

OFF WITH THEIR PRINTHEADS! AN END TO THE PER SE PRESUMPTION OF ILLEGALITY FOR PATENT TIES IN *ILLINOIS TOOL WORKS V. INDEPENDENT INK*

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I. INTRODUCTION

Delivering a short, succinct and unanimous¹ decision, the Supreme Court anticlimactically reversed the longstanding per se presumption of illegality for patent tying arrangements under section 1 of the Sherman Antitrust Act,² stating that the doctrine's jurisprudential history was flawed from the get-go and that modern

¹ Justice Alito did not participate in the consideration or the decision of this case. Ill. Tool Works Inc. v. Indep. Ink, Inc., 126 S. Ct. 1281, 1284 (2006).

² "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 hereby declared to be illegal . . ." 15 U.S.C. § 1 (2006). Interpretation of this section of the Sherman Act by the Court has led to a qualification that "only those contracts and

practice and scholarship dictated its reversal. The antitrust presumption that tying arrangements, where the tying product is patented and the tied product is not, are per se illegal, had been in place since 1947, but had been the subject of increasing controversy, especially over the last twenty years.³ This decision by the Court brings patent ties into alignment with the law regarding tying arrangements in general—that a tying arrangement is not illegal without proof of market power in the tying product market.⁴

This article explores the recent decision of *Illinois Tool Works, Inc. v. Independent Ink, Inc.*, and its reversal of the per se rule of illegality for patent tying arrangements under section 1 of the Sherman Act. Part II of this article examines tying arrangements in general and how the per se presumption for patent ties fit into antitrust law before its reversal. Part III examines the *Illinois Tool Works* case in depth, from its inception in district court, to its final resolution by the Supreme Court. Part IV of this article traces the history and evolution of the presumption, starting with its origins in the patent misuse doctrine and the migration of the presumption from the patent misuse doctrine to antitrust law. Parts V through VII examine the various sources of support that the Court relied upon as a basis for the reversal of the presumption. Finally, Part VIII surveys some of the immediate reactions to the Supreme Court's ruling and poses some questions left unanswered by the decision.

II. THE INTERSECTION OF ANTITRUST AND INTELLECTUAL PROPERTY LAW

The per se rule regarding patent ties had always been a point of contention between antitrust law and intellectual property law.⁵ While the ultimate goal of both antitrust and intellectual property law is to benefit consumers, antitrust law does this through the promotion of competition to increase efficiency, while intellectual property law, specifically patent law, does this by encouraging innovation through the conferral of limited time monopoly rights.⁶ Conflict is bound to be ripe when one aspect of law prohibits monopolies as anticompetitive and another aspect of law provides

combinations which 'unreasonably' restrain competition" are deemed illegal. *N. Pac. Ry. Co. v. United States*, 356 U.S. 1, 5 (1958).

³ *Int'l Salt Co. v. United States*, 332 U.S. 392 (1947).

⁴ *Ill. Tool Works*, 126 S. Ct. at 1293.

⁵ See generally 1 HERBERT HOVENKAMP, MARK D. JANIS & MARK A. LEMLEY, IP AND ANTITRUST § 4.2e (Supp. 2006).

⁶ WILLIAM M. LANDES & RICHARD A. POSNER, THE ECONOMIC STRUCTURE OF INTELLECTUAL PROPERTY LAW 374 (2003).

for limited time legal monopolies.⁷

In serving the antitrust goal of fostering a pro-competitive market economy, restraints on trade are not often tolerated: an example of this being tying arrangements.⁸ Tying arrangements are vertical restraints on trade, limiting a buyer's ability to purchase goods freely from whichever supplier the consumer cares to patronize.⁹ In general, in order to find a tying arrangement to be illegal, the following conditions of the arrangement must be shown:

- 1) Two separate products, the tying product and the tied product; 2) A showing of sufficient economic power in the tying product market appreciably to restrain free competition in the tied product market; 3) Foreclosure of a not insubstantial amount of commerce; and 4) Coercion or conditioning in requiring the purchase of the tied product to obtain access to the tying product.¹⁰

The most significant aspect in analyzing the legality of a tying arrangement is the second element, its market power. Market power is the ability of a producer to "raise [the price of its product] above the competitive level without losing so many sales so rapidly that the price increase is unprofitable and must be rescinded."¹¹ The main factor in assessing whether a producer has market power is the portion of the market that the producer controls, or market share.¹² An inquiry into a firm's market share and market power is

⁷ *Id.*

⁸ 9 PHILIP E. AREEDA ET AL., ANTITRUST LAW: AN ANALYSIS OF ANTITRUST PRINCIPLES AND THEIR APPLICATION 1730 (2004) [hereinafter AREEDA, ANTITRUST LAW].

⁹ *Id.* at 1530a:

Agreements restraining trade are customarily divided into "horizontal" agreements among competitors and "vertical" agreements between suppliers and customers. Horizontal agreements [function to eliminate competition among competitors thereby enhancing] collective profits to the detriment of consumers. [Conversely, vertical agreements such as] tying and exclusive-dealing arrangements restrain a buyer's freedom to patronize the seller's rivals and may thereby limit the vitality of rivalry with the seller Although often helpful or convenient, the horizontal/vertical distinction need not be absolute. It is relevant only insofar as it helps identify competitive effects. Identifying the type of possible harm to competition is the first essential step. To apply some *per se* rules, that may be sufficient. Generally, however, we must go on to determine whether that harm is not only possible but likely and significant. This ordinarily requires examination of the market circumstances.

Id.

¹⁰ John F. Hornick, *The Per se Rule in Tying Contexts: A Critical View*, 10 DEL. J. CORP. L. 703, 708-09 (1986) (citing *Northern Pac. Ry. Co. v. United States*, 356 U.S. 1, 6 (1958)).

¹¹ William M. Landes & Richard A. Posner, *Market Power in Antitrust Cases*, 94 HARV. L. REV. 937, 937 (1981).

¹² Kenneth J. Burchfiel, *Patent Misuse and Antitrust Reform: "Blessed be the Tie?"* 4 HARV. J.L. & TECH. 1, 28 (1991).

essential in the tying context because it demonstrates the extent to which a producer has the actual ability to control one market and use that power to leverage control of another market.¹³

However, until the Court's *Illinois Tool Works* decision, a tying arrangement in which the tying product was patented did not undergo the standard four step legality analysis because "[t]he requisite economic power is presumed when the tying product is patented or copyrighted."¹⁴ Therefore, a patent tying arrangement was per se illegal because of the presumption that the patent automatically gave the patentee substantial market power—enough market power in the tying product market to restrain trade in the market for the tied product.¹⁵ The per se rule, as simple as it sounds, was not without its shortfalls in practice. Even though, technically, a per se rule means "that a precisely defined act is condemned whenever it occurs, regardless of the circumstances,"¹⁶ in reality, condemnation of patent tying arrangements could only occur after some proof indicated that the defendant had power in the tying product market.¹⁷ Because a shallow market analysis rather than an in-depth rule of reason analysis was made in cases of patent ties, the per se rule for patent tie-ins was hopelessly confused and offered none of the certainty that a per se rule should offer, thereby subjecting patent tying cases to costly litigation.¹⁸

As the Supreme Court affirmed in *Illinois Tool Works*, the longstanding judicial doctrine that a patent automatically conferred to the patent holder not only a legally granted monopoly, but an economic monopoly as well, was false.¹⁹ In eliminating the longstanding doctrine of per se illegality, patent tying arrangements are now to be analyzed under a rule of reason analysis,²⁰ with the burden of proof on the plaintiff.²¹

¹³ Alexander C. Larson, *Antitrust Tie-In Analysis After Kodak: A Comment*, 63 ANTITRUST L.J. 239 (1994).

¹⁴ *United States v. Loew's Inc.*, 371 U.S. 38, 45 (1962) (citing *United States v. Paramount Pictures, Inc.*, 334 U.S. 131 (1948); *Int'l Salt Co. v. United States*, 332 U.S. 392 (1947)).

¹⁵ Larson, *supra* note 13.

¹⁶ 7 AREEDA, ANTITRUST LAW, *supra* note 8, at 1511.

¹⁷ *Id.* See also *Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2, 32 (1984) (O'Connor, J., concurring).

¹⁸ *Id.*

¹⁹ *Ill. Tool Works Inc. v. Indep. Ink, Inc.*, 126 S. Ct. 1281, 1291 (2006). "While some [patent tying] arrangements are still unlawful, such as those that are the product of a true monopoly or a marketwide conspiracy, that conclusion must be supported by proof of power in the relevant market rather than by a mere presumption thereof." *Id.*

²⁰ A rule of reason analysis involves inquiry into the particular conditions and realities of the restraint on trade. A rule of reason examination attempts to define the market in which the firm is acting, determine the market share that the firm holds within the market

III. ILLINOIS TOOL WORKS INC. V. INDEPENDENT INK, INC.

A. *The Lower Court Decisions*

Though several circuits had challenged the per se rule,²² none of the cases resulting in a rejection of the per se rule had been granted review by the Supreme Court until *Independent Ink*, leaving the contentious doctrine of per se illegality without true clarification almost since the rule's inception.²³ The facts of *Illinois Tool Works* are relatively straightforward. Petitioner, Trident Inc., a manufacturing company acquired by Illinois Tool Works Inc. (hereinafter "ITW"),²⁴ manufactures ink and printing materials. Specifically, and relevant to this case, ITW manufactures a patented ink jet printhead, a patented ink container for use in the printhead and non-patented ink, specially formulated for use in the patented printhead.²⁵ ITW licenses the printhead, ink container and ink to original equipment manufacturers (hereinafter "OEMs"), who in turn manufacture printer equipment, using the ITW components, for printing "bar codes on corrugated materials and kraft paper."²⁶ Printers are then sold by the OEMs to end users. The printhead, ink container and ink products are licensed to the OEMs together as a package. By agreement, the OEMs and the end users may not purchase their ink from anyone other than ITW, nor may they refill the ITW ink containers with ink from another manufacturer.²⁷

Respondent, Independent Ink, Inc., a competing ink manufacturer, developed an ink identical to that of ITW for use in the patented ITW printheads.²⁸ Independent Ink brought suit against ITW, alleging that ITW's licensing agreements with OEMs constituted unlawful tying arrangements²⁹ in violation of section 1

and the effect that the tying arrangement actually has within that market. 7 AREEDA, ANTITRUST LAW, *supra* note 8, at 1511.

²¹ *Ill. Tool Works*, 126 S. Ct. at 1291.

²² For appellate court decisions rejecting the irrebuttable per se presumption see, for example, *In re Indep. Serv. Orgs. Antitrust Litig.*, 203 F.3d 1322, 1325-26 (Fed. Cir. 2000); *A.I. Root Co. v. Computer Dynamics, Inc.*, 806 F.2d 673, 675 (6th Cir. 1986); *Will v. Comprehensive Accounting Corp.*, 776 F.2d 665, 673 n.4 (7th Cir. 1985); *USM Corp. v. SPS Techs., Inc.*, 694 F.2d 505, 511 (7th Cir. 1982); *Digidyne Corp. v. Data Gen. Corp.*, 734 F.2d 1336, 1342-44 (9th Cir. 1984).

²³ *Int'l Salt Co. v. United States*, 332 U.S. 392 (1947).

²⁴ *Indep. Ink, Inc. v. Trident Inc.*, 210 F. Supp. 2d 1155, 1159 n.3 (C.D. Cal. 2002).

²⁵ *Id.* at 1158.

²⁶ *Id.*

²⁷ *Ill. Tool Works Inc. v. Indep. Ink, Inc.*, 126 S. Ct. 1281, 1285 (2006).

²⁸ *Id.*

²⁹ The specific tying arrangement alleged by Independent Ink in its complaint against ITW was that:

Defendants conditioned the sale of their patented printhead systems ("the tying product") upon OEMs' also purchasing and distributing Trident's ink

of the Sherman Act.³⁰

The district court held in favor of ITW.³¹ Specifically, the district court held that even in patent tying cases in which there is a presumption of per se illegality, a per se violation can only be found after analysis and proof that the defendant holds market power and has used the tying arrangement as an anticompetitive restraint on trade.³² Without any proof offered by Independent Ink of ITW's market power, the district court held that the tying arrangement alleged could not be per se illegal, even though ITW's tying product was patented.³³

The support introduced to reinforce the district court's ruling was varied, convincing, and grounded in widely accepted antitrust principals. The court first looked to the dissenting opinion of Justices White and Blackmun in the denial of certiorari in the case of *Data General Corp. v. DigiDyne Corp.*, written less than a year after Justice O'Connor's concurring opinion in *Jefferson Parish Hospital*.³⁴ Both opinions indicated that the per se presumption of illegality in patent tying cases needed to be reexamined.³⁵ Support was also drawn from a host of lower court decisions holding that owning a patent or copyright does not automatically translate into an irrebuttable presumption of market power, and from the 1995

("the tied product"). Plaintiff alleges that these tying arrangements preclude OEMs and end users from purchasing printer ink from third parties, like Plaintiff, restraining trade, in violation of § 1 of the Sherman Act.

Indep. Ink, 210 F. Supp. 2d at 1159.

³⁰ Originally, ITW brought an infringement action against Independent Ink which was dismissed. In response, Independent filed for a declaratory judgment of non-infringement of ITW's patents. Independent later amended its complaint to allege violations of §§ 1 and 2 of the Sherman Act. 15 U.S.C. §§ 1-2 (2006).

³¹ *Indep. Ink*, 210 F. Supp. 2d at 1163.

³² *Id.* The court relied heavily on the concurring opinion of Justice O'Connor in *Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2 (1984).

³³ *Id.* (citing *Jefferson Parish*, 466 U.S. at 34 (O'Connor, J., concurring)). "The Court has never been willing to say of tying arrangements, as it has of price-fixing, division of markets and other agreements subject to *per se* analysis, that they are always illegal, without proof of market power or anticompetitive effect." *Id.*

³⁴ *Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2 (1984).

³⁵ *Indep. Ink, Inc. v. Trident Inc.*, 210 F. Supp. 2d 1155, 1165 (C.D. Cal. 2002). Justice White, joined in his dissent by Justice Blackmun states:

[A] particular tying arrangement may have procompetitive justifications, and it is thus inappropriate to condemn such an arrangement without considerable market analysis The Court of Appeals . . . viewed the copyright on the operating system as creating a presumption of market power, and seemingly concluded that forcing power is sufficiently established to demonstrate *per se* antitrust liability if some buyers find the tying product unique and desirable [T]his case raises several substantial questions of antitrust law and policy, including . . . what effect should be given to the existence of a copyright or other legal monopoly in determining market power . . . I would grant certiorari to address the substantial issues of federal law presented.

Id. (quoting *Data Gen. Corp. v. Digidyne Corp.*, 473 U.S. 908, 908-09 (1985)).

Antitrust Guidelines for the Licensing of Intellectual Property used by the Department of Justice and the Federal Trade Commission, which similarly rejects the presumption.³⁶ Evaluating these sources as a whole, the district court proclaimed the Supreme Court cases holding patent tie-ins per se illegal to be “vintage,” and instead held that a true market power analysis should be undertaken in all patent tying cases.³⁷

Despite strong underlying reasoning, the Federal Circuit Court rejected the arguments of the district court, and reversed the grant of summary judgment in favor of Defendant ITW.³⁸ Legally compelled by Supreme Court precedent,³⁹ the Federal Circuit held that the presumption of per se illegality in patent tying cases must stand.⁴⁰ However, the Federal Circuit held the presumption of illegality to be rebuttable, with the burden on the defendant to rebut.⁴¹ The Federal Circuit therefore remanded the case to the district court to allow ITW to present rebuttal evidence on the presumption of marker power.⁴²

B. *The Supreme Court Decision*

In its final resolution of *Illinois Tool Works Inc. v. Independent Ink, Inc.* the Supreme Court held that simply by virtue of its patent, a patentee is not deemed to automatically have market power over the patented product market.⁴³ Rejecting even the possibility of a rebuttable presumption, the Court held that in the event of a tying arrangement, in which the tying product is patented and the tied product is not, the tying arrangement can only be deemed illegal if the plaintiff proves that the patentee has market power in the patented product market.⁴⁴

Tracing the long history of judicial, congressional, academic and agency treatment of patent ties, the Court concluded that the

³⁶ *Indep. Ink*, 210 F. Supp. 2d at 1163-64.

³⁷ *Id.* at 1165 n.10.

³⁸ *Indep. Ink, Inc. v. Ill. Tool Works, Inc.*, 396 F.3d 1342, 1352-53 (Fed. Cir. 2005).

³⁹ “The fundamental error in all of defendants’ arguments is that they ignore the fact that it is the duty of a court of appeals to follow the precedents of the Supreme Court until the Court itself chooses to expressly overrule them.” *Id.* at 1351.

⁴⁰ *Id.* “[T]he Supreme Court has held that there is a presumption of market power in patent tying cases, and we are obliged to follow the Supreme Court’s direction in this respect. The time may have come to abandon the doctrine, but it is up to the Congress or the Supreme Court to make this judgment.” *Id.*

⁴¹ *Id.* at 1352.

⁴² “Independent submits that under *International Salt* and its progeny, patent tying is *per se* illegal in every case and market power is irrebuttably presumed. In this area, unfortunately, there is no Supreme Court case directly addressing the issue” *Id.* at 1351 (emphasis added).

⁴³ *Ill. Tool Works Inc. v. Indep. Ink, Inc.*, 126 S. Ct. 1281, 1283 (2006).

⁴⁴ *Id.* at 1293.

presumption could no longer stand for three main reasons. First, strong distrust for patent ties had previously led the Court to improperly import reasoning from patent law, in the form of the patent misuse doctrine, into antitrust law, establishing a presumption that was not based on a legitimate antitrust analysis.⁴⁵ Second, Congress implicitly rejected the presumption in the 1988 Amendments to the Patent Code, which eliminated the presumption of illegality for patent ties in the context of patent misuse.⁴⁶ Third, academic and economic scholarship, as well as legal enforcement agencies, have long rejected the notion that a patent presumptively confers market power to the patentee.⁴⁷

IV. THE JUDICIAL HISTORY OF PATENT TYING

A. *The Patent Misuse Cases*

Patent misuse, in the tying context, is an equitable defense for an infringing user against a patent holder who inappropriately uses his legally granted patent rights to gain control over the market for non-patented goods.⁴⁸ The patent misuse doctrine has its early origins in patent infringement cases.⁴⁹ In these infringement cases patentees were given broad rights, not just over their patented products, but over products used in conjunction with the patents.⁵⁰ Consequently, licensees would be liable for infringement when, contrary to licensing agreements with the patentees, the licensee would use a competitor's unpatented products in connection with the patented one.⁵¹

One such case, which holds a striking corollary to the matter at hand, was *Henry v. A.B. Dick Co.*⁵² In *Henry*, a patented mimeograph machine was licensed with the restriction that it was to be used only in conjunction with the patentee company's "stencil paper, ink and other supplies."⁵³ The defendant used a substitution for the patentee's ink in the mimeograph machine, and the patentee sued for infringement.⁵⁴ The *Henry* court, ignoring the tying arrangement, viewed the conditional licensing agreement as a right by the patentee to have his invention used in

⁴⁵ *Id.* at 1288.

⁴⁶ *Id.* at 1291.

⁴⁷ *Id.* at 1291-92.

⁴⁸ *Id.* at 1288.

⁴⁹ *Id.*

⁵⁰ *See, e.g., Henry v. A.B. Dick Co.*, 224 U.S. 1, 26 (1912).

⁵¹ *Id.*

⁵² *Id.*

⁵³ *Id.* at 11.

⁵⁴ *Id.* at 12.

a particular way. The court deemed this right to be perfectly acceptable and valid under the patent laws.⁵⁵

Only five years later, *Motion Picture Patents Co. v. Universal Film Mfg. Co.* explicitly overruled *Henry v. A.B. Dick Co.*⁵⁶ The 1917 *Motion Picture Patents* decision held invalid the construction of patent laws to extend the restrictions granted under that law beyond the patented item itself.⁵⁷ The *Motion Picture Patents* decision was a break from, and a reaction to, these earlier patent infringement decisions which had held in favor of a broad construction of a patent holder's rights.⁵⁸ In addition, the *Motion Picture Patents* decision was made after the Clayton Act had been enacted, section 3 of which made it an antitrust violation to condition a licensing agreement for a patented product on the agreement not to use a competitor's goods.⁵⁹ In overruling *Henry*, the *Motion Picture Patents* case took the first step in narrowing patent protection and patent rights, but did not yet establish patent misuse as an equitable defense against infringement.⁶⁰

As the court grew more suspicious of tying arrangements, the common law patent misuse doctrine became correspondingly more restrictive for patentees. Soon, patent misuse became a defense to both direct⁶¹ and contributory⁶² infringement. In addition, infringement claims were defeated in cases in which the patentee attempted to restrain the market for unpatented materials used in connection with the patent,⁶³ even when the unpatented materials were "an integral part of the structure

⁵⁵ *Id.* at 26. "Such a sale, while transferring the property right in the machine, carries with it only the right to use it for practicing the invention according to the terms of the license. To no other or greater extent does the patentee consent to the use of the machine." *Id.*

⁵⁶ *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502 (1917).

⁵⁷ *Id.* at 516.

⁵⁸ *See, e.g.*, *Henry v. A.B. Dick Co.*, 224 U.S. 1 (1912); *Heaton-Peninsular Button-Fastener Co. v. Eureka Specialty Co.*, 77 F. 288 (6th Cir. 1896).

⁵⁹ Section 3 of the Clayton Act, enacted in 1914, states:

It shall be unlawful . . . to lease or make a sale or contract for sale of goods, wares, merchandise, machinery, supplies or other commodities, *whether patented or unpatented*, for use, consumption or resale . . . on the condition, agreement or understanding that the lessee or purchaser thereof shall not use or deal in the goods, wares, merchandise, machinery, supplies or other commodities of a competitor or competitors of the lessor or seller, where the effect of such lease, sale, or contract for sale or such condition, agreement or understanding may be to substantially lessen competition or tend to create a monopoly in any line of commerce.

⁶⁰ 15 U.S.C. § 14 (2006) (emphasis added).

⁶¹ *Motion Picture Patents*, 243 U.S. at 516.

⁶² *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488 (1942).

⁶³ *Carbice Corp. of Am. v. Am. Patents Dev. Corp.*, 283 U.S. 27 (1931).

⁶³ *See id.*; *see also Morton Salt*, 314 U.S. 488; *Motion Picture Patents*, 243 U.S. 502.

embodying the patent.”⁶⁴

These patent misuse decisions, however, never engaged in an analysis of the patentee’s market power, and only assumed that the patentee had market power in the patented (tying) good market and was attempting to expand that power into the unpatented (tied) good market.⁶⁵ “In other words, these decisions presumed ‘the requisite economic power’ over the tying product, such that the patentee could ‘extend [its] economic control to unpatented products,’” without proof of such power through a market analysis.⁶⁶ It was this unfounded presumption that ultimately led to the rule against patent ties.

B. *The Tying Arrangement Cases and the Evolution Patent Tying Presumption*

The ungrounded patent misuse presumption—that a patent grants the patentee sufficient market power to leverage control of the market of unpatented goods—quickly found its way from patent law into antitrust law in the 1947 Supreme Court decision *International Salt v. United States*.⁶⁷ *International Salt*, and subsequent Supreme Court decisions regarding the per se presumption, were fraught, as Justice Stevens notes,⁶⁸ with doctrinal confusion, from this improper borrowing of a presumption from the patent misuse doctrine. While only some of *International Salt*’s progeny, as discussed below, dealt specifically with tying arrangements involving patents or other types of intellectual property, the Supreme Court’s treatment of and attitude towards tying arrangements in general colored the development of the (now former) per se doctrine of patent tying. An evaluation of the treatment of tying arrangements throughout the relevant legal history makes it clear that although the Supreme Court initially

⁶⁴ *Mercoid Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 661, 665 (1944). *Mercoid* was later overruled in *Dawson Chem. Co. v. Rohm & Haas*, 448 U.S. 176 (1980). In *Dawson*, it was held that under 15 U.S.C. § 271(c), a patentee’s infringement claim is no longer defeatable on the basis of a patent misuse defense if the infringer is denying the patentee “control over staple goods used in their inventions.” *Id.* at 201.

⁶⁵ See *Carbice*, 283 U.S. at 33-34 (“Relief is denied because the [Plaintiff] is attempting, without sanction of law, to employ the patent to secure a limited monopoly of unpatented material used in applying the invention.”); *Morton Salt*, 314 U.S. at 491 (“It thus appears that respondent is making use of its patent monopoly to restrain competition in the marketing of unpatented articles . . . for use with the patented machines, and is aiding in the creation of a limited monopoly . . . not within that granted by the patent.”); *Mercoid*, 320 U.S. at 666 (“The necessities or convenience of the patentee do not justify any use of the monopoly of the patent to create another monopoly [in the unpatented product.]”).

⁶⁶ *Ill. Tool Works Inc. v. Indep. Ink, Inc.*, 126 S. Ct. 1281, 1288 (2006) (quoting *United States v. Loew’s Inc.*, 371 U.S. 38, 45-46 (1962)).

⁶⁷ *Int’l Salt Co. v. United States*, 332 U.S. 392 (1947).

⁶⁸ *Ill. Tool Works*, 126 S. Ct. at 1288-89.

embraced the per se rule, more recent decisions were reluctant to support the rule without proof of market power.

1. Establishing a Per se Rule of Illegality: *International Salt* and its Progeny

The International Salt Company held patents for two salting machines, used in canning processes, which it distributed through lease agreements.⁶⁹ As a condition of the lease agreements, the lessees were required, through a tying arrangement, to purchase any unpatented salt that the lessees' machines required from International Salt Co.⁷⁰ The Court characterized making the lease contingent on the purchase of salt from International Salt to be an illegal restraint on trade.⁷¹ Reasoning that the tie of the patented salting machine to the sale of salt in the lease agreements was a per se violation of section 1 of the Sherman Act,⁷² the Court held that while International Salt had been granted a legal monopoly over the salting machines through patent law, this property right did not entitle the company to restrain trade through a tying arrangement violative of antitrust law.⁷³

The Court did not explain the reasoning behind its newly formed rule of per se illegality for patent ties. In addition, though it did not discuss the doctrine of patent misuse, the Court did cite to the recently decided patent misuse decisions,⁷⁴ seemingly as justification for the new, strict rule.⁷⁵ Though the patent misuse decisions had shown increased disfavor by the Court for extending the rights of patentees over their products, none had gone so far as to pronounce a per se rule of illegality for patent tying arrangements.⁷⁶ Despite the fact that there was no explicit reasoning given for the holding, the Supreme Court consistently relied on *International Salt* as its justification for the per se rule throughout the doctrine's history.⁷⁷

⁶⁹ *Int'l Salt Co.*, 332 U.S. at 393.

⁷⁰ *Id.* at 394.

⁷¹ *Id.* at 396.

⁷² 15 U.S.C. § 1 (1982).

⁷³ *Int'l Salt*, 332 U.S. at 395-96 ("The appellant's patents confer a limited monopoly of the invention they reward . . . But the patents confer no right to restrain use of, or trade in, unpatented salt. By contracting to close this market for salt against competition, International has engaged in a restraint of trade . . .").

⁷⁴ See, e.g., *Mercoird Corp. v. Minn.-Honeywell Co.*, 320 U.S. 680 (1944); *Mercoird Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 661 (1944); *Morton Salt, Co. v. G. S. Suppiger Co.*, 314 U.S. 488 (1942).

⁷⁵ *Int'l Salt*, 332 U.S. at 395.

⁷⁶ William Montgomery, *The Presumption of Economic Power for Patented and Copyrighted Products in Tying Arrangements*, 85 COLUM. L. REV. 1140, 1142 n.12 (1985).

⁷⁷ *Ill. Tool Works Inc. v. Indep. Ink, Inc.*, 126 S. Ct. 1281, 1289 (2006) (citing *United*

Though it declared the tying arrangement per se illegal, the Court then engaged in a general analysis of International Salt's market power, in what appears to be an attempt to justify its holding in light of its weak legal foundation.⁷⁸ This analysis seems entirely superfluous in light of the fact that the Court had just established a per se rule; however, from this point on tying arrangements were deemed per se illegal only after a market power analysis was done.⁷⁹ The Court stated that because International Salt had over nine hundred leases involved in tying arrangements to the sale of 119,000 tons of salt for use in connection with the leased machines,⁸⁰ "[t]he volume of business affected by these contracts cannot be said to be insignificant or insubstantial and the tendency of the arrangement to accomplishment of monopoly seems obvious."⁸¹

In attempting to trace the origins of the unsubstantiated assumption in *International Salt* that patent ties tend to accomplish monopolies, the *Independent Ink* Court looked to the Government's brief in *International Salt*.⁸² The brief, taking its reasoning from the *Morton Salt* patent misuse decision, states that even though the *Morton Salt* Court made its decision on patent grounds and not on antitrust grounds, the *Morton Salt* Court employed reasoning identical to the underlying rationale of the Sherman Antitrust Act.⁸³ Therefore, the Court concluded, it was compelled to reach the same result in *International Salt* as it reached in *Morton*, and International Salt's conduct was condemned.⁸⁴ Furthermore, the Court accepted the Government's interpretation "that this type of restraint is unlawful on its face under Sherman Act," and held that International Salt's conduct constituted a per se violation of antitrust laws.⁸⁵

In 1948, the Court extended the doctrine and applied the per

States v. Loew's Inc., 371 U.S. 38, 45-46 (1953); Times-Picayune Publ'g Co. v. U.S., 345 U.S. 594, 608 (1953); Standard Oil Co. of Cal. v. United States, 337 U.S. 293, 304 (1949)).

⁷⁸ *Int'l Salt*, 332 U.S. at 394-96.

⁷⁹ *Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2 (1984) (O'Connor, J., concurring).

⁸⁰ *Int'l Salt*, 332 U.S. at 394.

⁸¹ *Id.* at 396. The term "not insignificant" in reference to the amount of market control a seller has in the tied product market later became the benchmark standard. See *Times-Picayune Publ'g Co. v. U.S.*, 345 U.S. 594 (1953).

⁸² *Ill. Tool Works Inc. v. Indep. Ink, Inc.*, 126 S. Ct. 1281, 1289 (2006).

⁸³ *Id.*

⁸⁴ "[A]lthough the Court in [*Morton Salt*] did not find it necessary to decide whether the antitrust laws were violated, its language, its reasoning, and its citations indicate that the policy underlying the decision was the same as that of the Sherman Act." *Id.* (citing Brief for United States in *International Salt v. United States* (citations omitted)).

⁸⁵ *Id.*

se rule to tying arrangements in which the tying product is copyrighted—evidence of the Court’s suspicions at the time of tying arrangements involving any manner of intellectual property.⁸⁶ In *United States v. Paramount Pictures*, defendants, film-distributors, were block-booking⁸⁷ copyrighted films when licensing them to exhibitors. As in *International Salt*, the *Paramount Pictures* Court cited to patent misuse cases⁸⁸ for the proposition that copyright tying arrangements are per se illegal by virtue of the copyright.⁸⁹

The next two tying arrangement cases that came before the Supreme Court did not involve the tie of intellectual property products. These cases, therefore, should not automatically have relied on the established per se presumption of illegality for patent or copyright ties. Nevertheless, in the first case, *Times-Picayune Publishing Company v. United States*, the Court established that the rule in *International Salt* of per se illegality could indeed be applied in a non-patent case when the seller demonstrates that he holds a “monopolistic position in the market for the ‘tying’ product,” and is involved in “a substantial volume of commerce in the ‘tied’ product” market.⁹⁰ Forced to find a substitute rule for circumstances in which the tying product is not patented, the Court fit the rule of *International Salt* into this new context by equating a patent with a general product monopoly.⁹¹ On the other hand, *Times-Picayune* did foreshadow later developments. For the first time, the Court attempted to discern whether the tying that occurred resulted in an unreasonable restraint of competition within the context of the tied product’s actual market, rather than a presumption of market power based on an intellectual property right in the tying product’s market. As nearly all scholars currently

⁸⁶ 1 HERBERT HOVENKAMP, MARK D. JANIS & MARK A. LEMLEY, IP AND ANTITRUST § 4.2a (2006 Supp).

⁸⁷ “Block-booking is the practice of licensing, or offering for license, one feature or group of features on condition that the exhibitor will also license another feature or group of features released by the distributors during a given period.” *U.S. v. Paramount Pictures, Inc.*, 334 U.S. 131, 156-57 (1948). Because each individual film is tied to another, licensees have no way to obtain a license for individual features. Thereby, the licensor has created a monopoly, not just a permitted monopoly over the copyrighted feature desired by the licensee, but over another feature that must come along for the ride. *Id.* Block-booking seems particularly egregious because while patents may have reasonably close substitutes on the market, in cases of copyrighted products that may not be so as, “there is but one ‘Gone With the Wind.’” *United States v. Loew’s Inc.*, 371 U.S. 38, 48, (1962).

⁸⁸ See *Mercoid Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 661 (1944); *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488 (1942); *Ethyl Gasoline Corp. v. United States*, 309 U.S. 436 (1940).

⁸⁹ *United States v. Paramount Pictures, Inc.*, 334 U.S. 131, 157 (1948).

⁹⁰ *Times-Picayune Publ’g Co. v. United States*, 345 U.S. 594 (1953).

⁹¹ *Id.*

believe, this distinction is crucial.⁹²

*Northern Pacific Railway v. United States*⁹³ was the next case to descend from *International Salt*. In keeping with the holding of *Times-Picayune*, the *Northern Pacific* Court held that a tying arrangement was per se illegal when the seller held sufficient power in the tying product market “[. . .]o appreciably restrain free competition in the market for the tied product and a ‘not insubstantial’ amount of interstate commerce is affected.”⁹⁴ This significantly broadened the rather narrow holding in *Times-Picayune* that monopoly power in the tying market was required for a finding of per se illegality; after *Northern Pacific Railway*, a tyer need only possess an amount of power that acts as a “not insubstantial” restraint on trade to be found to violate the antitrust laws.⁹⁵

Northern Pacific became confusing, however, upon the Court’s equating the non-patented tying arrangement at issue here (the tie of land to certain railroad shipment agreements) with the patent tie at issue in *International Salt*. The *Northern Pacific* Court unexpectedly stated that the Court in *International Salt*:

placed no reliance on the fact that a patent was involved nor did it give the slightest intimation that the outcome would have been any different if that had not been the case. If anything, the Court held the challenged tying arrangements unlawful *despite* the fact that the tying item was patented, not because of it.⁹⁶

At first blush this proposition seems in tune with the Court’s general holding that the seller need only hold sufficient market power in the tying product market to restrain trade in the tied product market, and this can be shown in ways other than a legally granted monopoly such as a patent.⁹⁷ However, because the *International Salt* holding offers no proof of underlying market

⁹² See discussion *infra* Part VII: The Vast Majority of Scholarship Rejects the Per Se Presumption.

⁹³ N. Pac. Ry. Co. v. United States, 356 U.S. 1 (1958).

⁹⁴ *Id.* at 6.

⁹⁵ *Id.* at 11.

⁹⁶ *Id.* at 9. The court supplemented this proposition with a bold footnote: Of course it is common knowledge that a patent does not always confer a monopoly over a particular commodity. Often the patent is limited to a unique form or improvement of the product and the economic power resulting from the patent privileges is slight. As a matter of fact the defendant in *International Salt* offered to prove that competitive salt machines were readily available which were satisfactory substitutes for its machines . . . but the Court regarded such proof as irrelevant.

Id. at 10 n.8.

⁹⁷ *Id.* at 9.

power for patents, and support for its holding relied exclusively on an application of the patent misuse doctrine and not any type of real market power analysis, the statement that the *International Salt* Court placed no reliance in its holding on the existence of a patent does not fit with the per se doctrine as laid out in *International Salt*.⁹⁸ It appears, therefore, that there was no precedential foundation in *International Salt* for the *Northern Pacific* Court to rely on for its holding that per se liability can stem from an analysis of the extent of the restraint on competition in the tying and tied product markets.

By the time the Court was faced in 1962 with another block-booking case, though very similar to the facts of *Paramount*, the Court took the opportunity to greatly expand on previous doctrine. In *United States v. Loew's Inc.*,⁹⁹ defendant film distributors were attempting to block book films for broadcast on television.¹⁰⁰ In its holding the Court moved away both from the *Times-Picayune* rule that for a presumption of per se illegality a seller must hold a monopoly within the tying product market,¹⁰¹ and from the *Northern Pacific* rule that the seller have enough power in the tying product market to restrain trade in the tied product market.¹⁰² The *Loew's* Court stated that in order to find per se illegality, a seller must demonstrate market power in the tying product market through a showing of "some power to control price and to exclude competition," or, absent that, a showing of the "product's desirability to consumers or from uniqueness in its attributes."¹⁰³ However, the Court explicitly stated that when the tying product is patented or copyrighted, there is no need for this to be demonstrated because market power is presumed,¹⁰⁴ confirming once again, though in dicta, the per se presumption for patent ties.

2. The Turning Tide: *Fortner I* and *Fortner II*

Fortner Enterprises v. United States Steel,¹⁰⁵ and its final resolution in *United States Steel v. Fortner Enterprises*,¹⁰⁶ was the first solid

⁹⁸ Int'l Salt Co. v. United States, 332 U.S. 392 (1947).

⁹⁹ 371 U.S. 38 (1962).

¹⁰⁰ *Id.* at 40.

¹⁰¹ *Times-Picayune Publ'g Co. v. United States*, 345 U.S. 594, 608-09 (1953).

¹⁰² *N. Pac. Ry. Co.*, 356 U.S. 1.

¹⁰³ *United States v. Loew's Inc.*, 371 U.S. 38 (1962).

¹⁰⁴ *Id.* at 45.

¹⁰⁵ *Fortner Enters., Inc. v. United States Steel Corp.*, 394 U.S. 495 (1969) [hereinafter *Fortner I*].

¹⁰⁶ *Fortner Enters., Inc. v. United States Steel Corp.*, 429 U.S. 610 (1977) [hereinafter *Fortner II*].

attempt by the Supreme Court, in cases of tying arrangements, to turn away from general presumptions and assumptions of illegality, and towards a use of rule of reason market power analysis.¹⁰⁷ The *Fortner* cases involved a tying arrangement in which U.S. Steel offered to lend a developer 100 percent financing for a development project on the condition that, in return, the developer would purchase prefabricated homes manufactured only by U.S. Steel.¹⁰⁸ The Court in *Fortner I* determined that there was a triable issue of fact to resolve, namely whether or not U.S. Steel had market power in the tying market sufficient to make the arrangement an illegal tying agreement.¹⁰⁹ The case returned to the Court seven years later for a decision of whether or not the market power was substantial enough to make the tying arrangement per se illegal.¹¹⁰

The *Fortner I* Court continued along the line of previous Supreme Court tying cases, rejecting the need for proof of market power when the product is “unique.”¹¹¹ In an expansion of the uniqueness test offered by the *Loew’s* Court, the *Fortner I* Court did not focus on the uniqueness of the product itself, but rather on the “unique advantages the seller had” in the marketplace.¹¹² Therefore, like tying arrangements with patents or copyrights, even where the tying “product” such as money, is not unique in the lay sense, where the producer holds substantial market power, there is “no basis for treating credit differently in principal from other goods and services.”¹¹³

The *Fortner I* decision was hardly unanimous, and four judges dissented in two separate but agreeing opinions.¹¹⁴ Reflecting a view that was ultimately adopted in the *Fortner II* decision, the dissenting justices would have held that proof of the seller’s market power was essential to the condemnation of any tying arrangement.¹¹⁵ In addition, in the matter at hand, the financing offered was part and parcel of the sale of the prefabricated homes and, therefore, the arrangement “served a legitimate purpose.”¹¹⁶

Adopting the view of the dissenting justices in *Fortner I*, the

¹⁰⁷ See *supra* note 19.

¹⁰⁸ *Fortner I*, 394 U.S. at 498.

¹⁰⁹ *Id.* at 509-10.

¹¹⁰ *Fortner II*, 429 U.S. at 612-13.

¹¹¹ *Fortner I*, 394 U.S. at 503.

¹¹² William Montgomery, *The Presumption of Economic Power for Patented and Copyrighted Products in Tying Arrangements*, 85 COLUM. L. REV. 1140, 1147 (1985).

¹¹³ *Fortner I*, 394 U.S. at 509.

¹¹⁴ *Id.* at 510 (White, J., dissenting), 520 (Fortas, J., dissenting).

¹¹⁵ *Id.* at 511.

¹¹⁶ *Ill. Tool Works Inc. v. Indep. Ink, Inc.*, 126 S. Ct. 1281, 1287 (2006).

Fortner II Court held that there was not sufficient evidence that the financier had a unique product because there was no evidence that other financiers could not offer the same 100% financing terms.¹¹⁷ Indeed, in analyzing the actual market conditions of the U.S. Steel financing, the Court held that though the 100 percent financing offered by U.S. Steel seemed to be unique, it was only so because the financier was willing to “accept a lesser profit . . . [and] incur greater risks”¹¹⁸ than other financiers. This situation, though in its own way unique, could not stand for market domination; there was no proof of market power in the tying product market and, without that, there is no basis to declare this arrangement illegal.¹¹⁹ The *Fortner II* decision is so monumental because it is the first rejection of the proposition that “tying arrangements serve hardly any purpose beyond the suppression of competition,”¹²⁰ and negates some of the Supreme Court’s hostility towards tying arrangements in general.¹²¹

3. *Jefferson Parish* and Justice O’Connor’s Concurring Opinion

The understanding by the *Fortner II* Court, that market power in the tying product was a necessary element to find a tying arrangement illegal, was affirmed in *Jefferson Parish Hospital v. Hyde* in 1984.¹²² In *Jefferson Parish*, the Hospital maintained a contract with an outside anesthesiology medical group. The contract provided that all anesthesiology services required by the hospital were to be performed exclusively by members of this group.¹²³ An independent anesthesiologist who was denied a staff position at the Hospital challenged the agreement.¹²⁴ Because every surgery patient at Jefferson Parish required the services of an anesthesiologist, the plaintiff reasoned that the agreement between the hospital and the firm was a per se illegal tying arrangement.¹²⁵ Thus, a patient at Jefferson Parish Hospital was, in essence, forced to use the services of an anesthesiologist from the outside firm.¹²⁶

¹¹⁷ *Fortner II*, 429 U.S. at 620.

¹¹⁸ *Id.* at 621-22.

¹¹⁹ *Id.* at 622.

¹²⁰ *Ill. Tool Works*, 126 S. Ct. at 1287 (quoting *Fortner I*, 394 U.S. at 498) (internal citations omitted).

¹²¹ Daniel E. Lazaroff, *Reflections on Eastman Kodak Co. v. Image Technical Services, Inc.: Continued Confusion Regarding Tying Arrangements and Antitrust Jurisprudence*, 69 WASH. L. REV. 101, 114-15 (1994).

¹²² *Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2, 26-27 (1984).

¹²³ *Id.* at 5-6.

¹²⁴ *Id.* at 5.

¹²⁵ *Id.*

¹²⁶ *Id.*

According to *Jefferson Parish*, not all tying arrangements are equally threatening. Significantly, the Court held that those tying arrangements that do not *force* purchasers to take unwanted or unnecessary items along with the wanted items should not be condemned simply because there are two separate products being sold together—the necessary concern is whether two product markets are being affected.¹²⁷ In *Jefferson Parish* it was “safe to assume that every patient undergoing a surgical operation needs the services of an anesthesiologist,”¹²⁸ and, therefore, it cannot be said that the hospital was actually *forcing* patients to take the tied product (here the anesthesiologist). Per se illegality, therefore, could not apply.¹²⁹ In addition, the tying arrangement could not be unlawful because there was no evidence that either the market for hospitals or the market for anesthesiologists had been adversely affected by the contractual arrangement.¹³⁰ Simply stated, the two products here did not represent two separate product markets as required under a tying analysis to be per se illegal.

Jefferson Parish has impacted the history of antitrust tying cases in various manners. First, it made a straightforward market power analysis in a product tying context.¹³¹ By doing so, it provided a basic framework for the analysis of intellectual property tying cases under the rule of reason as opposed to the per se rule. In addition, the concurring opinion of Justice O'Connor operated (until *Independent Ink*) as a battle cry of sorts for the movement away from per se illegality in cases of intellectual property tying arrangements.¹³²

Though the Court in its majority opinion endorsed the per se rule for patent ties, Justice O'Connor's concurring opinion sharply questioned the continued legitimacy of the presumption.¹³³ O'Connor noted that even though the Court always purported to take a strict per se stance against patent tying arrangements, they had always been subject to some form of market power analysis by the Court. Historically, patent ties were only declared per se illegal after it was demonstrated that the seller had substantial market

¹²⁷ *Id.* at 20-21, 27-28.

¹²⁸ *Id.* at 28.

¹²⁹ *Id.* Specifically, the Court stated that “[t]ying arrangements need only be condemned if they restrain competition on the merits by forcing purchases *that would not otherwise be made*. A lack of price or *quality* competition does not create this type of forcing.” (emphases added). *Id.* at 3, 27.

¹³⁰ *Id.* at 31.

¹³¹ *Id.* at 26.

¹³² *Id.* at 32 (O'Connor, J., concurring).

¹³³ *Id.* at 35.

power to the point of market control.¹³⁴

Therefore, according to Justice O'Connor, the focus should move away from the label of per se illegality and towards an economic analysis of the market situation at hand—remaining cognizant of both the negative and positive competitive effects of tie-ins.¹³⁵ In shifting to a market analysis, Justice O'Connor hoped the tying arrangement doctrine could be brought into alignment with the general antitrust goals of encouraging competition and discouraging anticompetitive activity in the marketplace.¹³⁶ Accordingly, Justice O'Connor argued that the presumption of illegality should be rebuttable in cases involving patent ties, even though patents are, technically, legally granted monopolies.¹³⁷ The mere fact of a patent alone does not mean that the holder of a patented product holds market power.¹³⁸

V. CONGRESS AND THE PATENT MISUSE REFORM ACT OF 1988

As late in the tying arrangement jurisprudence as the 1984 *Jefferson Parish* decision the Supreme Court reiterated the per se presumption of illegality for patent ties.¹³⁹ However, only four years after the *Jefferson Parish* decision, Congress eliminated the presumption of market power for tying arrangements in the patent misuse context. In 1988 Congress passed the Patent Misuse Reform Act,¹⁴⁰ which amended the Patent Act¹⁴¹ and limited the patent misuse defense in cases of tying arrangements exclusively to arrangements where market power has been proved to exist in the patented product. According to the new provision:

(d) No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of

¹³⁴ *Id.* at 34 (citing *N. Pac. Ry. Co. v. United States*, 356 U.S. 1, 6 (1958)). Notably, Justice O'Connor points out that the Court never equated tie-ins with other 'anticompetitive' practices that "are always illegal, without proof of market power or anticompetitive effect." *Id.*

¹³⁵ *Id.* at 35.

¹³⁶ *Id.*

¹³⁷ *Id.* at 37 n.7.

¹³⁸ *Id.* ("[A] patent holder has no market power in any relevant sense if there are close substitutes for the patented product. Similarly, a high market share indicates market power only if the market is properly defined to include all reasonable substitutes for the product."). Further, Justice O'Connor states that in earlier cases where patents and copyright tie-ins were deemed per se illegal, it appears that the courts were relying solely on the patent misuse doctrine but did not take into account a market power analysis at all. *Id.*

¹³⁹ *Id.* at 9.

¹⁴⁰ 35 U.S.C. § 271 (2000).

¹⁴¹ 35 U.S.C. § 271 *et seq.*

the patent right by reason of his having . . . (5) conditioned the license of any rights to the patent or the sale of the patented product on the acquisition of a license to rights in another patent or purchase of a separate product, *unless, in view of the circumstances, the patent owner has market power in the relevant market for the patent or patented product on which the license or sale is conditioned.*¹⁴²

The language of the Act shows that Congress did not intend for a patent tying arrangement to be automatically condemned without a showing of market power.¹⁴³

The Patent Misuse Reform Act specifically addresses patent law and not antitrust law. However, the *Independent Ink* Court deemed that Congress' change to the patent law invited an analogy to antitrust law.¹⁴⁴ Specifically, as in a patent misuse case, a patentee should not be considered to be in violation of antitrust laws by virtue of a tying arrangement unless the patentee has market power in the patented product.¹⁴⁵ The *Independent Ink* Court focused first on the disparate consequences in a patent misuse case and in an antitrust case. The Reform Act imposed an incredibly high standard of proof in a patent misuse case when the consequences "den[ied] a patentee the right to enjoin an infringer."¹⁴⁶ In contrast, under the law of antitrust, where the consequences of a tying arrangement could result in a "crime punishable by up to 10 years in prison," the standard of proof was much lower because of the per se presumption.¹⁴⁷ It would be inconsistent for the standard of proof to be significantly lower where criminal consequences are at stake.¹⁴⁸ To justify that the change in the presumption against patent ties in the Reform Act should be applied to antitrust claims, the *Independent Ink* Court reiterated that the very foundation for the per se presumption in antitrust law was the patent misuse doctrine.¹⁴⁹ Since the presumption of market power has been statutorily changed, it is not logical to continue to apply the per se presumption when its foundation has been eradicated.¹⁵⁰

¹⁴² 35 U.S.C. § 271(d)(5) (2005) (emphasis added).

¹⁴³ 10 AREEDA, ANTITRUST LAW, *supra* note 8, at 1737c.

¹⁴⁴ Ill. Tool Works Inc. v. Indep. Ink, Inc., 126 S. Ct. 1281, 1290 (2006).

¹⁴⁵ *Id.*

¹⁴⁶ *Id.*

¹⁴⁷ *Id.* (citing 15 U.S.C. § 1 (2000)).

¹⁴⁸ *Id.*

¹⁴⁹ *Id.*

¹⁵⁰ *Id.*

VI. UNITED STATES DEPARTMENT OF JUSTICE, FEDERAL TRADE
COMMISSION AND THE 1995 ANTITRUST GUIDELINES

After decades of hostility by the Department of Justice (“DOJ”) and Federal Trade Commission (“FTC”) towards intellectual property tying arrangements, and adherence to the per se presumption,¹⁵¹ in 1995, these federal enforcement agencies moved away from the presumption and began to require a showing of market power in the tying product market in order for a plaintiff to prove a violation of antitrust laws.¹⁵² The *1995 Antitrust Guidelines for the Licensing of Intellectual Property*, published jointly by the DOJ and FTC, have remained the policy of the enforcement agencies for over 10 years.¹⁵³ Under the *Antitrust Guidelines*, a tying arrangement is generally challengeable if: “(1) the seller has market power in the tying product; (2) the arrangement has an adverse effect on competition in the relevant market for the tied product; and (3) efficiency justifications for the arrangement do not outweigh the anticompetitive effects.”¹⁵⁴ These steps show that the DOJ/FTC had embraced a true rule of reason analysis “in the exercise of their prosecutorial discretion.”¹⁵⁵ The agencies looked not only for the presence of market power, but also to the competitive effects on the market in which the patent holder has power, to find an antitrust violation.

The DOJ and the FTC hold that while patents are legal monopolies, they do not, on their own, act as economic monopolies.¹⁵⁶ Under the DOJ and FTC guidelines, the determination of whether a patent holder has market power is analyzed as if the patent were any other form of property.¹⁵⁷ This analysis is in accord with modern antitrust scholarship.¹⁵⁸ One of

¹⁵¹ R. Hewitt Pate, Acting Assistant Attorney General, *Competition and Intellectual Property in the United States: Licensing Freedom and the Limits of Antitrust*, 2005 EU Competition Workshop, Florence, Italy 1-2 (Jun. 3, 2005), <http://www.usdoj.gov/atr/public/speeches/209359.htm> [hereinafter Pate, *Licensing Freedom*].

¹⁵² See U.S. Department of Justice & Federal Trade Commission, *Antitrust Guidelines for the Licensing of Intellectual Property* § 5.3 (Apr. 6 1995), available at <http://www.usdoj.gov/atr/public/guidelines/0558.pdf> [hereinafter *Antitrust Guidelines*]. The two institutions jointly hold, as a matter of policy, that the existence of a patent does not automatically lend itself to the presumption that market power exists. See Pate, *Licensing Freedom*, (“In the view of the Department of Justice and the Federal Trade Commission, the idea that IP rights cannot be presumed to create market power is a settled question.”).

¹⁵³ See generally *Antitrust Guidelines* § 5.3, *supra* note 152.

¹⁵⁴ *Id.* Requirement (1), that the seller have market power in the tying product, is derived from a similar statutory requirement of market power for patent misuse cases. 35 U.S.C. § 271(d) (1988).

¹⁵⁵ *Ill. Tool Works Inc. v. Indep. Ink, Inc.*, 126 S. Ct. 1281, 1292 (2006).

¹⁵⁶ Pate, *Licensing Freedom*, *supra* note 152.

¹⁵⁷ *Antitrust Guidelines* § 2.1, *supra* note 152.

¹⁵⁸ See *infra* Part VII: The Vast Majority of Scholarship Rejects the Per Se Presumption.

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the main considerations in the DOJ/FTC market power analysis is the availability of substitutions for the patented products in the market.¹⁵⁹ In the case of patent tie-ins, the patent holder, generally, does not have the power to arbitrarily raise prices in a market, because substitutions are usually available for the consumer to choose from. Rarely can a patent be so innovative as to foreclose all adequate alternatives or substitutions within a market.¹⁶⁰

Remarking that the DOJ and FTC were undoubtedly influenced by the “virtual consensus” of scholarly opinion that the per se presumption should be reversed,¹⁶¹ the *Independent Ink* Court determined that the longstanding rejection by the DOJ and FTC of the notion that the existence of a patent automatically endows the patent holder with market power further supported the presumption’s abandonment.¹⁶² Similar to the analogy that the *Independent Ink* Court invited from the changes in the patent laws, the Court again noted that it would be anomalous to require a stricter standard of proof in the civil antitrust context than in the criminal context.¹⁶³

VII. THE VAST MAJORITY OF SCHOLARSHIP REJECTS THE PER SE PRESUMPTION

In reversing the presumption, the Court stated that it relied heavily on the notion that “the vast majority of academic literature recognizes that a patent does not necessarily confer market power.”¹⁶⁴ Both economic and academic scholarship long disapproved of the per se presumption. Specifically, scholars focused on the fact that while the presumption assumes market power in the patented product, the availability, in most instances, of close substitutes in the market for the product at issue challenges the truth of the assumption.¹⁶⁵ In perhaps most

¹⁵⁹ *Antitrust Guidelines* § 2.2, *supra* note 152.

¹⁶⁰ *Id.*

¹⁶¹ *Ill. Tool Works Inc. v. Indep. Ink, Inc.*, 126 S. Ct. 1281, 1292 (2006).

¹⁶² *Id.*

¹⁶³ *Id.* at 1293.

¹⁶⁴ *Id.*

¹⁶⁵ See generally Richard N. Pearson, *Tying Arrangements and Antitrust Policy*, 60 Nw. U. L. REV. 626, 644 (1965) (“A brand name or a patent may simply be the requirement of entry into a field when keep competition exists from other branded or patented products serving the same purpose.”); J. Dianne Brinson, *Proof of Economic Power in a Sherman Act Tying Arrangement Case: Should Economic Power Be Presumed When the Tying Product is Patented or Copyrighted?*, 48 LA. L. REV. 29, 66 (1987) (“A copyrighted or patented tying product should not be presumed to give its seller power over price, for the copyright or patent is not a guarantee or even an indicator of product desirability and not a barrier to competitor creation of comparable products.”).

circumstances, a patent holds *no* market power whatsoever.¹⁶⁶ Criticizing the presumption for ignoring this fact, the Hovenkamp treatise, *IP and Antitrust*, notes that “coverage of one’s product with an intellectual property right . . . is not even a guarantee of market success.”¹⁶⁷ In *The Economic Structure of Intellectual Property Law*, Landes and Posner note that while patents usually do not confer market power, the fact that patents technically confer to the patentee a legal monopoly led to judicial confusion that patents conferred an economic monopoly to the patentee as well.¹⁶⁸ This, argue Landes and Posner, is demonstrably incorrect.¹⁶⁹ A patent can only create a monopoly in the antitrust sense if no adequate substitutes exist within the market sufficient to force consumers to pay an elevated price for the product.¹⁷⁰

Scholars have also long noted that the presumption is inherently flawed because it originated without any requirement of a true market power analysis.¹⁷¹ In other words, precedent was the only leg upon which the per se presumption has been standing since its inception.¹⁷² Hovenkamp similarly criticizes the per se presumption on the basis that as initially developed, it was legally unsubstantiated and undertaken without a true market power analysis.¹⁷³ Ultimately, it was this reasoning upon which the Court

¹⁶⁶ See generally F.M. Scherer, *Panel Discussion: The Value of Patents and Other Legally Protected Commercial Rights*, 53 ANTITRUST L.J. 535, 547 (1984) (“Statistical studies suggest that the vast majority of all patents confer very little monopoly power”); William Montgomery, *The Presumption of Economic Power for Patented and Copyrighted Products in Tying Arrangements*, 85 COLUM. L. REV. 1140, 1150 (1985) (“[T]he majority of all patents and copyrights confer little or no monopoly power.”).

¹⁶⁷ 1 HERBERT HOVENKAMP, MARK D. JANIS & MARK A. LEMLEY, *IP AND ANTITRUST* § 4.2a (2006 Supp.).

¹⁶⁸ *Id.*

¹⁶⁹ *Id.*

This confusion led judges to suppose that there is an inherent tension between property law because it confers ‘monopolies,’ and antitrust law which is dedicated to overthrowing monopolies. That was a mistake. At one level it is a confusion of a property right with a monopoly. One does not say that the owner of a parcel of land has a monopoly because he has a right to exclude others from using the land. But a patent or a copyright is a monopoly in the same sense. It excludes other people from using some piece of intellectual property without consent. That in itself has no antitrust significance.

Id.

¹⁷⁰ 1 HERBERT HOVENKAMP, MARK D. JANIS & MARK A. LEMLEY, *IP AND ANTITRUST* § 4.2a (2006 Supp.).

¹⁷¹ AREEDA, *ANTITRUST LAW*, SUPRA note 8, at 1737b, view the per se presumption, as it developed, to have arisen out of an improper emphasis laid on the value of patents by Courts subsequent to *International Salt and Paramount*. . The treatise notes that “[a]lthough these courts would apparently infer sufficient power for per se illegality from patents and copyrights, they did not really demand market power in the first place.” *Id.*

¹⁷² *Id.* at 1737b-c. See also 1 HERBERT HOVENKAMP, MARK D. JANIS & MARK A. LEMLEY, *IP AND ANTITRUST* § 4.2e5 (Supp. 2006).

¹⁷³ *Id.* Hovenkamp explains:

The problem with the presumption of power where intellectual property rights

relied upon to reverse the per se presumption; “poorly grounded” precedent alone could not uphold an invalid presumption.¹⁷⁴

VIII. THE IMPLICATIONS OF *ILLINOIS TOOL WORKS V. INDEPENDENT INK*

Immediate reaction to the Supreme Court’s decision in *Illinois Tool Works* was, in legal circles at least, uniform: the Supreme Court got it right. Antitrust practitioners and scholars alike concluded that by reversing the presumption, the Court has brought the jurisprudence of patent tying arrangements into alignment with the rest of modern antitrust and economic scholarship.¹⁷⁵ Presently, the question for legal practitioners is how, if at all, this decision will change antitrust litigation. Because the per se rule has never been treated as a true per se rule, and condemnation of a patent tying arrangement has never come without proof of market power, some argue that the reversal of the presumption will change nothing at all.¹⁷⁶ However, because the Supreme Court speaks only of market power in its decision, it leaves unresolved the troublesome question of a patent tie that has market power in the patented product market, but is nonetheless pro-competitive.¹⁷⁷

Contrary to the reaction of the legal world, the minimal press coverage that this case received was universal; the *Illinois Tool Works* decision spells doom for small businesses. Since the burden of proof of market power is on the plaintiff, the apprehension is that big businesses, arguably those more likely to have market power, will be able to tie patented products in the marketplace with no concern for consumer welfare and virtually no fear of negative consequences.¹⁷⁸ But is this really true? As counsel for Illinois Tool Works noted, antitrust plaintiffs are not left without remedy.

are concerned is not that it is a presumption, but that *it is a poorly grounded presumption*. The per se rule is used sparingly in antitrust, and applied only after judicial experience indicates that a practice . . . is always or nearly always anticompetitive. [The Court] simply assumed that the intellectual property law’s protection from copying operated as a kind of inherent creator of power.

Id. (emphasis added).

¹⁷⁴ *Id.*

¹⁷⁵ Posting of Peter Lattman to WSJ.com Law Blog, <http://blogs.wsj.com/law/2006/03/01/antitrust-defendants-racking-up-wins-at-the-supreme-court/> (Mar. 1, 2006, 15:12 EST) (quoting Steven C. Sunshine, head of antitrust practice at Cadwalader Wickersham & Taft, Washington D.C., who noted that the decision essentially “harmoniz[es] antitrust law presumptions with the economic law and policy that’s been pervasive over the past ten-to-fifteen years.”).

¹⁷⁶ Posting of Professor Daniel A. Crane to Antitrust Review, <http://www.antitrustreview.com/page/2/> (Mar. 1, 2006, 21:52 EST).

¹⁷⁷ Posting of Paul Stancil to Truth on the Market, <http://www.truthonthemarket.com/2006/03/01/scotus-almost-nails-another-one/> (Mar. 2, 2006, 10:03 EST).

¹⁷⁸ See, e.g., Tony Mauro, *High Court Patent Ruling a Victory for Big Business*, LEGAL TIMES,

“Plaintiffs who suffer competitive injury will be able to prove their case and recover damages—just like in every other tying case.”¹⁷⁹ Reports also noted the conspicuous absence of the Court’s mention of per se presumption for copyright ties and questioned whether the *Illinois Tool Works* decision would apply to these situations.¹⁸⁰

Furthermore, some antitrust scholars were disappointed that the *Illinois Tool Works* decision did not more rigorously engage the underlying economic justifications for the reversal of the presumption for patent ties. The Court gives only short mention, and then rightful dismissal, to Independent Ink’s argument that instances of “requirements ties”¹⁸¹ are evidence of price discrimination, which is in turn evidence of market power, which in turn would probably make the tying arrangement illegal.¹⁸² Antitrust scholars note the circularity and the overbroad nature of this argument, recognizing that under this argument *all* tying arrangements would offer proof of market power and be deemed illegal.¹⁸³ The Court, however, did not reject this contention on antitrust grounds—much to the dismay of scholars—but rejected it in concert with the overarching theme of the entire *Illinois Tool Works* decision—that bad precedent can be overturned because it is bad precedent. The Court held that since the doctrine of patent tying began with the *International Salt* decision on the basis of the existence of the patent on the tying product, not on the existence of a requirements tie, the requirements tying reasoning cannot be the basis for the rejection of the per se presumption.¹⁸⁴

The reversal of the per se presumption of illegality for patent ties was monumental, yet the *Illinois Tool Works* decision seems anticlimactic—as if the Court had been waiting for the opportunity to arise in the appropriate case to reverse the presumption. Justice Stevens wrote, “Congress, the antitrust enforcement agencies, and

Mar. 2, 2006, http://www.law.com/jsp/newswire_article.jsp?id=1141207512775 (last visited Mar. 16, 2006).

¹⁷⁹ *Id.*

¹⁸⁰ *Id.*

¹⁸¹ The Court explains that requirements ties are tying arrangements where the unpatented tied product goods are purchased over a period of time. This arrangement is distinguished from tying arrangements where the tying product and the tied product are purchased at the same time and “are arguably components of a single product—such as the provision of surgical services and anesthesiology in the same operation.” *Ill. Tool Works Inc. v. Indep. Ink, Inc.*, 126 S. Ct. 1281, 1291 (2006) (citing *Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2 (1984)).

¹⁸² *Id.*

¹⁸³ For the best treatment of this argument, see Posting of Professor Daniel A. Crane to Antitrust Review, <http://www.antitrustreview.com/page/2/> (Mar. 1, 2006, 21:52 EST).

¹⁸⁴ *Ill. Tool Works*, 128 S. Ct. at 1292.

most economists have all reached the conclusion that a patent does not necessarily confer market power upon the patentee. Today, we reach the same conclusion”¹⁸⁵ Clearly this decision, short and straightforward though it was, will have fallout beyond mere ink.

*Aliza Reicher**

¹⁸⁵ *Id.* at 1293.

* Staffer, *Cardozo Arts & Entertainment Law Journal*, J.D. candidate, 2007, Benjamin N. Cardozo School of Law; B.A., 2002, magna cum laude, Barnard College, Columbia University. Thanks to Professor Daniel Crane, Brittany Hillman, Joe Baranello, Alexis Weissberger for their careful edits and to Sheila and Lew Reicher and Jack and Evelyn Weinstein for their support.