saw no need for a different or lesser standard just because the patent owner is sued under an antitrust theory for doing that which the patent laws allow—refusing to sell or license its patented works.¹¹¹ The Federal Circuit held,

In 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. We therefore will not inquire into his subjective motivation for exerting 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.¹¹²

Also, the Federal Circuit rejected part of the Ninth Circuit's interpretation of the Supreme Court opinion in *Kodak I*. In emphasizing the subjective motivation of the patent holder as a basis for rebutting a patent justification to antitrust liability, the Ninth Circuit relied upon the Supreme Court's statement in *Kodak I* that "[t]he Court has held many times 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.'"¹¹³ However, the Federal Circuit concluded that this statement from *Kodak I* specifically addressed the section 1 tying claim, and the Court's statement in *Kodak I* merely stands for the "premise that the patent holder cannot use his statutory right to refuse to sell patented parts to gain a monopoly in a market *beyond the scope of the patent*."¹¹⁴ In this

108. *See id.*

109. *See id.*

110. *Id.* at 1326–28.

111. *See id.* at 1327.

112. *Id.* at 1327–28. Thus under the Federal Circuit's approach, the objective inquiry is critical and relates directly to an assessment of the scope of the statutory patent grant.

113. *Id.* at 1326–27.

114. *Id.* at 1327.

respect, the Federal Circuit recognized a threshold question of “whether [a patent owner’s] refusal to sell its patented [product] exceeds the scope of the patent grant”¹¹⁵ This threshold question is entirely consistent with the holding in *Ethyl Gasoline* that a legally granted monopoly cannot extend beyond the scope of the patent.¹¹⁶

In its *CSU* decision, the Federal Circuit affirmed the district court, concluding that Xerox did not violate any antitrust provisions by relying on its patent rights to refuse to sell or license its patented work to CSU and other ISOs.¹¹⁷ The court decided the threshold question in favor of Xerox, namely that the scope of Xerox’s patents encompassed the right to refuse to sell or license the patented parts to the ISOs.¹¹⁸

III. *SCHOR V. ABBOTT LABORATORIES*

The *Schor* court faced a host of challenges when reviewing the case at issue. First, the Illinois district court had no Seventh Circuit or Supreme Court authority on point for an antitrust suit with a patent rights defense.¹¹⁹ What did exist was the split of authority between the Ninth and Federal Circuits.¹²⁰ Furthermore, the Ninth and Federal Circuit cases were not completely on point because *Schor* was not a literal refusal to deal situation, but rather a dramatic price increase.¹²¹ Because both parties in *Schor* used the refusal to deal cases as support for their position, the *Schor* court agreed “with the parties’ implicit assumption that it is appropriate to analogize refusal to deal cases with the price increase at issue here because if a patentee has the right to refuse to sell its product altogether, it has the right to raise the price.”¹²² So, the critical remaining question was which circuit the Illinois district court would follow in deciding *Schor*.

In addressing its task, the *Schor* court emphasized the elements necessary to prove a monopoly leveraging theory under section 2 of the Sherman Act.¹²³ The court stated that,

115. *Id.* at 1328.

116. *See supra* Part II.B.1.

117. *CSU*, 203 F.3d at 1328.

118. *Id.*

119. *Schor v. Abbott Lab.*, 378 F. Supp. 2d 850, 856–57 (N.D. Ill. 2005), *aff’d*, 457 F.3d 608 (7th Cir. 2006), *petition for cert. filed*, 2006 WL 3037912 (U.S. Oct. 24, 2006) (No. 06-577).

120. *Id.* at 857.

121. *See id.* at 856–57.

122. *Id.* at 856.

123. *Id.*

a plaintiff must prove that the monopolist: “(1) possesses monopoly power in the primary relevant market; (2) gained or attempted to gain a monopoly power in a second relevant market; and (3) willfully acquired the monopoly power by some exclusionary conduct and not through efficiency and innovation.”¹²⁴

After noting the circuit split in authority and the matter of first impression for the Seventh Circuit, the *Schor* court began its analysis by reviewing the Ninth Circuit decision in *Kodak II*.¹²⁵ The *Schor* court acknowledged that “[i]n *Kodak II* the Ninth Circuit extended earlier monopoly leveraging precedent to antitrust cases involving patented products, and limited a patent holder’s right to exclude others to a single market.”¹²⁶ Turning to *CSU*, the *Schor* court then discussed the Federal Circuit’s rejection of the Ninth Circuit law,¹²⁷ noting that according to the Federal Circuit, “absent ‘illegal tying, fraud in the Patent and Trademark Office, or sham litigation,’ a patentee may enforce its statutory rights ‘free from liability under the antitrust law.’”¹²⁸ Additionally, the *Schor* court recognized that the Federal Circuit differed from the Ninth Circuit because the Federal Circuit understood that “a patent holder’s right to exclude extends to any relevant market that involves the use, manufacture or sale of the invention[,]”¹²⁹ whereas the 9th Circuit did not.¹³⁰

Moving from the split in authority to the matter of the instant case, the *Schor* court discounted Abbott’s argument that the Federal Circuit must be followed because the *Schor* case involved patents.¹³¹ The *Schor* court noted that in 2002, the Supreme Court held that, “the congressional grant of jurisdiction to the Federal Circuit, requires that the plaintiff’s complaint ‘creates the cause of action.’”¹³² In this case, *Schor* alleged

124. *Id.* (quoting *Alaska Airlines Inc. v. United Airlines Inc.*, 948 F.2d 536, 547 (9th Cir. 1991)). The variant of the monopoly leveraging test presented here seems to combine the liability theories of attempted monopoly and monopoly into a single test with the addition of a second element—“gained or attempted to gain a monopoly power”—to the typical monopoly theory claim articulated in *Kodak II*. *Schor*, 378 F. Supp. 2d at 856. For the purposes of this Casenote, however, these distinctions do not carry significant weight.

125. *See id.* at 857.

126. *Id.*

127. *Id.* at 857–58.

128. *Id.* at 858.

129. *Id.*

130. *Id.*

131. *Id.*

132. *Id.* The *Schor* court cites to the Supreme Court’s decision in *Holmes Group, Inc. v. Vornado Air Circulation Systems, Inc.*, 535 U.S. 826, 829–830 (2002), noting that “[t]he Supreme Court . . . has significantly curtailed the Federal Circuit’s jurisdiction over antitrust claims, which had expanded during the 1990s.” *Schor*, 378 F. Supp. 2d at 858.

only antitrust violations and Abbott's defense of patent rights was not part of Schor's well-pleaded complaint.¹³³ However, the *Schor* court noted, "Federal Circuit law may nevertheless control the instant case . . . because. . . *the scope of the patent is an issue.*"¹³⁴

In deciding which circuit's law should be followed, the *Schor* court concluded that the Federal Circuit approach is correct because it is consistent with the case law and statutory language, which suggests courts "must consider the scope of the patent grant when determining whether an antitrust violation has occurred."¹³⁵ The *Schor* court reached this conclusion by recapping Supreme Court precedent and pointing out errors in the Ninth Circuit's application of *Kodak I* to *Kodak II*.¹³⁶

The Supreme Court precedent is clear, according to the *Schor* court, that a patent holder cannot extend the scope of his monopoly beyond the scope of his patent.¹³⁷ "Thus, patent law extends to protect a patent holder from antitrust liability in a second market that is encompassed by the patent claims."¹³⁸

Regarding the Ninth Circuit's application of *Kodak I* to *Kodak II*, the *Schor* court agreed with the Federal Circuit in *CSU* that the Ninth Circuit erred.¹³⁹ The *Schor* court reiterated the *CSU* decision, noting that the suggestion in *Kodak I* that "a patentee's expansion into a second market may be an antitrust violation," concerned the illegal tying claim under section 1 of the Sherman Act.¹⁴⁰ Furthermore, there had been no mention of Kodak's patent rights in *Kodak I* as a defense to the ISO antitrust allegations.¹⁴¹ The *Schor* court quoted *CSU* approvingly, stating: "Properly viewed within the framework of a tying case, [*Kodak I*] can be interpreted as restating the undisputed premise that the patent holder cannot use his statutory right to refuse to sell patented parts to gain a monopoly in a market *beyond the scope of the patent.*"¹⁴²

133. See *Schor*, 378 F. Supp. 2d at 852, 855. This is a somewhat less convincing argument for Federal Circuit jurisdiction compared to *CSU* because *CSU* involved a counterclaim for patent infringement whereas in *Schor* there is no such counterclaim but rather a defense of exercising valid patent rights.

134. *Id.* at 858 (emphasis added).

135. *Id.*

136. *Id.* at 859.

137. *Id.* at 858–59. The *Schor* court reviews the *Ethyl Gasoline* decision and others to support this assertion. *Schor*, 378 F. Supp. at 858–59.

138. *Id.* at 859.

139. *Id.*

140. *Id.*

141. *Id.*

142. *Id.* (quoting *In re Indep. Serv. Org. Antitrust Litig. (CSU)*, 203 F.3d 1322, 1327 (Fed. Cir. 2000)). In supporting this conclusion, the *Schor* court also noted section 271(d) of the Patent Act, which gives a patent owner the right to enforce his patent based on actions against the patent owner for

In ultimately applying the Federal Circuit law to the *Schor* facts, the court distinguished *Schor* from both *Kodak II* and *CSU*.¹⁴³ First, the *Schor* court addressed the scope of Abbott's patent for Norvir, acknowledging that "[Schor] does not challenge [Abbott's] assertion that its patents 'explicitly cover the use of Norvir as a 'booster' in combination with another [sic] PIs.'" ¹⁴⁴ Thus, according to the *Schor* court, there was no question that Abbott's patent, covering both the stand-alone Norvir market and the Norvir boosted PI market, protected Abbott.¹⁴⁵ The *Schor* court found this clarity absent in regard to the parts and service markets, and the related patents, in *Kodak II* and *CSU*.¹⁴⁶ Second, the *Schor* court recognized that *Schor* did not include an absolute refusal to deal, but rather an uninterrupted supply subject to a price increase.¹⁴⁷ In making this distinction, the court stated,

[T]he court is not unsympathetic to plaintiff's seemingly legitimate concerns that the drastic price increase will prevent him and other AIDS patents from receiving the best drug treatments for their disease, but antitrust laws do not impose liability for a business entity's failure to act morally or in the public interest.¹⁴⁸

With these distinctions made, the *Schor* court dismissed Schor's claim with prejudice, stating that Abbott "may not be held liable for a violation of section 2 of the Sherman Act for increasing the price of its patented product, even though that price increase may affect competition in a second market."¹⁴⁹

IV. DISCUSSION

The *Schor* court did a commendable job bringing much needed clarity to the intersection of patent and antitrust law. This Part of the Casenote argues that *Schor* is a model case in areas involving patent and antitrust issues. First, this discussion gives due attention to the Supreme Court opinions of *Ethyl Gasoline* and *Kodak I* to synthesize the broad precedent principals that still guide trial and appellate courts today.

refusing to license or use the owner's patented rights. *Id.* at 859; see also *supra* note 28 and accompanying text. The *Schor* court essentially acknowledged that section 271(d) includes what traditionally would be antitrust violations as not barring a patent owner from its right to enforce its legally secured monopoly. See *Schor*, 378 F. Supp. 2d at 859.

143. *Id.* at 859–60.

144. *Id.* at 859.

145. *Id.* at 860.

146. See *id.*

147. *Id.*

148. *Id.*

149. *Id.*

Second, the discussion turns to *Schor* and addresses the commendable aspects of that decision. Third, this Part presents policy reasons that support the *Schor* decision. Fourth, this Part discusses the impact of the *Schor* decision and makes recommendations for the future.

A. Supreme Court Broad Principals as Precedent

The Supreme Court cases provide guiding principles which govern claims involving the intersection of antitrust and patent law. First, in *Ethyl Gasoline*, the Court established the importance of focusing on the scope of the patent when considering antitrust conflicts.¹⁵⁰ It further held that actions that are outside the patent's scope do indeed raise an antitrust violation.¹⁵¹

Second, the Supreme Court's decision in *Kodak I* answers many questions concerning tying claims, yet answers little concerning section 2 monopoly leveraging claims. Probably the most telling aspect of the case is its well-cited footnote 29. From this footnote, a key principle deduced regarding section 2 claims involves the second element of such a claim—the willful acquisition or maintenance of monopoly power. Underlying this principle is the notion that monopoly power exercised through some natural right—business acumen, superior product, or historical accident—or some legal right—a patent or copyright¹⁵²—is not within the umbrella of a willful acquisition or maintenance of monopoly power for a section 2 Sherman Act violation.¹⁵³

In sum, these cases combine to support the proposition that natural or legal monopolies in a market do not demonstrate willful acquisition or maintenance of a monopoly in that market for antitrust purposes.

150. See *Ethyl Gasoline*, 309 U.S. 436, 455-59 (1940); see *supra* note 46 and accompanying text.

151. See *Ethyl Gasoline*, 309 U.S. at 456.

152. Within the case law there lacks clarity on what exactly is a natural monopoly and a legal monopoly. To bring clarity to this question, this Casenote views natural monopolies as those which occur without the direct aid of the legal system, such as business acumen, historical accident, and superior product. Legal monopolies by contrast require substantial legal intervention, hence a patent or copyright fit into this category.

153. This conclusion is not explicit in the Court's opinion, but is readily deduced from the way in which the majority opinion views the dissent's approach, and tailoring this exchange from a section 1 tying claim to a section 2 monopolization claim. The dissent argues that manufacturers have an inherent monopoly in the parts market for the equipment they manufacture. *Eastman Kodak Co. v. Image Technical Servs. Inc. (Kodak I)*, 504 U.S. 451, 487 (1992) (Scalia, J., dissenting). The majority for the Court does not readily dispute this concept. The dissent goes on to state that this inherent monopoly falls within the natural monopoly umbrella and as such is exempt from antitrust violations. *Id.* The dissent would be right if the claim made concerned only a section 2 monopolization claim. However, as the majority points out, this inherent or natural monopoly in the parts market does not sanction the manufacturers from violating the service market where the inherent or natural monopoly does not exist. *Id.* at 480 n.29.

Furthermore, when considering legal monopolies involving patents, courts must define the scope of the patent to ensure it encompasses the economic market in question.

B. Commendable Aspects of the Schor Decision

This section discusses four aspects of the *Schor* decision that promote clarity at the challenging intersection between patent and antitrust laws. First, *Schor* recognizes the determinative issue is the scope of the patent.¹⁵⁴ Second, *Schor* captures the distinction between a single economic market and the multiple markets that a patent's scope may encompass.¹⁵⁵ Third, *Schor* gives due credit to section 271(d) of the Patent Act and recognizes the exceptions to legal monopolies that would not protect against antitrust violations.¹⁵⁶ Fourth, *Schor* tackles this difficult intersection of the law directly and does not decide the case on narrow grounds specific to only the *Schor* facts.¹⁵⁷

1. Scope of the Patent

The *Schor* court was in a difficult yet flexible position at the commencement of the case. As the court noted, no binding precedent existed in the Seventh Circuit, and so the court could view both the Ninth Circuit and Federal Circuit law as persuasive.¹⁵⁸ Thus, the court was free to decide that Federal Circuit law was the better law to follow based on the simple but critical fact that the scope of the patent was at issue.

With the patent scope being critical, the *Schor* court could not consider the Ninth Circuit law because the Ninth Circuit in *Kodak II* downplayed the patent scope.¹⁵⁹ The reason the Ninth Circuit, and all regional circuits for that matter, downplay the scope of the patent is because interpreting patent scope at the appellate level in a regional court would signal a violation of 28 U.S.C. § 1295. Recall that § 1295

154. *See supra* Part III.

155. *Id.*

156. *Id.*

157. *Id.*

158. *Schor v. Abbott Labs.*, 378 F. Supp. 3d 850, 856–57 (N.D. Ill. 2005), *aff'd*, 457 F.3d 608 (7th Cir. 2006), *petition for cert. filed*, 2006 WL 3037912 (U.S. Oct. 24, 2006) (No. 06-577). The court does take note of Abbott's argument that the Federal Circuit law controls since the case involves patents, but discounts this as incorrect based on the Supreme Court's recent case law curtailing the Federal Circuit's jurisdiction by strictly enforcing the well-pleaded complaint rule. *See supra* notes 131, 132 and accompanying text.

159. *See discussion supra* Part II.B.2.

gives the Federal Circuit exclusive jurisdiction to appeals from actions relating to patents or actions based on unfair competition that include a substantial and related patent claim.¹⁶⁰ Therefore, the regional circuits encounter predicaments when they try to avoid relinquishing jurisdiction to the Federal Circuit by deciding cases on grounds that only indirectly consider patent impacts. As a federal district trial court having jurisdiction to address cases involving patents, the *Schor* court does not have the same predicament as the regional circuit appellate courts.¹⁶¹ Moreover, the *Schor* court recognizes this pitfall taken by the Ninth Circuit courts and avoids following its questionable approach of minimizing the patent issues at hand.

2. The Distinction in Markets

The *Schor* decision should serve as a model because the court correctly recognized that antitrust questions involving patents require special attention to defining the relevant markets in question. Specifically, antitrust claims must be treated differently depending on whether patents or similar legal monopolies are involved as compared to when such legal monopolies are not involved. The regional circuits that fail to recognize this, such as the Ninth Circuit in *Kodak II*, treat all antitrust claims the same, and consider every market finite and autonomous. The critical inquiry in antitrust cases involving patents is to determine which markets fall within the patent scope. Collectively, all markets encompassed by the patent scope are then the relevant world for considering antitrust violations.

Whether a plaintiff sues under a section 1 tying claim or a section 2 monopoly claim, the relevant *market* when patents are involved actually may become the relevant *markets*, depending on the scope of the patent. Restating this principle in abstract terms may add clarity. Imagine two economic markets, A and B. Imagine also company X having a patent on a product with claims covering both economic markets A and B. Collectively, the market covered by the patent, can be thought of as C, which equals A plus B.

In the case of a tying claim, more than one relevant market must exist, or there can be no tying of one market to another. In such a case where a patent exists, the relevant market is C; as such there can be no illegal tying of market A to B or vice versa.

In the case of a monopolization claim under section 2 asserting

160. See 28 U.S.C. § 1295 (2000); see also *supra* note 33 and accompanying text.

161. See 28 U.S.C. § 1338 (2000); see also *supra* note 34 and accompanying text.

monopoly leveraging, there must be monopoly power in the relevant market that is leveraged to gain an unfair competitive advantage in *another* market. Again, where patents are involved the legally granted monopoly power covers C and there can be no leveraging of A to gain an unfair competitive advantage in B or vice versa. The *Schor* court and the Federal Circuit correctly recognize this critical distinction,¹⁶² whereas the Ninth Circuit ignores this critical distinction and views all economic markets as distinct markets regardless of the breadth of the patent's coverage.¹⁶³

3. Exceptions to the Legal Monopoly Justification and Section 271(d) of the Patent Act

The *Schor* court's decision and analysis also correctly refused to give dispositive weight to Abbott's subjective intent in exercising its patent rights by increasing the price of its pharmaceutical. In taking this approach, the *Schor* court correctly gave due credit to section 271(d) of the Patent Act.¹⁶⁴

As the Federal Circuit and the *Schor* court highlight, there are exceptions to the exception, meaning there are exceptions where legal monopolies such as patent rights, do not exempt antitrust liability. However, these exceptions are narrow. According to the Federal Circuit and the *Schor* court, *when patents are involved*, only where a patent is obtained by fraud or where a patentee brings a baseless suit for infringement—sham litigation—will liability attach for antitrust violations.¹⁶⁵ Furthermore, *when patents are involved*, the sham litigation exception involves both an objective and subjective requirement.¹⁶⁶ These exceptions, which result in antitrust liability, create a standard different from that of the Ninth Circuit's rebuttable presumption approach.

The commendable aspect of the *Schor* decision is the court's recognition of the two distinct sets of exceptions that will result in antitrust liability, and knowing when each set of exceptions applies. The

162. See *supra* Parts III, II.B.2.

163. See Michael H. Kauffman, *Image Technical Services, Inc. v. Eastman Kodak Co.: Taking One Step Forward and Two Steps Back in Reconciling Intellectual Property Rights and Antitrust Liability*, 34 WAKE FOREST L. REV. 471, 513–14 (1999).

164. See *supra* note 142.

165. See *In re Indep. Serv. Org. Antitrust Litig. (CSU)*, 203 F.3d 1322 (Fed. Cir. 2000); *Schor v. Abbott Lab.*, 378 F. Supp. 2d 850 (N.D. Ill. 2005), *aff'd*, 457 F.3d 608 (7th Cir. 2006), *petition for cert. filed*, 2006 WL 3037912 (U.S. Oct. 24, 2006) (No. 06-577); see also *supra* notes 103, 128 and accompanying text.

166. See *supra* notes 104–109 and accompanying text.

Schor decision can be recast as applying the less stringent set of exceptions—requiring only a showing of pretext or lack of legitimately promoting competition—to the world where legal monopolies *are not* the business justification for avoiding alleged antitrust liability,¹⁶⁷ and the more stringent exception—requiring a showing of fraud or sham litigation—to the world where legal monopolies *are* the business justification for avoiding alleged antitrust activity. The Ninth Circuit erred in failing to recognize this distinction and taking a one-size-fits-all approach by applying the less stringent set of exceptions—showing pretext or a lack of legitimate promotion of competition—to all business justifications, including legal monopoly business justifications. This resulted in the Ninth Circuit incorrectly giving dispositive weight to the subjective motivation of the alleged antitrust violator, without any consideration of the objective basis as evidenced by the scope of the patent grant.

As stated above, the *Schor* court, in contrast to the Ninth Circuit, recognized and correctly applied only the more stringent set of exceptions to cases involving legal monopoly business justifications.¹⁶⁸ In recognizing the above distinction, *Schor* did not consider the subjective intent of a patent owner's conduct in exercising his patent rights. This analysis is consistent with section 271(d) of the Patent Act, which prohibits finding a patent owner guilty of illegally extending his patent right by refusing to deal or license his invention. Thus, section 271(d) of the Patent Act suggests that a patent owner's reasons for not dealing with their patent rights are irrelevant to any claim of illegally extending the patent. The Ninth Circuit's pretextual basis of rebutting any and all business justifications goes completely contrary to this premise because determining pretext is determining subjective intent behind certain conduct. While this may be a good policy for some business justifications, it is not a coherent policy for business justifications involving patents.¹⁶⁹

167. Where legal monopolies are not the business justification, some other basis provides the justification, for example quality or safety to the consumer.

168. See *supra* note 128 and accompanying text.

169. The Ninth Circuit, in arriving at an erroneous and opposite conclusion, followed a First Circuit case involving a copyright infringement action with antitrust counterclaims. *Data Gen. Corp. v. Grumman Sys. Support Corp.*, 36 F.3d 1147, 1155 (1st Cir. 1994). In *Data General*, the First Circuit recognized that section 271(d) of the Patent Act specifically exempted antitrust liability for patent owners refusing to sell or license their patented inventions. *Id.* at 1187. The First Circuit compared the Copyright Act with section 271(d) of the Patent Act, and noted that a similar antitrust liability exemption did not exist in the Copyright Act. *Id.* The Ninth Circuit overlooked the importance of this distinction and adopted the test from *Data General* applying it to patents despite the First Circuit's explicit distinction among copyrights, patents, and antitrust liability. See *supra* note 93 and accompanying text.

By refusing to adopt the Ninth Circuit law, *Schor* avoided undermining patent and antitrust policy—promoting advancement through incentivizing innovation while preserving competition.¹⁷⁰ When a legitimate promotion of competition in the short-term was absent, the Ninth Circuit would find pretext and not permit a patent business justification to exempt antitrust liability.¹⁷¹ However, this approach is inconsistent with the statutory policy underlying patent and antitrust law. Essentially, where a patent is a business justification, it is a matter of law that the patent coverage granted promotes advancement of the arts within the legal bounds of competition; otherwise, a patent would not be granted in the first place. While a patent may have an anti-competitive effect in the short term, *overall* there can be no such thing as a valid patent that, in the eyes of the founding fathers and Congress, does not promote advancement of the arts within the legal bounds of competition.¹⁷² In sum, the *Schor* court recognized these contradictions and shortcomings of the Ninth Circuit test and as such followed the Federal Circuit's standards regarding when a legal monopoly justification will not exempt antitrust liability.¹⁷³

4. Tackling the Issue Directly

The *Schor* decision was also a model decision because it tackled the difficult intersection between antitrust and patent law directly. The court in *Schor* had opportunities to distinguish the case by focusing narrowly on facts that would have enabled the court to avoid taking a definitive stand on the split between the Ninth and Federal Circuits. However, the *Schor* court steadfastly and deliberately identified and analyzed the relevant issues, adding much needed clarity to this confounding intersection of antitrust and patent law.

First, the court in *Schor* noted that Schor's complaint alleged two markets, one for Norvir as a stand-alone drug and one for PIs boosted with Norvir.¹⁷⁴ The *Schor* court could have ended the dispute early by concluding that, in fact, two markets did not exist and thus Schor could

170. See *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141 (1989) (J. O'Connor stating, "The Patent Clause itself reflects a balance between the need to encourage innovation and the avoidance of monopolies which stifle competition without any concomitant advance in the 'Progress of Science and useful Arts.'").

171. . See *supra* note 96 and accompanying text.

172. See *supra* notes 1 and 170 and accompanying text.

173. The *Schor* court briefly noted that none of the exceptions were at issue, which made it easy to find that Abbott's legal monopoly based on its patents was a valid business justification that exempted it from antitrust liability on the facts present. *Schor*, 378 F. Supp. 2d at 858.

174. See *supra* notes 7 and 11 and accompanying text.

have no claim against Abbott for unlawful leveraging. Based on prior precedent in *Kodak I*, it is clear that consumer realities are critical in defining markets.¹⁷⁵ Because the facts plainly establish that Norvir as a stand-alone product was not feasible due to adverse side effects, no consumer market existed for Norvir as a stand-alone product.¹⁷⁶ Without two markets, one being leveraged against the other, Schor's monopoly leveraging antitrust claim is defeated. Thus, there would be no need for the court to reach the more difficult issues involving the intersection of patent and antitrust law.¹⁷⁷

Second, the court in *Schor* recognized that refusal to deal cases were analogous to cases involving a price increase, such as the one at hand. This recognition enabled the court to address the circuit split on patent business justifications in antitrust claims. The *Schor* court could have distinguished price increases from refusals to deal and decided the case on these narrower grounds. But doing so would have only complicated existing case law by adding yet another variable to the equation. Fortunately, the *Schor* court recognized this undesirable endpoint and instead acknowledged the similarity between refusals to deal and price increases.¹⁷⁸ Ultimately the court in *Schor* is commendable for not avoiding the difficult issues that appellate courts have grappled with inconsistently.

C. Policy Supporting *Schor*

Important policy reasons also support the *Schor* decision. First and foremost, the decision is consistent with the historical values of encouraging innovation and development through protecting creativity and expended resources.¹⁷⁹ Without such protections, there would be no reward for innovating activities, and hence no incentive to take the risk involved in innovating. Patent laws are specifically designed to offer these innovating protections, which are essential to advancing the market economy and bringing inventions to consumers to better their quality of life. In a world where patent laws and valid patents exercised properly are second best to antitrust laws, the economy and consumer quality of life would wane.

Another policy reason supporting the *Schor* decision is legislatively based. The *Schor* decision supports the policy behind the Federal Courts

175. See *supra* note 69 and accompanying text.

176. See *supra* note 7 and accompanying text.

177. See *supra* Part IV.B.2.

178. See *supra* note 122 and accompanying text.

179. See *supra* notes 1 and 170 and accompanying text.

Improvement Act of 1982, which created the Federal Circuit. A significant driving force behind the creation of the Federal Circuit was to bring uniformity to the country's patent laws.¹⁸⁰ By adopting the Federal Circuit approach to antitrust law involving patent claims or defenses, the *Schor* decision promotes the policy of bringing uniformity to the body of jurisprudence related to, or substantially related to, patent laws.

Another policy aim supporting the *Schor* decision is that patent owners should be allowed to change how they use, or do not use, their protected patent rights. The *Schor* decision upholds Abbott's price increase founded on its valid patent rights.¹⁸¹ If the decision were to the contrary and suggested that Abbott could not alter how it chose to exercise its patent rights—in this case by raising the price of its patented invention—it would drastically and negatively impact the speed of innovation and thus consumer welfare. The policy of allowing patent owners to change course in how they wish to exercise their legally granted rights ensures that innovative products will remain available to consumers during the life of the patent.

Take as an example a patented medical instrument that was expected to be used in ten different procedures. Based on this expectation, the patent owner anticipates selling a certain number of units. If unforeseeable circumstances result, and the patented medical instrument can be used for only five procedures instead of ten, sales of the instrument may decrease dramatically. As such, the economics originally thought to yield a sufficient return on investment will no longer hold true. In fact, it may be completely unprofitable to continue making the patented medical instrument at its current price structure, endangering the availability of the invention to the entire public. Fortunately, the policy behind the patent laws supports giving flexibility to patent owners when it comes to exercising their legally granted patent rights. Thus, improvements as described in the above example remain available to consumers to deliver the desired benefits.

D. Impact of Schor and Recommendations

In a well-reasoned opinion, the *Schor* court commendably brought much needed clarity to the intersection of patent and antitrust laws. More specifically, the *Schor* court's succinct yet thorough analysis produced a decision that provides an exemplary guide for future cases.

180. See *supra* notes 29–30 and accompanying text.

181. See *supra* notes 19 and 149 and accompanying text.

However, the decision carries no precedential weight, so the impact of the *Schor* decision is slight, if any. When future cases emerge, the same question will arise: Should the deciding court follow the Ninth Circuit or the Federal Circuit? To avoid a continued circuit conflict, either Congress or the Supreme Court must act.¹⁸²

One approach to achieving the clarity presented in *Schor*, but with the necessary precedential weight, would be to implement a procedural rule that extends exclusive Federal Circuit jurisdiction to any appeal involving patent claims, counterclaims, or defenses. Neither 28 U.S.C. § 1295 nor § 1338 clearly grants the Federal Circuit such exclusive jurisdiction for appeals of antitrust claims where patents come into play.¹⁸³ This lack of clarity has caused the Court to align this part of the code with the well-pleaded complaint rule, requiring Federal Circuit jurisdiction only when the plaintiff's well-pleaded complaint includes patent issues.¹⁸⁴ Exclusive Federal Circuit jurisdiction for all appeals including patent claims, counterclaims, or defenses is best accomplished by congressional amendment of 28 U.S.C. to explicitly reflect this procedural change. The Supreme Court could accomplish such an end as well, through reinterpreting 28 U.S.C. §§ 1295 and 1338. But this outcome is unlikely considering the Court's 2002 decision in *Holmes Group, Inc. v. Vornado Air Circulation Systems, Inc.*, in which the Court curtailed the Federal Circuit jurisdiction.¹⁸⁵

Another manner to achieve the necessary clarity and precedential weight is for the Supreme Court to grant a writ of certiorari and affirm the reasoning and application in the *Schor* decision. This could be achieved by the Supreme Court granting such a writ in the *Schor* case itself or from the similar California litigation. Under this option, the Court could align the nation's case law to match that of the Federal Circuit, thus achieving uniformity, clarity, and precedential weight.

182. As of early 2006 (just after this Casenote was selected for publication), *Schor* was pending appeal in the Seventh Circuit. See *supra* note 2. Likewise, at that time similar litigation was ongoing in California federal district court. See *In re Abbott Labs. Norvir Anti-Trust Litig.*, No. C 04-1511 CW, C 04-4203 CW, 2005 WL 2206700 (N.D. Cal. Sept. 12, 2005); *Serv. Employees Int'l Union Health and Welfare Fund v. Abbott Labs.*, No. C 04-4203 CW, 2005 WL 528323 (N.D. Cal. Mar. 2, 2005). The defendant in the California litigation is Abbott, defending again against antitrust claims involving the price increase of Norvir. In the California litigation, the court denied Abbott's motion to dismiss, and Abbott's subsequent motion for summary judgment was continued under Rule 56(f) of the Federal Rules of Civil Procedure. See *In re Abbott Labs. Norvir Anti-Trust Litig.*, 2005 WL 2206700 at *4. Abbott's renewed motion for summary judgment motion was decided against Abbott on July 6, 2006. See *In re Abbott Labs Norvir Anti-Trust Litig.*, 442 F.Supp. 2d 800 (N.D. Cal. 2006). As predicted when this Casenote was selected for publication, the result of the California litigation directly conflicts with the Illinois litigation in *Schor*. This further demonstrates the need for higher level review or congressional action.

183. See *supra* Part II.A.3.

184. See *supra* note 132 and accompanying text.

185. See *Holmes*, 535 U.S. 826 (2002); see also *supra* note 132 and accompanying text.

Still another option to eliminate the circuit split is for the Ninth Circuit to independently decide that its prior case law is not supported, thus overruling its decision in *Kodak II* and falling in line with the Federal Circuit. While this result would achieve judicial economy in achieving uniformity and precedential weight, it seems unlikely that the Ninth Circuit would take such action unprompted by a higher court.

V. CONCLUSION

The *Schor* decision is an admirable decision with only one flaw not of its own making: It is a district court opinion carrying no precedential weight. The decision in *Schor* nobly addresses the split in authority concerning the delicate relationship between patent and antitrust laws. More specifically, the *Schor* court decides that the Federal Circuit law is best and that patent laws are indeed valid exemptions from liability for antitrust claims. The caveats to this result are that the scope of the patent must encompass the relevant markets affected, and that the patent must not have been obtained through fraud on the Patent and Trademark Office.¹⁸⁶

Ultimately, to realize the full value of the *Schor* decision, another legal body must come forward to provide the necessary precedential weight to bring clarity and consistency to this area of the law. This is best served by either a Congressional amendment to 28 U.S.C. §§ 1295 and 1338 addressing jurisdiction of the Federal Circuit or by the Supreme Court granting certiorari in one of the current cases. Only with this outside action by Congress or the Supreme Court will the uniformity desired by the Federal Courts Improvement Act of 1982 ever be fully achieved.

186. Similarly, in the infringement context, litigation against an accused infringer that is a sham will not exempt the patent owner from antitrust liability. See *supra* notes 103–106 and accompanying text. When considering the sham exception, the patent has no relevant scope because the infringement suit is objectively and subjectively baseless—a sham. Hence as a matter of definition, it is impossible to have a *relevant* patent and sham litigation in an infringement suit—if it is sham litigation, then the patent has no relevant scope. Consequently the sham litigation prong reduces to the fact that the patent was never truly relevant from the beginning, and thus could afford no protection from antitrust liability.