The ISO Litigation Legacy of *Eastman Kodak Co. v. Image Technical Services*: Twenty Years and Not Much to Show for It

**BY JONATHAN I. GLEKLEN**

TWENTY YEARS AGO THIS PAST JUNE, the Supreme Court decided *Eastman Kodak Co. v. Image Technical Services*,1 one of only two cases in the last twenty years in which the Court has sided with an antitrust plaintiff. Despite concerns expressed by dissenting justices that “the Court’s opinion threatens to release a torrent of litigation and a flood of commercial intimidation,”2 the feared torrent never materialized. Indeed, with the exception of the *Kodak* case itself on remand, defendants have prevailed in almost all of the reported *Kodak*-style cases alleging anticompetitive conduct in aftermarkets.

*Kodak* involved a challenge by independent service organizations (ISOs), which sought to compete with Kodak in the service of Kodak’s copiers and micrographics equipment, to Kodak’s refusal to sell parts needed to service that equipment. In a decision that scholars characterized as a landmark of “post-Chicago” law and economics, the Court rejected Kodak’s argument on summary judgment that its lack of market power in the “primary” equipment markets meant it was unable as a matter of law to exercise market power in “derivative aftermarkets” that were limited to Kodak parts and service for Kodak equipment.3 Because, the Court held, there was a genuine issue of material fact as to Kodak’s market power in the parts market, the claim of unlawful tying between parts and service could proceed to trial.4 The ISOs’ service market monopolization claim could proceed, the Court held, because Kodak’s conduct in a service aftermarket could be of antitrust concern even if Kodak lacked market power in the primary equipment market.5

Defendants in post-*Kodak* aftermarket cases have almost uniformly prevailed against claims of this kind at the summary judgment stage because courts have refused to find the existence of parts and service aftermarkets on the facts. Post-*Kodak* courts have also held that a refusal to deal with ISOs was not unlawful as long as equipment owners were free to obtain parts directly. Most importantly, equipment manufacturers have raised a new defense that was not presented to the Supreme Court in the *Kodak* case: that their refusal to supply ISOs could not result in antitrust liability because it was the lawful exercise of intellectual property rights. This, combined with the Court’s general hostility to refusal to deal claims as expressed in *Trinko*,6 has reduced the *Kodak* decision to little more than historical interest.

The *Kodak* Litigation

The Facts. Eastman Kodak, best known as a camera and film company,7 was also in the business of selling copiers and micrographic equipment. Kodak also provided parts and service for the equipment it sold. After an initial warranty period, customers could obtain service through either an annual service contract (that included all required parts) or on a time and materials basis. In 1985 or 1986 (according to the Supreme Court’s decision),8 or as early as 1975 with respect to copier parts (according to the district court),9 Kodak implemented a policy of selling parts only to customers that obtained service from Kodak or that self-serviced their own equipment. ISOs, which had sprung up to service Kodak equipment in the early 1980s, were ineligible to buy parts under this Kodak “parts policy.” As a result, ISOs had difficulty obtaining parts to provide service, some ISOs were forced out of business, and some equipment owners that preferred ISO service were forced to obtain service from Kodak instead.

Eighteen ISOs filed suit against Kodak in the Northern District of California in 1987, alleging violations of Section 1 and Section 2 of the Sherman Act. The core Section 1 claim was that Kodak had unlawfully tied the availability of Kodak parts to the purchase of Kodak service. This conduct also formed the basis for a Section 2 claim that Kodak had monopolized a service aftermarket.

The Supreme Court’s Decision. Kodak conceded that it had a high share of parts sales for Kodak equipment and of service of Kodak equipment. The key issue in the Supreme

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Court was whether a high share of parts sales gave Kodak the market power required to support a tying claim and whether—despite its high share in servicing its own equipment—it could monopolize a market limited to the service of its own equipment. Supported by an amicus brief from the Solicitor General, Kodak argued for “adoption of a substantive legal rule that ‘equipment competition precludes any finding of monopoly power in derivative aftermarkets.’”

Specifically, Kodak argued that it could not have the ability to raise prices of service and parts above the level that would be charged in a competitive market because any increase in profits from a higher price in the aftermarkets would be offset by a corresponding loss in profits from lower equipment sales as consumers began purchasing equipment with more attractive service costs.

Kodak analogized the case to *Matsushita Electric Industrial Co. v. Zenith Radio Corp.* in arguing that the ISOs’ theory of harm to equipment owners that require service “simply makes no economic sense.”

The Court rejected Kodak’s proposed bright-line rule that would bar liability in all such aftermarket cases where the defendant lacked market power in the primary equipment market, holding that “[l]egal presumptions that rest on formalistic distinctions rather than actual market realities are generally disfavored in antitrust law. This Court has preferred to resolve antitrust claims on a case-by-case basis, focusing on the ‘particular facts disclosed by the record.’”

Rejecting Kodak’s invocation of *Matsushita*, the Court observed that it had not held therein “that if the moving party enunciates any economic theory supporting its behavior, regardless of its accuracy in reflecting the actual market, it is entitled to summary judgment. *Matsushita* demands only that the nonmoving party’s inferences be reasonable in order to reach the jury.”

In rejecting Kodak’s argument on the record as it existed at that time, the Court noted that Kodak had a heavy burden to “show that despite evidence of increased prices and excluded competition, an inference of market power is unreasonable.” Holding that Kodak’s economic theory was too simple, the Court rejected what it called the “false dichotomy that there are only two prices that can be charged—a competitive price or a ruinous one,” because “there could easily be a middle, optimum price at which the increased revenues from the higher priced sales of service and parts would more than compensate for the lower revenues from lost equipment sales.”

The Court noted that, according to the record, “[s]ervice prices have risen for Kodak customers, but there is no evidence or assertion that Kodak equipment sales have dropped.”

What explained this apparent anomaly? The court pointed to several factors, all of which come under the general category of “lock-in.” Specifically, the Court held it was possible (and thus could not be summarily dismissed on a limited evidentiary record) that Kodak did have the power to raise service prices to anticompetitive levels because it would not, in fact, lose enough equipment sales to make the service price increase unprofitable. Among the potential “lock-in” factors that the Court identified were the cost of switching from Kodak equipment to competing equipment (“switching costs”) and imperfect information regarding total system costs that prevented customers from assessing whether the package of Kodak service and equipment really was priced higher than competing packages.

Although the majority opinion noted that Kodak had changed its policy during the relevant time period, it did not specifically discuss the importance of that factor. Justice Scalia’s dissent, however, assumed that the majority would have decided the case differently had Kodak’s policy been consistent throughout the relevant time period:

Had Kodak—from the date of its entry into the micrographic and photocopying equipment markets—including lifetime parts and service warranty with all original equipment, or required consumers to purchase a lifetime parts and service contract with each machine, that bundling of equipment, parts, and service would no doubt constitute a tie under the tests enunciated in *Jefferson Parish,* . . . Nonetheless, it would be immune from per se scrutiny under the antitrust laws because the tying product would be equipment, a market in which (we assume) Kodak has no power to influence price or quantity. The same result would obtain, I think, had Kodak—from the date of its market entry—consistently pursued an announced policy of limiting parts sales in the manner alleged in this case, so that customers bought with the knowledge that aftermarket support could be obtained only from Kodak. The foreclosure of respondents from the business of servicing Kodak’s micrographic and photocopying machines in these illustrations would be undeniable—complete—as complete as the foreclosure described in respondents’ complaint. Nevertheless, we would inquire no further than to ask whether Kodak’s market power in the equipment market effectively forced consumers to purchase Kodak micrographic or photocopying machines subject to the company’s restrictive aftermarket practices. If not, that would end the case insofar as the per se rule was concerned.

Justice Scalia would also have applied the same reasoning to bar the ISOs’ monopolization claim. “An antitrust defendant lacking relevant ‘market power’ sufficient to permit invocation of the per se prohibition against tying *a fortiori* lacks the market power that warrants heightened scrutiny of his allegedly exclusionary behavior [under § 2].”

The majority opinion responded to Justice Scalia’s analysis in a way suggesting that it agreed the result would have been different had there been unambiguous evidence that customers were aware of Kodak’s policy prior to their equipment purchases:

The dissent disagrees based on its hypothetical case of a tie between equipment and service. “The only thing lacking” to bring this case within the hypothetical case, states the dissent, “is concrete evidence that the restrictive parts policy . . . was generally known.” But the dissent’s “only thing lacking” is the crucial thing lacking—evidence. Whether a tie between parts and service should be treated identically to a tie between
equipment and service, as the dissent and Kodak argue, depends on whether the equipment market prevents the exertion of market power in the parts market. Far from being “anomalous,” requiring Kodak to provide evidence on this factual question is completely consistent with our prior precedent.24

The Lower Courts Look to the Kodak Dissent on Aftermarket Issues

In the aftermath of the Kodak decision, ISOs and others filed a number of lawsuits challenging equipment manufacturers’ aftermarket policies. But cases filed against Digital Equipment, Alcatel, Honeywell, and others all failed because—looking to the Kodak dissent—the courts held there could be no aftermarket claim absent a manufacturer’s change in policy after locking in consumers.

The Seventh Circuit’s decision in Digital Equipment Corp. v. Uniq Digital Technologies25 was the first to limit Kodak to cases involving a policy change. As in Kodak, it was undisputed that Digital lacked market power in the primary equipment market. But Uniq claimed that Digital’s policy of including an operating system with the computers it sold constituted monopolization of a market for “operating systems for Digital’s computers,” arguing that under Kodak, operating systems for Digital computers constituted a proper relevant market.

In sustaining summary judgment for Digital, Judge Easterbrook rejected this argument as inconsistent with the Supreme Court’s decision in Jefferson Parish Hospital District No. 2 v. Hyde.24 The Seventh Circuit concluded that Kodak had not intended to overrule Jefferson Parish, the Seventh Circuit described the holding of that case as follows:

A hospital signed a contract giving one group of physicians the exclusive right to practice anesthesiology within its walls. The Fifth Circuit held this a tie-in, unlawful per se, because it precluded competition throughout the hospital. Yet the Supreme Court reversed, holding among other things that this is the wrong way to look at competition. A patient can elect where to go for an operation; from the patient’s perspective, the market includes other hospitals. Physicians at East Jefferson Hospital did only 30% of the surgery in Jefferson Parish, and many patients could search outside the parish for alternatives. That sufficed to protect patients, the Court held.25

The Seventh Circuit held that Kodak did not reverse this holding:

Kodak did not undercut Hyde. The Court did not doubt in Kodak that if spare parts had been bundled with Kodak copiers from the outset, or Kodak had informed customers about its policies before they bought its machines, purchasers could have shopped around for competitive life-cycle prices. The material dispute that called for a trial was whether the change in policy enabled Kodak to extract supracompetitive prices from customers who had already purchased its machines. . . . Concrete evidence that it had so entitled plaintiffs to a trial, the Court held.26

Perhaps the leading case limiting Kodak to cases involving a change in policy is the Sixth Circuit’s decision in PSI Repair Services v. Honeywell, Inc.27 Honeywell manufactured industrial control equipment based on electronic circuit boards. PSI, the plaintiff, sold circuit board repair services to Honeywell’s customers and alleged that it was unable to compete with Honeywell because its access to critical components had been foreclosed by Honeywell’s policies. It challenged Honeywell’s policies as a tie between board components and service and as monopolization of a market for the service of Honeywell boards.

Honeywell argued that Kodak was distinguishable because Honeywell’s policies had been consistent while Kodak involved a policy change.28 PSI responded that regardless of whether there was a policy change, evidence that it was difficult to engage in life-cycle pricing (permitting the comparison of the total cost of Honeywell equipment vs. competing equipment) was sufficient to bar summary judgment.29

In affirming summary judgment, the Sixth Circuit agreed with Honeywell that the absence of a policy change was fatal to PSI’s claims because the policy change in Kodak “was the crucial factor in the Court’s decision.”30 In the Sixth Circuit’s view, the Supreme Court’s “extensive discussion of information costs” simply suggested that “Kodak took advantage of the fact that its customers lacked the information to anticipate” Kodak’s policy change.31

Like the Seventh Circuit in Digital Equipment, the Sixth Circuit rejected PSI’s argument that a derivative aftermarket is a proper relevant market whenever significant information costs were present as inconsistent with Jefferson Parish. The argument there was that “market imperfections” enabled the hospital to charge noncompetitive prices and that these imperfections “render[ed] consumers unable to evaluate the quality of care provided by competing hospitals,” an argument the Court rejected by noting that “[w]hile these factors may generate ‘market power’ in some abstract sense, they do not generate the kind of market power that justifies condemnation of tying.”32 In short, according to the Sixth Circuit, the Court in Jefferson Parish “rejected the premise that imperfect consumer information resulting from basic market imperfections could be used as a basis to infer market power for purposes of the Sherman Act” and held that “an antitrust plaintiff cannot succeed on a Kodak-type theory when the defendant has not changed its policy after locking in some of its customers, and the defendant has otherwise forthcoming about its pricing structure and service policies.”33

The Fifth Circuit likewise rejected Kodak-style aftermarket claims in Alcatel USA, Inc. v. DGI Technologies.34 DGI manufactured expansion cards used to increase the capacity of Alcatel’s telephone switching equipment and alleged that Alcatel’s sales policies constituted monopolization of a market for expansion products for Alcatel’s switches. In affirming the district court’s grant of judgment as a matter of law, the Fifth Circuit held that DGI’s proposed aftermarket was not
grounds that Kodak had changed its policies: “DGII did not prove that a change in any of [Alcatel’s] pricing, warranty, or other policies served to subject” equipment owners to substantial additional information or switching costs, a “crucial factor in establishing an aftermarket monopoly claim.” The court cited with approval the conclusion in PSI Repair that “an antitrust plaintiff cannot succeed on a Kodak-type theory when the defendant has not changed its policy after locking-in some of its customers, and the defendant has been otherwise forthcoming about its pricing structure and service policies.”

In SMS Systems Maintenance Services v. Digital Equipment Corp., the First Circuit addressed a claim by SMS, an ISO, that Digital’s implementation of a three-year warranty constituted monopolization of an aftermarket for service of Digital computers. It rejected the aftermarket monopolization claim, finding that “the transparency of DEC’s allegedly monopolistic policy represents a salient departure from the Kodak scenario,” and holding that “the focus should be on whether the primary market is in possession of information that sufficiently reveals the anticompetitive tendencies of a manufacturer in its aftermarket.”

Courts have followed the Kodak dissent outside the ISO context, rejecting claims brought by franchisees and dealers challenging the policies of their suppliers and college students challenging a university’s on-campus housing and insurance requirements. These cases reject claims of market power in an aftermarket based on lock-in to which the customer voluntarily assented; there is no policy change when the customer knew what it was signing up for.

The leading franchise case—one frequently cited in the ISO context, rejecting claims brought by franchisees and dealers challenging the policies of their suppliers and college students challenging a university’s on-campus housing and insurance requirements. These cases reject claims of market power in an aftermarket based on lock-in to which the customer voluntarily assented; there is no policy change when the customer knew what it was signing up for.

The Ninth Circuit explored the difference between Kodak and Queen City Pizza in Newcal Industries v. IKON Office Solution. Newcal involved claims that IKON, a copier leasing company, defrauded customers by amending (“flexing”) their lease agreements to extend the term of the agreement. The plaintiff alleged that because extending the contract made it more expensive for Newcal and other competitors to buy out the contract, IKON was able to shield itself from competition in aftermarkets for upgrade equipment and for lease-end services. The district court had rejected on a motion to dismiss claims that Newcal had monopolized markets for replacement copier equipment and copier service for customers with “flexed IKON contracts.”

The Ninth Circuit reversed, holding that the market definition did not fail as a matter of law because “Newcal’s allegations are more like the allegations at issue in Eastman Kodak than those at issue in Queen City Pizza.” Specifically, IKON did “not achieve market power in the aftermarket through contractual provisions that it obtains in the initial market” because “no provision of IKON’s initial contract gives it the power to provide replacement equipment, to extend the contract beyond 60 months, to foreclose competitors’ buy outs, or to prevent competition in lease-end services.” The court’s decision suggests that there would have been no antitrust issue if IKON were “simply enforcing economic risks at the time they signed the franchise agreement.”

Similar reasoning was applied in two appellate decisions in the education context. In Hack v. The President & Fellows of Yale College, the court rejected a claim that Yale had tied a Yale education to on-campus housing or monopolized a student housing market by requiring all unmarried students under the age of twenty-one to live on campus. Because Yale’s housing policies were “fully disclosed long before plaintiffs applied for admission,” there could be no lock-in under a Kodak-type theory because students were able to consider Yale’s housing policies before deciding to pursue a Yale education.

Similarly, in Lee v. Life Insurance Company of North America, students at the University of Rhode Island (URI) challenged URI’s policy of requiring all students to pay for access to URI’s health clinic and purchase an approved supplemental insurance plan. The First Circuit rejected plaintiffs’ claims that they were “locked in” to a URI education because “before signing up for their first semester at URI, students are informed that their continued matriculation at URI is conditioned, inter alia, on their ’purchase’ of health clinic services . . . .” The court distinguished Kodak because

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[b]had previous customers known, at the time they bought their Kodak copiers, that Kodak would implement its restrictive parts-servicing policy, Kodak’s ’market power,’ i.e. its leverage to induce customers to purchase Kodak servicing, could only have been as significant as its [appreciable economic power] in the copier market, which was stipulated to be inconsequential or nonexistent.

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a contractual provision that [gave] it the exclusive right to provide replacement equipment and lease-end services.” Rather “just as the plaintiffs had in Eastman Kodak, Newcal offers factual allegations to rebut the economic presumption that IKON consumers make a knowing choice to restrict their aftermarket options when they decide in the initial (competitive) market to enter an IKON contract.”

In addition to those appellate decisions, several district court decisions have reached similar results, both in the ISOs and franchising context. In Red Lion Medical Safety v. Ohmeda, Inc., the ISOs that serviced Ohmeda’s anesthesiology equipment challenged Ohmeda’s policy of refusing to sell some replacement parts to ISOs as unlawful tying and monopolization. The court held that the plaintiffs had created a triable issue of fact regarding the existence of a proper antitrust aftermarket and Ohmeda’s market power, even though Ohmeda argued that its parts policy had remained constant for thirteen years, that its policy was widely known, and that it had not raised its prices appreciably. The court refused to follow PSI Repair and Digital, noting that “Kodak I does not hold that an aftermarket claim is contingent on a change in a manufacturer’s parts or service policy.”

While no court has followed Red Lion in expressly rejecting the necessity of a policy change, the Third Circuit held in Harrison Aire, Inc. v. Aerostar International that a policy change “is an important consideration,” but “not the sine qua non of a Kodak claim.” The key, the court held, is whether there is “evidence dissociating competitive conditions in the primary [market] from conditions in the aftermarket.”

The court in that case did, however, reject the aftermarket claims because “Raven/Aerostar’s aftermarket policy was transparent and known to Harrison Aire at all relevant times,” and the “record [was] clear that Harrison Aire got precisely the balloon and the aftermarket fabric that it bargained for in the competitive primary market.”

While the decisions in Red Lion and Harrison Aire complicate things somewhat, the post-Kodak decisions provide a generally clear route for firms with restrictive aftermarket policies to avoid Kodak’s fate. As long as manufacturers are upfront about their aftermarket policies—as long as their customers know that buying equipment from them means that they will not be able to buy service from anyone else—they are likely to be able to avoid tying and aftermarket monopolization liability under the post-Kodak case law.

Courts Hold that Cutting Out the ISO Middleman Does Not Harm Consumers

The Kodak district court granted summary judgment to Kodak on the ISOs’ tying claim, finding that the undisputed evidence showed Kodak had unilaterally refused to sell parts to ISOs and did not “condition the sale of one product on the buyer’s purchase of another product.” The Supreme Court overturned this decision, finding that even if Kodak had not conditioned the sale of parts on an agreement to buy Kodak service (a tie-in), there was evidence that Kodak conditioned the sale of parts on customers’ agreement not to buy service from ISOs (a tie-out). On remand from the Supreme Court, however, the plaintiffs abandoned the tie-out claim, challenging Kodak’s conduct only as a unilateral refusal to deal. The reported decisions do not disclose the reason for this choice; perhaps there really was no agreement between Kodak and customers not to supply parts to ISOs.

Two courts that have faced the issue have held that there is no antitrust violation where an equipment manufacturer refuses to supply parts to ISOs but supplies equipment owners and permits them to transfer those parts to ISOs. In Data General Corp. v. Grumman System Support Corp., involved a challenge to Data General’s policy of selling repair parts only to equipment owners. While ISOs could not purchase parts directly, equipment owners were free to purchase repair parts and use an ISO to provide service. This was sufficient, the First Circuit held, and consumers were not harmed by cutting out the ISO middleman:

We cannot presume that elimination of an intermediate seller of such items harms consumers; indeed, consumers are likely to benefit by not having to accept [third-parties’] mark-up of [the defendant’s] prices. Further, a direct sales policy does not act as a significant barrier to market entry by competitors offering lower prices for higher quality support services. [Third-party] technicians may . . . install spare parts the customer has ordered from [the defendant.]”

In Telecom Technical Services v. Rolm Co., the Eleventh Circuit cited Data General and reached the same result, holding there was no “actionable harm to consumers” where “the equipment owner has the option of ordering the PBX repair parts and then asking an ISO to install them.”

An additional consideration in that case was that an equipment owner could also provide an ISO with a letter of agency enabling the ISO to order parts from the equipment vendor and thereby carry out the installation—an option not available in Data General.

Most Courts Hold that Manufacturers Need Not Sell IP-Protected Parts or Software

Service of technologically complex equipment often requires technologically advanced tools, such as diagnostic software. Modern equipment also frequently requires the use of patented parts for repair. Manufacturer aftermarket strategies may thus involve a refusal to license copyrighted diagnostic software or a refusal to sell patented parts. Where this is so, the post-Kodak cases have afforded equipment manufacturers a powerful defense to claims of aftermarket monopolization based on a refusal to deal: the argument that the refusal is an exercise of intellectual property rights that cannot violate the antitrust laws.

The question of an IP owner’s right to refuse to license was not discussed in the briefs in Kodak or raised at oral argu-
ment. Indeed, there was no evidence presented to the Court that any of Kodak’s parts were patented; the ISOS’ brief noted that “Kodak has produced no evidence of exclusive patent rights over OEMmade parts for Kodak equipment (even though such information was sought by interrogatory).” Instead, Kodak raised this “IP defense” only on remand after its loss in the Supreme Court. Both the district court and the Ninth Circuit rejected the defense. The Ninth Circuit held that, although it could “find no reported case in which a court has imposed antitrust liability for a unilateral refusal to sell or license a patent or copyright” and “[c]ourts do not generally view a monopolist’s unilateral refusal to license a patent as ‘exclusionary conduct,’” an IP owner may be held liable under the antitrust laws for exercising its IP based on “evidence of pretext.” The court found such evidence of pretext because a Kodak employee had testified that patents “did not cross his mind” when he implemented the challenged Kodak policies.

Courts in other aftermarket cases, however, have found a virtually absolute bar to antitrust claims based on a refusal to deal in goods protected by IP rights. In In re Independent Service Organizations Antitrust Litigation, the Federal Circuit held that “Xerox was under no obligation to sell or license its patented parts and did not violate the antitrust laws by refusing to do so,” and that “Xerox’s refusal to sell or license its copyrighted works was squarely within the rights granted by Congress to the copyright holder and did not constitute a violation of the antitrust laws.” The court expressly rejected the Ninth Circuit’s inquiry into a patent holder’s intent in refusing to deal, noting that subjective intent in bringing a non-sham infringement case is irrelevant to antitrust immunity for such conduct, and it saw “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 same right.”

Other courts have rejected any inquiry into subjective intent and reached decisions that are in essential alignment with the rule in the Federal Circuit. In Data General Corp. v. Grumman System Support Corp., the First Circuit assumed that Data General was motivated by its desire “to maintain its monopoly in the aftermarket for services of DG computers” but held that copyright provides a “presumptively valid business justification” for a manufacturer’s refusal to license diagnostic software and that antitrust liability is permitted only “in rare cases in which imposing antitrust liability is unlikely to frustrate the objectives of the Copyright Act.” The Fourth Circuit reached the same result in Service & Training, Inc. v. Data General Corp., affirming summary judgment on tying and copyright misuse claims because a refusal to license diagnostic software “is protected as an exclusive right of a copyright owner.”

District courts in cases brought by ISOS have likewise rejected these kinds of claims. In Tricom, Inc. v. Electronic Data Systems Corp., the court rejected an ISO’s claims because “[u]nder patent and copyright law, EDS may not be compelled to license its proprietary software to anyone.” And in Advanced Computer Services of Michigan v. MAI Systems Corp., the court rejected challenges to a refusal to license diagnostic software because “it is within [the manufacturer’s] discretion to protect its copyrighted works, and this discretion includes the right to license its software to whomever it chooses.”

The Solicitor General’s opposition to certiorari in the Xerox case notwithstanding, the Ninth Circuit’s focus on intent and pretext in Kodak on remand cannot be reconciled with the more absolutist approach to intellectual property protections in Xerox and other cases. A “pretextual” refusal to license—one motivated by a desire other than the protection or exercise of intellectual property rights—can violate Section 2 in the Ninth Circuit, but no other court has found pretext relevant. While it is beyond the scope of this article to debate whether the Ninth Circuit or the Federal Circuit got the IP–antitrust interface right, the key point is that, even under the Ninth Circuit’s test rather than the Federal Circuit’s near-absolute immunity, it is not difficult for a manufacturer to escape antitrust liability for a refusal to supply patented parts or license copyrighted diagnostic software to an ISO. A manufacturer that announces it will not supply patented parts or license copyrighted (or patented) diagnostic software to ISOS and explains that its decision is grounded in its intellectual property rights should avoid antitrust liability for its refusal to deal in the Ninth Circuit as well as elsewhere.

The Ninth Circuit has not returned to the question of antitrust liability for unilateral refusals to license IP since the Kodak decision on remand, but even in the Ninth Circuit the Supreme Court’s 2004 decision in Trinko will pose substantial obstacles to a successful refusal to deal claim. In Trinko, the Court expressed hostility to virtually all refusal to deal claims, regardless of whether the refusal involves intellectual property, holding that compelling firms with monopoly power to “share the source of their advantage is in some tension with the underlying purpose of antitrust law, since it may lessen the incentive for the monopolist, the rival, or both to invest in those economically beneficial facilities.” The Court also worried about the administrability of compulsory dealing remedies, noting that “[e]nforced sharing also requires antitrust courts to act as central planners, identifying the proper price, quantity, and other terms of dealing—a role for which they are ill suited.”

While noting that the decision in Aspen Skiing Co. v. Aspen Highlands Skiing Corp., upon which the Kodak decision relied, was “at or near the outer boundary of § 2 liability,” the Court did not create blanket immunity for all unilateral refusals to deal. However, the Trinko decision effectively limits liability in refusal to deal cases to circumstances in which a defendant has terminated a prior profitable course of dealing. Thus, even in the Ninth Circuit, under Trinko an OEM will not face antitrust liability for a refusal to deal with ISOS absent a prior course of dealing—
the same type of change in policy that can also lead to a court finding the existence of an aftermarket.

Conclusion
While Kodak unquestionably plays a leading role in any intellectual history of the Supreme Court’s antitrust jurisprudence, its practical legacy has been “modest” at best. The litigation torrent predicted by the Kodak dissenters never materialized, and when cases were filed the defendants almost uniformly prevailed. Neither the Department of Justice nor the Federal Trade Commission has ever brought a case against an equipment manufacturer alleging anticompetitive aftermarket conduct.87

Even if the Kodak dissenters lost the battle, their dissenting opinion laid a clear path by which the lower courts were able to distinguish the Supreme Court’s decision and reject claims of aftermarket market power. Other issues that the Court was never asked to consider—including the antitrust treatment of refusals to deal involving intellectual property—have blocked the way for plaintiffs that tried to follow in the footsteps of the Kodak plaintiffs. Twenty years after the Kodak decision, ISO plaintiffs have little to show for it.

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2 Id. at 489.
4 Kodak, 504 U.S. at 479.
5 Id. at 481.
7 See, e.g., Berkey Photo, Inc. v. Eastman Kodak Co., 603 F.2d 263 (2d Cir. 1979) (antitrust case addressing Kodak’s failure to pre-disclose new film format to competitors); Paul Simon, Kodachrome, on THERE GOES RHYMIN’ SIMON (Columbia-Warner 1973) (song about Kodak film).
8 Kodak, 504 U.S. at 458.
10 Kodak, 504 U.S. at 466 (quoting Brief for Petitioner at 33).
11 Id. at 465–66.
12 Id. at 467 (citing Matsushita Elec. Indus. Co. v. Zenith Radio Corp., 475 U.S. 574, 587 (1986)).
13 Id. at 466–67.
14 Id. at 468.
15 Id. at 469.
16 Id. at 460–71.
17 Id. at 472.
18 The Court noted that:
   In the end, of course, Kodak’s arguments may prove to be correct. It may be that its parts, service, and equipment components of one unified market, or that the equipment market does discipline the aftermarkets so that all three are priced competitively overall, or that any anti-competitive effects of Kodak’s behavior are outweighed by its competitive effects. But we cannot reach these conclusions as a matter of law on a record this sparse.

504 U.S. at 486.
19 Id. at 474–80.
20 Id. at 491 (Scalia, J., dissenting) (citations omitted).
21 Id. at 503.
22 Id. at 477 n.24 (internal citation omitted).
23 73 F.3d 756 (7th Cir. 1996).
25 73 F.3d at 762–63.
26 Id. at 763. See also id. at 762 (noting that the Kodak Court assumed a change in policy; although it “conceded that customers who had anticipat-
ed the change of policy could not be exploited,” not all customers “anticipate all changes of policy”).
27 104 F.3d 811 (6th Cir. 1997).
28 Id. at 819.
29 Id.
30 Id. at 820.
31 Id.
32 Jefferson Parish, 466 U.S. at 27.
33 PSI Repair, 104 F.3d at 820.
34 166 F.3d 772 (9th Cir. 1999).
35 Id. at 783.
36 Id. (quoting PSI Repair, 104 F.3d at 820).
37 188 F.3d 11 (1st Cir. 1999).
38 Id. at 19; see also id. (“Like the easy availability of information, the purely prospective nature of the warranty helps to take this case out of Kodak’s precedential orbit.”).
39 Id. at 19 n.3.
40 124 F.3d 430 (3d Cir. 1997).
41 Id. at 437–38.
42 Id. at 439.
43 Id.
44 237 F.3d 81 (2d Cir. 2000).
45 Id. at 87.
46 23 F.3d 14 (1st Cir. 1994).
47 Id. at 19.
48 Id. at 20.
49 513 F.3d 1038, 1044 (9th Cir. 2008).
50 Id. at 1043–44.
51 Id. at 1045–46.
52 Id. at 1050.
53 Id.
54 Id.
55 See, e.g., Océ N. Am., Inc. v. MCS Servs., 795 F. Supp. 2d 337, 345 (D. Md. 2011) (“Because Océ’s policies have not changed vis-à-vis its customers, MCS cannot rely upon this theory to sustain its claim.”); Laserworks v. Pitney Bowes, Inc., No. C2–96–1307, 1999 WL 3345671, at *8 (S.D. Ohio Dec. 29, 1999) (no aftermarket because “customers were fully aware that they might not be able to use the less expensive . . . cartridges . . . if they continued to use them against Pitney Bowes’ advice”), aff’d mem., 8 F. App’x 380 (6th Cir. 2001); Metzler v. Bear Auto. Serv. Equip. Co., 19 F. Supp. 2d 1345, 1358–59 (S.D. Fla. 1998) (holding that aftermarket was not a relevant market because “the plaintiffs have not identified a change in policy that locked in the defendants’ customers. . . . To the extent that there are
limited service options available in the market, those limited options have
been in place for more than fifteen years.”).

See, e.g., Subsolutions, Inc. v. Doctor’s Assocs., 62 F. Supp. 2d 616, 626
(D. Conn. 1999) (finding adequately alleged aftermarket in denying motion
to dismiss under Rule 12 because the “policy was not in place at the time
many franchisees entered into their agreements”); Little Caesar Enters., Inc.
judgment because a “plaintiff must show that, after a substantial num ber
of customers have sunk significant costs that are not recoverable and face
other switching costs, the seller takes some action changing its policy (or
acting on a prior undisclosed policy) that takes advantage of its locked in
customers lack of information in order to reap supracom petitive profits by
imposing a burdensome tie-in.”) (internal quotation omitted); Wilson v.
with approval, but refusing to dismiss com plaint under Rule 12 because “it
is not at all clear on this record what was disclosed to these plaintiffs about
the Mobil supply arrangements or when it was disclosed.”).

63 F. Supp. 2d 1218 (E.D. Cal. 1999).

64 Id. at 1230.

65 Harrison Aire, Inc. v. Aerostar Int’l, 423 F.3d 374 (3d Cir. 2005). See also
2009) (citing Harrison Aire and concluding that “[w]hile the Court believes
that a policy change may not be strictly necessary to a Kodak-type claim
... the absence of such a change weighs against any inference that Xerox
possesses monopoly power”).

66 Id. at 384.

67 Id. at 385.


69 Kodak, 504 U.S. at 463.

70 Kodak, 125 F.3d at 1201.

71 36 F.3d 1147 (1st Cir. 1994).

72 Id. at 1189.

73 388 F.3d 820 (11th Cir. 2004).

74 Id. at 827. Rolm also offered customers the option of “provid[ing] an ISO
with a letter of agency such that the ISO may order the part from Siemens
and carry out the installation.” Id.

75 Respondent’s Brief, Eastman Kodak Co. v. Image Technical Servs., 1991 WL

76 Kodak, 125 F.3d at 1216.

77 Id. at 1219.

78 Id.

79 203 F.3d 1322, 1328, 1329 (Fed. Cir. 2000).

80 Id. at 1327.

81 36 F.3d at 1187–88. The only such “rare circumstance” identified by the
First Circuit was when the intellectual property was unlawfully acquired. Id.
at 1188.

82 963 F.2d 680, 690 (4th Cir. 1992).


85 The Solicitor General claimed that “the actual extent of the disagreement
between the Federal Circuit’s decision in this case and the Ninth Circuit’s
decision in [Kodak] is not clear.” Brief of the United States as Amicus
Curiae, CSU L.L.C. v. Xerox Corp., No. 00-62 (Jan. 2001), available at
http://www.justice.gov/osg/briefs/2000/2pet/6invit/2000-0062.pet.ami.inv.pdf. The idea that there was might be no conflict between the
Federal Circuit and the Ninth Circuit was so implausible that it did not
occur to Xerox to advance the argument in its own opposition to certiorari.

86 In that regard, see, e.g., Jonathan I. Gleklen, Per Se Legality for Unilateral
Refusals to License IP Is Correct as a Matter of Law and Policy, ANTITRUST
SOURCE (July 2002), http://www.americanbar.org/content/dam/aba/publishing/antitrust_source/gleklen.authcheckdam.pdf; Jeffrey K. MacKie-
Mason, Antitrust Immunity for Refusals to Deal in (Intelectual) Property is a

Slippery Slope, ANTITRUST SOURCE (July 2002), http://www.americanbar.org/content/dam/aba/publishing/antitrust_source/mackie.authcheckdam.pdf.