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## Defining the Relevant Market: Impacts of the Abolition of the Presumption of Market Power in Patent Tying Cases

# DEFINING THE RELEVANT MARKET: IMPACTS OF THE ABOLITION OF THE PRESUMPTION OF MARKET POWER IN PATENT TYING CASES

## INTRODUCTION

The issue before the United States Supreme Court in *Illinois Tool Works Inc. v. Independent Ink*<sup>1</sup> was “whether, in a claim based on unlawful tying under Section 1 of the Sherman Act, the existence of a patent on the tying product raises a presumption that the patent holder has market power,”<sup>2</sup> thus rendering the tying agreement illegal *per se*. In a decision that logically followed the United States Supreme Court’s and Congress’s more recent expansion of patent holder rights, the Court held that the existence of a patent does not presumptively confer market power on patent holders. By abolishing the presumption, the Court rejected arguments to maintain an irrebuttable presumption of market power or to create a rebuttable presumption.

In future patent tying cases, the moving party must now prove that the patent holder has market power under a rule of reason standard. By adopting a rule of reason standard, the Court moves away from equating the *legal* monopoly granted on patent-holders with the *economic* monopoly that is assailed by antitrust law. While providing only vague guidelines to assess this standard, the Court properly recognized that each patent is unique, and sufficient information exists to analyze the market power of the patented tying product. By permitting defendants to contest the issue of the market power of its patent, the Court has increased 1) the burden to prove the market power of the patent, 2) the importance and role of experts in patent tying cases, and 3) the burden on the court system because parties will choose to fully litigate claims instead of settling. Despite these burdens, the most beneficial impact of *Independent Ink*, however, is that courts will decide an issue of law based not on a blanket presumption, but on the merits of each case. After *Independent Ink*, for a patent tying arrangement to violate § 1 of the Sherman Act, evidence must be presented to prove market power in the relevant market regardless of the existence of a patent.<sup>3</sup>

Part I of this Comment will examine the cases and legislative actions that influenced the *Independent Ink* Court. Part II will discuss how the case came before the Court, as well as analyze the Court’s unanimous

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1. 126 S. Ct. 1281 (2006) (Alito, J. took no part in the consideration or decision of the case).

2. Kevin D. McDonald, *Baseball as a Metaphor: On Illinois Tool and the Presumption of Market Power in Patent Tying Cases*, SL025 A.L.I.-A.B.A. 25, 27 (2005).

3. *Indep. Ink*, 126 S. Ct. at 1291.

decision. Part III addresses the policies advocated by the parties in *Independent Ink* and the impact of the Court's ruling on patent tying arrangement antitrust litigation. This final section will also explain why any standard other than an irrebuttable presumption of market power increases the burden of a plaintiff bringing a patent tying arrangement antitrust claim.

## I. BACKGROUND

A tying arrangement is a "form of marketing in which a seller insists on selling two distinct products or services as a package."<sup>4</sup> The foundation of a tying claim lies in the Sherman Antitrust Act. Section 1 of the Sherman Act states that "[e]very contract . . . in restraint of trade or commerce among the several States, or with foreign nations, is hereby declared to be illegal."<sup>5</sup> A patent confers upon its holder a limited monopoly, preventing others from manufacturing, selling, and using a patented invention and its substantial equivalents.<sup>6</sup> In an antitrust context, the "essential characteristic of an invalid tying arrangement lies in the seller's exploitation of its control over the tying product to force the buyer into the purchase of a tied product that the buyer either did not want at all, or might have preferred to purchase elsewhere on different terms."<sup>7</sup> The patent policy of encouraging innovation via a grant of a limited legal monopoly is at odds with the antitrust policy of prevention of restraints on competition and trade.<sup>8</sup> Despite the inherent differences of antitrust and patent law, the Court's decisions interpreting the scope of the legal monopoly in patent tying cases have consistently been guided by antitrust law. By adopting antitrust law into its patent tying jurisprudence, the Court effectively presumed that a legal monopoly was the equivalent of an economic monopoly.

Presumptions are equitable constructs developed to take the place of evidence that was otherwise, at no fault of the offering party, unavailable.<sup>9</sup> The presumption of market power in patent tying arrangements was created during an unsophisticated regulatory regime, in which antitrust law was in its infancy, seeking its boundaries. The presumption of market power in tying arrangements where the tying product is patented evolved over four distinct periods with its origins in the patent misuse doctrine. "Patent misuse is generally defined as an impermissible at-

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4. *Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2, 33 (1984) (O'Connor, J., concurring).

5. Sherman Antitrust Act, 15 U.S.C.A. § 1 (West 2006).

6. Craig McLaughlin, *Monopoly Power of Patents and Antitrust Law Collide in Patent Tying*, 48 *ORANGE COUNTY LAW* 38, 44. (2006); see also 35 U.S.C.A. § 154(a)(1) (West 2006).

7. *Jefferson Parish*, 466 U.S. at 12.

8. Alison K. Hayden, *Patent Tying Agreements: Presumptively Illegal?*, 5 *J. MARSHALL REV. INTELL. PROP. L.* 94, 100 n.37 (2005).

9. *Id.* at 115 n.142.

tempt to extend the time or scope of the patent grant.”<sup>10</sup> Initially, the patent misuse doctrine was created as a defense to patent infringement claims. The Court took a doctrine that had been solely applied as a defense to patent infringement, and applied it in an antitrust context in *International Salt Co. v. United States*.<sup>11</sup> At this period, the Court viewed all tying arrangements as *per se* illegal, regardless of whether the tying product was patented.<sup>12</sup>

In the half century following *International Salt*, however, the attitudes of the Court, Congress, and regulatory agencies slowly swung back in favor of patent holders. While it once may have been impossible to project a motion picture film or make a light bulb without access to patents that dominated those markets, such difficulties are less of an issue today.<sup>13</sup> The Court eventually adopted the position that tying arrangements may offer pro-competitive effects.<sup>14</sup> At the end of the twentieth century, the Court, Congress, and the government’s antitrust regulatory agencies each took actions that further undermined the strength of the market power presumption, setting the stage for *Independent Ink*.

#### A. Patent Misuse Doctrine and the Creation of the Presumption

The patent misuse doctrine evolved as a defense to patent infringement claims. The Supreme Court first encountered tying arrangements in the course of patent infringement in *Henry v. A. B. Dick Co.*<sup>15</sup> A. B. Dick Co. brought a patent infringement action against a licensee.<sup>16</sup> A. B. Dick patented and licensed a mimeograph to customers on the condition that all stencil paper, ink, and other supplies used with the mimeograph (all unpatented items) be purchased from A. B. Dick Co.<sup>17</sup> The Court held that the defendants infringed on A. B. Dick Co.’s patent by using ink from a different supplier.<sup>18</sup> Chief Justice White dissented from the majority, classifying the tying arrangement as an “attempt to increase the scope of the monopoly granted by a patent . . . which tend[s] to increase monopoly and to burden the public in the exercise of their common rights.”<sup>19</sup>

In response to the Court’s opinion in *A. B. Dick*, Congress amended antitrust laws to reflect Justice White’s fears of the anticompetitive ef-

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10. Robin C. Feldman, *The Insufficiency of Antitrust Analysis for Patent Misuse*, 55 HASTINGS L.J. 399, 402 (2003).

11. 332 U.S. 392 (1947).

12. See McLaughlin, *supra* note 6, at 41.

13. 10 PHILLIP E. AREEDA ET AL., ANTITRUST LAW ¶ 1737c (2d ed. 2004).

14. See *Fortner Enters. v. United States*, 394 U.S. 495, 522-23 (1969) (Fortas, J. and White, J., dissenting).

15. 224 U.S. 1 (1912).

16. *A. B. Dick Co.*, 224 U.S. at 11.

17. *Id.*

18. See *id.* at 12, 49.

19. *Id.* at 70 (White, J., dissenting).

fects of patent-tying arrangements.<sup>20</sup> Through legislation, Congress classified the conditioning of a sale of a patented or unpatented product on the purchaser's promise to not use the supplies or materials offered by competitors of the merchant-seller as *per se* illegal.<sup>21</sup> The amendment effectively overruled *A. B. Dick*.<sup>22</sup>

Five years after *A. B. Dick*, the Court heard another patent-tying case, *Motion Picture Patents Co. v. Universal Film Manufacturing Co.*<sup>23</sup> Motion Picture Patents owned a patent on a film projection machine, and required, by a notice affixed to each projector, licensees of the projector to only show films containing a patent owned by Motion Picture Patents.<sup>24</sup> The patent on the films was separate and unrelated to the patent on the projector.<sup>25</sup> The Court found no support in the patent laws for the proposition that a patentee may "prescribe by notice attached to a patented machine the conditions of its use and the supplies which must be used in the operation of it, under pain of infringement of the patent."<sup>26</sup> Patent law "allows a grant only of the right to an exclusive use of the new and useful discovery which has been made—this and nothing more."<sup>27</sup>

The final case in this period, *United States v. Loew's, Inc.*,<sup>28</sup> involved a copyright tying agreement. In *Loew's*, the Court held illegal, under Section 1 of the Sherman Act, the practice of conditioning the sale or license of one or more copyrighted films on the purchase of one or more inferior or unwanted films.<sup>29</sup> The Court stated that "[m]arket dominance—some power to control price and to exclude competition—is by no means the only test of whether the seller has the requisite economic power."<sup>30</sup> Abstaining from performing even the most spurious market analysis, the Court instead held that the "requisite economic power may be found on the basis of either uniqueness or consumer appeal . . . [and] it should seldom be necessary in a tie-in sale case to em-

20. See generally *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 517 (1917).

21. See 38 Stat. 730 (1914). It is unlawful

to lease or make a sale or contract for sale of goods . . . machinery, supplies or other commodities, *whether patented or unpatented*, for use, consumption or resale . . . or fix a price charged therefor . . . on the condition, agreement or understanding that the lessee or purchaser thereof shall not use . . . the goods . . . 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.

*Id.* (emphasis added).

22. *Motion Picture Patents Co.*, 243 U.S. at 518.

23. 243 U.S. 502 (1917).

24. See *id.* at 505-07.

25. See *id.*

26. *Id.* at 509.

27. *Id.* at 513.

28. 371 U.S. 38 (1962).

29. See *Loew's*, 371 U.S. at 40, 52.

30. *Id.* at 45.

bark upon a full-scale factual inquiry into the scope of the relevant market for the tying product . . . .”<sup>31</sup>

### *B. Migration of Presumption from Patent Infringement to Antitrust Law*

In *International Salt Co. v. United States*,<sup>32</sup> an antitrust case, the Court, while never citing the patent misuse doctrine directly, applied the presumption that a patent confers market power in an antitrust case.<sup>33</sup> While “patents confer a limited monopoly of the invention they reward . . . [they] confer no right to restrain use of, or trade in, unpatented salt.”<sup>34</sup> In upholding the district court’s ruling, the Court stated that “by contracting to close this market for [unpatented] salt against competition, International [Salt] has engaged in a restraint of trade for which its patents afford no immunity from the antitrust laws.”<sup>35</sup>

In *International Salt*, the Court broadened the scope of its analysis of the rights and limitations conferred on patent holders to consider the impact of a patent tying arrangement on the marketplace. The Court conducted a weak market analysis of International Salt’s patents, one lacking any quantifiable assessment of the product or competition, stating that “[t]he volume of business affected by these [tying] contracts cannot be said to be insignificant or insubstantial . . . .”<sup>36</sup> The paucity of the Court’s market power analysis in *International Salt* likely influenced the *Loew’s* Court’s aversion to economic analysis fifteen years later.

In the same term as *International Salt*, the Court reinforced the link between the patent misuse doctrine and antitrust law in *United States v. Columbia Steel Co.*<sup>37</sup> In *Columbia Steel*, the Court stated that “where a complaint charges that the defendants have . . . licensed a patented device on condition that unpatented materials be employed in conjunction with the patented device, then the amount of commerce involved is immaterial because such restraints are illegal *per se*.”<sup>38</sup>

### *C. Unlinking of the Patent Misuse Doctrine from Antitrust Law*

After *International Salt*, the Court expanded the scope of its patent tying jurisprudence beyond the traditional line of cases. While the traditional line of tying arrangements restricted the type of unpatented articles

31. *Id.* at 45 n.4.

32. 332 U.S. 392 (1947) (finding International Salt in violation of antitrust laws by requiring licensees of its patented salt processing machines to purchase all salt used in the machine from International Salt, even though International Salt agreed to meet any competitor’s lower price).

33. *Indep. Ink*, 126 S. Ct at 1289.

34. *Int’l Salt Co.*, 332 U.S. at 395-96.

35. *Id.* at 396.

36. *Id.*

37. *United States v. Columbia Steel Co.*, 334 U.S. 495 (1948).

38. *Id.* at 522-23.

used by a licensee in operating a patented machine,<sup>39</sup> in *Mercoïd Corp. v. Mid-Continent Investment Co.*,<sup>40</sup> the Court addressed a tying arrangement in the context of a combination patent.<sup>41</sup> In *Mercoïd*, the unpatented component at issue was combined with several other unpatented components to form a unique and distinct product, patented as a combination.<sup>42</sup> The Court felt that this form of tying was an unlawful expansion of the rights granted through a patent and held that it could not find a “difference in principle where the unpatented material or device is itself an integral part of the structure embodying the patent [or a supply consumed in the operation of a patented machine].”<sup>43</sup>

Congress viewed *Mercoïd* as “a barrier to enforcement of patentee’s rights.”<sup>44</sup> And, when Congress enacted the Patent Act, it “significantly changed existing law, and the change moved in the direction of expanding the statutory protection enjoyed by patentees.”<sup>45</sup> By enacting Section 271(c) of the Patent Act,<sup>46</sup> Congress granted to patent holders a statutory right to “sell non-staple parts or materials and confer an express or implied license on the purchaser to use the patented combination or process,”<sup>47</sup> thus effectively overturning *Mercoïd*.

However, despite Congress’s actions, the Court continued to presume that a patent conferred market power over the tying product through the end of the 1960’s. The Court “consistently assumed that ‘[t]ying arrangements serve hardly any purpose beyond the suppression of competition.’”<sup>48</sup> In *Fortner Enterprises, Inc. v. United States Steel Corp. (Fortner I)*,<sup>49</sup> for example, the Court continued to apply the standards set by *International Salt* and *Loew’s*: reaffirming “the applicability

39. See, e.g., *Loew’s Inc.*, 371 U.S. at 51-52; *Morton Salt Co. v. G. S. Suppiger Co.*, 314 U.S. 488, 490 (1942); *A. B. Dick Co.*, 224 U.S. at 70 (White, J., dissenting); *Motion Picture Patents Co.*, 243 U.S. at 502.

40. 320 U.S. 661 (1944).

41. See *Mercoïd*, 320 U.S. at 664-65.

42. *Id.* at 667.

43. *Id.* at 665.

44. *Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 213 (1980).

45. *Id.*

46. Section 271(c) of the Patent Act states:

Whoever offers to sell or sells within the United States or imports into the United States a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.

35 U.S.C.A. § 271(c) (West 2006).

47. DONALD S. CHISUM, CHISUM ON PATENTS § 17.05[1] (Mark H. Wasserman et al. eds., Matthew Bender Co. 2006) (1978).

48. *Indep. Ink*, 126 S. Ct. at 1286 (citing *Standard Oil Co. of Cal. v. United States*, 337 U.S. 293, 305-06 (1949)).

49. 394 U.S. 495 (1969) (*Fortner I*) (holding that respondent U.S. Steel Corp. violated anti-trust laws by tying low cost financing provided by a subsidiary (U.S. Steel Homes Credit) on the condition that petitioner Fortner Enterprises, Inc., a real estate developer, purchase artificially high-priced prefabricated homes made by U.S. Steel Homes).



of the *per se* standard for general tying agreements without the necessity for inquiry into . . . [the defendant's] market power."<sup>50</sup> Though not a patent-tying case, *Fortner I* involved tying inexpensive financing to the purchase of above-market priced pre-fabricated houses.<sup>51</sup> The Court found the tying arrangement illegal.<sup>52</sup> In his opinion for the majority, Justice Black wrote that "restraint [on competition] results whenever the seller can exert some power over some of the buyers in the market, *even if his power is not complete over them and over all other buyers in the market.*"<sup>53</sup> It is notable that four justices dissented from the majority in *Fortner I*.<sup>54</sup>

In his dissent, Justice White reasoned that tying arrangements may not be *per se* illegal, as "[t]he principal evil...of tying aims is the use of power in one market to acquire power in, or otherwise distort, a second market. This evil simply does not exist if there is no power in the first market."<sup>55</sup> In a separate dissent, Justice Fortas disagreed with the majority, but for a different reason than Justice White, writing that *Fortner I* was not even a tying case, but one that "distort[s] the [tying] doctrine"<sup>56</sup> because it merely provides "advantageous financing"<sup>57</sup> to the customer.<sup>58</sup> The dissent's view that tying arrangements may be pro-competitive prevailed in *Fortner II*.<sup>59</sup>

#### *D. The 1988 Patent Act Amendment and the Changing Attitudes of the Court, the Department of Justice, and the Federal Trade Commission Toward Tying Arrangements*

In 1977, the same parties in *Fortner I* appeared once again before the Court in *United States Steel Corp. v. Fortner Enterprises, Inc. (Fortner II)*.<sup>60</sup> In *Fortner II*, the Court unanimously held that "[w]ithout any evidence that the [U.S. Steel Homes] Credit Corp. had some cost advantage over its competitors . . . the [remaining evidence] does not support the conclusion that petitioners had the kind of economic power which Fortner had the burden of proving in order to prevail . . . ."<sup>61</sup> The

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50. Hayden, *supra* note 8, at 99 n.30.

51. See *Fortner I*, 394 U.S. at 497.

52. See *id.*

53. *Id.* at 503.

54. See *id.* at 510, 520.

55. *Id.* at 519.

56. *Id.* at 522.

57. *Id.* at 523.

58. See *id.* at 522-23 ("This is a sale of a single product with the incidental provision of financing. It is not a sale of one product on condition that the buyer will not deal with competitors for another product or will buy the other product exclusively from the seller.").

59. *Indep. Ink*, 126 S. Ct. at 1287. See generally *U.S. Steel Corp. v. Fortner Enters., Inc. (Fortner II)*, 429 U.S. 610 (1977) (finding that the advantageous financing terms given by petitioner did not automatically mean that petitioner's economic power was sufficient to make the tying arrangement unlawful).

60. 429 U.S. 610 (1977) (*Fortner II*).

61. *Id.* at 622.

Court's desire for evidence of market power in *Fortner II* constituted a direct rejection of its previous holdings in *International Salt* and *Loew's*, where the Court required little or no economic analysis to establish the market power of a tying product.

Though the Court in *Fortner II* eroded the presumption of market power in tying arrangements, generally, the Court continued to presume market power where the tying product was patented.<sup>62</sup> In *Jefferson Parish Hospital District No. 2 v. Hyde*,<sup>63</sup> the penultimate case before the Court on tying arrangements, the Court reaffirmed its commitment to the presumption of market power where the tying product is patented.<sup>64</sup> While maintaining the presumption, *Jefferson Parish* is noted for Justice O'Connor's concurring opinion. In her concurrence, Justice O'Connor advocated "abandon[ing] the '*per se*' label and refocus[ing] the inquiry on the adverse economic effects, and the potential economic benefits, that the tie may have."<sup>65</sup>

Just as Justice White's dissent in *A. B. Dick* spurred legislative action, four years after O'Connor's concurrence in *Jefferson Parish*, Congress amended the Patent Act to eliminate the presumption of market power in the patent misuse context.<sup>66</sup> Section 271(d) of the Patent Act expanded protections for patent holders in tying arrangements to require a court to conduct a market power analysis on the tying patent, instead of merely presuming a patent-tying arrangement *per se* illegal.<sup>67</sup> Despite the elimination of the presumption in the Patent Act, this did not necessarily eliminate the presumption in an antitrust context.

In line with the Court's erosion of the irrebuttable presumption of market power and Congress's expansion of patent holder protections, the Department of Justice and Federal Trade Commission (FTC) issued the Antitrust Guidelines for the Licensing of Intellectual Property in 1995.<sup>68</sup> Through these guidelines, the government's antitrust enforcement agen-

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62. See *Jefferson Parish Hosp.*, 466 U.S. at 16.

63. 466 U.S. 2 (1984).

64. See *Jefferson Parish Hosp.*, 466 U.S. at 16.

65. *Id.* at 35.

66. *Indep. Ink*, 126 S. Ct. at 1290.

67. See 35 U.S.C.A. § 271(d)(5) (West 2006). Section 271(d) of the Patent Act states:

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 the patent right by reason of his having done one or more of the following: . . . 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.*

*Id.* (emphasis added).

68. See U.S. DEP'T OF JUSTICE & FED. TRADE COMM'N, ANTITRUST GUIDELINES FOR THE LICENSING OF INTELLECTUAL PROPERTY § 5.3 (1995), available at <http://www.usdoj.gov/atr/public/guidelines/0558.pdf>.

cies adopted the view of Justice Fortas's dissent in *Fortner I*,<sup>69</sup> that "[a]lthough tying arrangements may result in anticompetitive effects, such arrangements can also result in significant efficiencies and procompetitive benefits."<sup>70</sup> Instead of prosecuting all patent tying arrangements under one standard, "[a]gencies will consider both the anticompetitive effects and the efficiencies attributable to a tie-in."<sup>71</sup> After the issuance of the Antitrust Guidelines, all three branches of government were in agreement that a patent alone does not presumptively confer market power, and that each patent tying case should be analyzed on a case-by-case basis. It is in this context that the dispute between Illinois Tool Works and Independent Ink arose.

## II. *ILLINOIS TOOL WORKS INC. V. INDEPENDENT INK, INC.*<sup>72</sup>

### A. *Facts*

"Trident, Inc., and its parent company, Illinois Tool Works Inc., (collectively "Illinois Tool Works") manufacture and market printing systems that include three relevant components: (1) a patented piezoelectric impulse ink jet printhead; (2) a patented ink container . . . ; and (3) specially designed, but unpatented, ink."<sup>73</sup>

Illinois Tool Works sells its systems to "original equipment manufacturers (OEMs) who are licensed to incorporate the printheads and containers into printers that are in turn sold to companies for use in printing barcodes on cartons and packaging materials."<sup>74</sup> "The OEMs agree that they will purchase their ink exclusively from [Illinois Tool Works], and that neither they nor their customers will refill the patented containers with ink of any other kind."<sup>75</sup> This action commenced after Independent Ink, Inc. "developed an ink with the same chemical composition as the ink sold by petitioners."<sup>76</sup>

### B. *Procedural History*

Illinois Tool Works reacted to Independent Ink's ink sales by filing a patent infringement claim against Independent Ink, which was summarily dismissed for lack of personal jurisdiction.<sup>77</sup> Independent Ink subsequently filed suit against Illinois Tool Works, "seeking a judgment of non-infringement and invalidity of Illinois Tool Works's patents."<sup>78</sup>

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69. See *Fortner I*, 394 U.S. at 523.

70. U.S. DEP'T OF JUSTICE & FED. TRADE COMM'N, *supra* note 68, § 5.3.

71. *Id.*

72. 126 S. Ct. 1281 (2006).

73. *Indep. Ink*, 126 S. Ct. at 1284.

74. *Id.* at 1284-85.

75. *Id.* at 1285.

76. *Id.*

77. *Id.* at 1284.

78. *Id.*

Independent Ink then amended its complaint, alleging that Illinois Tool Works's patent tying arrangement violated Sections 1 and 2 of the Sherman Act.<sup>79</sup> Both parties filed for summary judgment.<sup>80</sup> Independent Ink did not "discuss the products at issue, their substitutes, or the relevant markets," nor perform any "market power or at all."<sup>81</sup> Because the only evidence of market power presented by Independent Ink was the patent on the printhead, and it failed to define the tying product's product and geographic markets, to show a dominant market share, or to identify barriers to entry, the court entered summary judgment for Illinois Tool Works.<sup>82</sup>

Independent Ink appealed the district court's decision to grant the Illinois Tool Works motion of summary judgment on the respondent's Sherman Act Section 1 claim.<sup>83</sup> After a careful review of the long history of Supreme Court decisions on tying arrangements, the Federal Court of Appeals reversed the district court's decision.<sup>84</sup> The court held that "Supreme Court cases in this area squarely establish that patent . . . tying, unlike other tying cases, do not require an affirmative demonstration of market power. Rather, *International Salt* and *Loew's* make clear that the necessary market power to establish a [Sherman Act] section 1 violation is presumed."<sup>85</sup> The appellate court found that the Illinois Tool Works arguments erred by "ignor[ing] 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."<sup>86</sup>

The Supreme Court "granted certiorari to undertake a fresh examination of the history of both the judicial and legislative appraisals of tying arrangements."<sup>87</sup>

### C. Justice Stevens's Opinion

The Court heard arguments to determine whether the presumption that a patent confers market power upon its holder "should survive as a matter of antitrust law despite its demise in patent law."<sup>88</sup> In delivering the Court's opinion, Justice Stevens stated that the Court's historically "strong disapproval of tying arrangements has substantially diminished" since the Court first encountered tying arrangements in the course of patent infringement litigation in *A. B. Dick Co.*<sup>89</sup> Then Justice Stevens embarked on a discussion of the rise of the presumption from the patent

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79. See *Indep. Ink, Inc. v. Ill. Tool Works, Inc.*, 210 F. Supp. 2d 1155, 1159 (2002).

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

81. *Id.* at 1160.

82. See *id.* at 1167-73.

83. *Indep. Ink, Inc. v. Ill. Tool Works, Inc.*, 396 F.3d 1342, 1344 (Fed. Cir. 2005).

84. *Indep. Ink*, 126 S. Ct. at 1285 (internal quotations omitted).

85. *Indep. Ink*, 396 F.3d at 1348-49 (citations omitted).

86. *Id.* at 1351.

87. *Indep. Ink*, 126 S. Ct. at 1285.

88. *Id.* at 1284.

89. *Id.* at 1286.

misuse doctrine, the doctrine's intersection with antitrust law in *International Salt*, its reinforcement in *Loew's*, and finally, its untangling from antitrust law in *Fortner II* and *Jefferson Parish*.<sup>90</sup>

Independent Ink conceded that the Court should not maintain a rule of *per se* illegality, but argued in the alternative that the Court should adopt either a narrower, limited irrebuttable presumption or establish a rebuttable presumption of market power.<sup>91</sup> In reliance on Justice O'Connor's concurrence in *Jefferson Parish*, the consensus of the "vast majority of academic literature," and the belief that "[m]any tying arrangements, even those involving patents . . . are fully consistent with a free, competitive market," the Court rejected each of the Respondent's proposals.<sup>92</sup> The Court unanimously concluded that the mere fact that a tying product is patented does not support such a presumption.<sup>93</sup> In abolishing the presumption, the Court aligned its patent tying jurisprudence with the sentiments of Congress, antitrust enforcement agencies, and most economists.<sup>94</sup>

### III. ANALYSIS

The Court's decision to abolish the presumption that a patent confers market power was not only the logical choice of the three alternatives presented by the parties, it was also the correct decision. While conceding that the Court should not maintain a rule of *per se* illegality, respondent Independent Ink argued that the court should (A) adopt a narrower, limited irrebuttable presumption, (B) establish a rebuttable presumption of market power.<sup>95</sup> Petitioner Illinois Tool Works, in reliance on recent Court decisions, the legislative actions of Congress, and the wide support of academic and government enforcement authorities, asked the Court to (C) eliminate the presumption altogether and adopt a rule of reason standard.

Under the rule of reason, all purposes and potential effects of the challenged restriction will be evaluated.<sup>96</sup> Courts that apply the rule of reason usually note briefly that the plaintiff has failed to define a relevant market or has otherwise failed to show any significant threat to the health of competition in the tied market.<sup>97</sup> One factor, likely the most difficult to define, is the identification of the relevant tying product and geographic markets in which it competes<sup>98</sup> Additionally a rule of reason standard will require the presence of power in that market, for where no

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90. *Id.* at 1285-91.

91. *Id.* at 1291-92.

92. *Id.* at 1292.

93. *Id.* at 1284.

94. *Id.* at 1293.

95. *Ill. Tool Works, Inc. v. Indep. Ink, Inc.*, 126 S. Ct. 1281, 1291-92 (2006).

96. *See* Hayden, *supra* note 8, at 114.

97. *See* Fortner Enters. v. United States (*Fortner I*), 394 U.S. 495, 499-501 (1969).

98. *See* Hayden, *supra* note 8, at 112.

market power exists, antitrust law is generally unconcerned by the behavior of firms.<sup>99</sup> A third factor that courts may consider under the rule-of-reason standard is the nature of the challenged restraint and that restraint's likely effects on competition.<sup>100</sup>

Further, the Court's adoption of a rule of reason standard to assess the market power of tying products in *Independent Ink* left two key questions unanswered. First, how does a party prove market power and how much market power is sufficient to deem a patent tying arrangement illegal? Second, how will the additional burden on parties to develop evidence of market power impact judicial resources? An analysis of Justice O'Connor's concurrence in *Jefferson Parish* as well as a brief analysis of the United States Satellite Television market from 1997 through 2006 will help answer the first question. The latter question will be answered by analyzing the market power evidence presented by *Independent Ink* and, additionally, *A.I. Root Co. v. Computer/Dynamics, Inc.*,<sup>101</sup> a Sixth Circuit tying case decided after *Jefferson Parish*.

#### A. Create a Limited, Irrebuttable Presumption

In its brief, *Independent Ink* argued for a narrow ruling that would maintain an irrebuttable presumption in limited cases.<sup>102</sup> *Independent Ink* asked the Court to presume market power when the "tying arrangement involve[s] the purchase of unpatented goods over a period of time, a so called 'requirements tie.'"<sup>103</sup> *Independent Ink's* proposal is antithetical to the 1988 amendment to § 271(d) of the Patent Code, which abolished the market power presumption in the patent misuse context.<sup>104</sup> While the legislative history of the 1988 Patent Code Amendment indicates that Congress intended to maintain the market power presumption for patents in an antitrust context,<sup>105</sup> the Court has since held that "it would be anomalous to equate patents with power for antitrust purposes but not for misuse purposes."<sup>106</sup> *Independent Ink's* limited irrebuttable presumption proposal also conflicts with the 1995 Department of Justice and the Federal Trade Commission antitrust guidelines that state that the government's two antitrust enforcement agencies "will not presume that a patent . . . necessarily confers market power upon its owner."<sup>107</sup> Finally, the Court's decisions in *Fortner II* and *Jefferson Parish* make clear

99. See Feldman, *supra* note 10, at 400.

100. See *id.* at 403-04.

101. 806 F.2d 673 (6th Cir. 1986) (upholding the district court's summary judgment order because defendant lacked sufficient market power in the tying product market to influence the market for the tied product).

102. *Indep. Ink*, 126 S. Ct. at 1291-92.

103. *Id.* at 1292.

104. See 35 U.S.C.A. § 271(d)(5) (West 2006).

105. McLaughlin, *supra* note 6, at 44 (citing 134 Cong. Rec. 32, 295 (1988)).

106. AREEDA, *supra* note 13, ¶ 1737c.

107. U.S. DEPT. OF JUSTICE & FED. TRADE COMM'N, *supra* note 68, § 2.2.

the Court's desire for market power evidence before condemning a tying arrangement.<sup>108</sup>

### B. Create a Rebuttable Presumption

Alternatively, Independent Ink proposed that the Court "should endorse a rebuttable presumption that patentees possess market power when they condition the purchase of the patented product on an agreement to buy unpatented goods exclusively from the patentee."<sup>109</sup> By ruling that there was a rebuttable presumption, the Court would essentially be following the court of appeals' decision.<sup>110</sup> However, that would be a mistake. The court of appeals' finding of a rebuttable presumption was based on a misinterpretation of *Jefferson Parish*.<sup>111</sup> While the court of appeals concluded that "*Jefferson Parish* confirmed that *International Salt* created only a [rebuttable] presumption of market power,"<sup>112</sup> in the instant case, the Court stated that *Jefferson Parish* maintained the irrebuttable, "patent-equals-market-power presumption."<sup>113</sup> The court of appeals' misinterpretation of Supreme Court dicta is especially ironic considering that the appellate court scolded International Tool Works for requesting a form of relief outside the bounds of precedent.<sup>114</sup>

### C. Abolish the Presumption

While the question of the market power in the relevant market for the tying product is but one of four requirements in a claim arising under Section 1 of the Sherman Antitrust Act,<sup>115</sup> it is the most difficult to prove. *Per se* rules permit the court to conserve judicial resources by avoiding a burdensome market power inquiry where anticompetitive conduct likely exists.<sup>116</sup> The *per se* presumption of market power in patent tying cases was incorrect for three reasons. First, courts have

108. See *U.S. Steel Corp. v. Fortner Enters. (Fortner II), Inc.*, 429 U.S. 610, 620 (1977); see also *Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2, 15-18 (1984).

109. *Indep. Ink*, 126 S. Ct. at 1291.

110. See *Indep. Ink, Inc. v. Ill. Tool Works, Inc.*, 396 F.3d 1342, 1352 (Fed. Cir. 2005) (stating that "[o]nce the plaintiff establishes a patent tying agreement, it is the defendant's burden to rebut the presumption of market power and consequent illegality that arises from patent tying").

111. See *Indep. Ink*, 396 F.3d at 1351 (citing *Jefferson Parish Hosp.*, 466 U.S. at 16) (stating that *Jefferson Parish* confirmed that *International Salt* created only a presumption of market power and that "it would stretch the language of 'fair to presume' beyond the breaking point to say that such a presumption is irrebuttable").

112. *Id.*

113. *Indep. Ink*, 126 S. Ct. at 1290.

114. See *Indep. Ink*, 396 F.3d at 1351.

115. See *Indep. Ink, Inc. v. Trident Ink*, 210 F. Supp. 2d 1155, 1162 (C.D. Cal. 2002).

In order to establish that a tying arrangement violates Section 1 of the Sherman Act, a plaintiff must establish: 1) two distinct products or services; 2) a sale or agreement to sell the tying product conditioned upon the purchase of the tied product; 3) market power in the relevant market for the tying product; and 4) the tied product involves a not insubstantial amount of interstate commerce.

*Indep. Ink*, 210 F. Supp. 2d at 1162 (internal quotations omitted).

116. See *Jefferson Parish Hosp.*, 466 U.S. at 16 n.25.

adopted an overly broad interpretation of the Court's holding in *Loew's*<sup>117</sup> by blurring the distinctions between patent and copyright law. Second, the Court has traditionally disfavored presumptions in antitrust law, preferring instead to examine each claim on a case-by-case basis.<sup>118</sup> Third, the presumption, especially an irrebuttable presumption, treated defendants in patent tying claims unfairly. For the foregoing reasons, the Court correctly rejected Independent Ink's arguments for a limited irrebuttable presumption or a broader, rebuttable presumption, and instead adopted a rule of reason standard to examine market power.

### 1. Overly Broad Interpretation of *Loew's*

Instead of relying on a fact-driven analysis of the tying product's market or the product's power in a market, the Court has previously used a uniqueness test.<sup>119</sup> Uniqueness, in the context of copyright and patent tying cases, is a term of art, requiring that "the product is distinctive and unusual, leading some customers to prefer it over any others; and there exists a barrier preventing competitors from producing the product."<sup>120</sup> The uniqueness test was first stated in *Loew's*, in the context of a block-booking case.<sup>121</sup> In *Loew's*, the Court stated that "the mere presence of competing substitutes for the tying product . . . is insufficient to destroy the legal, and indeed the economic, distinctiveness of the copyrighted product."<sup>122</sup>

Proponents of the presumption argue that patented products, such as the printhead at issue in *Independent Ink*, satisfy this uniqueness test because they "are novel by statutory definition; they are legally unique, distinctive and enforceable through infringement actions."<sup>123</sup> However, such a broad interpretation of *Loew's* incorrectly blurs the distinctions between patent and copyright law. Where copyrights protect original works of authorship, patents cover novel and useful products and proc-

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117. See *United States v. Loew's, Inc.*, 371 U.S. 38, 45 (1962) (stating that the economic power required for a claim arising under Section 1 of the Sherman Act may be presumed where "the tying product is patented or copyrighted").

118. See Hayden, *supra* note 8, at 115 n.145. Hayden stated, "Legal 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. In determining the existence of market power, and specifically the responsiveness of the sales of one product to price changes of the other, this Court has examined closely the economic reality of the market at issue."

*Id.* (quoting *Eastman Kodak Co. v. Image Technical Servs., Inc.*, 504 U.S. 451, 466-67 (1992)) (internal quotations omitted).

119. William Montgomery, Note, *The Presumption of Economic Power for Patented and Copyrighted Products in Tying Arrangements*, 85 COLUM. L. REV. 1140, 1146 (1985).

120. *Id.* at 1146-47.

121. *Id.* at 1142 ("Block-booking is an arrangement whereby a film distributor licenses one film or group of films only on the condition that the exhibitor lease another film or group of films.").

122. *Loew's*, 371 U.S. at 49.

123. McLaughlin, *supra* note 6, at 44.



ess.<sup>124</sup> While a copyrighted work may conceivably be so unique or distinctive it has no identifiable substitute, practical substitutes for a patented product are available so long as the patent's claims do not preclude any foreseeable alternative.<sup>125</sup> It is the presence of practical substitutes for patented tying products, so clearly absent in the context of a copyrighted tie that permits a factual inquiry into the tying product's market power, absolving the necessity for a presumption.

## 2. The Court's Traditional Disfavor of Presumptions

Traditionally, the Court has analyzed antitrust cases either through a *per se* standard or under the rule of reason.<sup>126</sup> However, as stated by Justice Blackmun in *Eastman Kodak Co. v. Image Technical Services, Inc.*,<sup>127</sup> the Court prefers to examine antitrust claims on a case-by-case basis, and not through presumptions.<sup>128</sup> In choosing to abolish the presumption, the Court followed Justice Blackmun's guidance, holding that "tying arrangements involving patented products should be evaluated under the [rule of reason] standards applied in cases like *Fortner II* and [O'Connor's concurrence in] *Jefferson Parish*, rather than under the *per se* rule applied in *Morton Salt* and *Loew's*."<sup>129</sup>

A rule of reason analysis involves inquiry into an alleged restraint on trade by examining the effect of the practice on the marketplace.<sup>130</sup> Courts that have applied the rule of reason usually note that "the plaintiff has failed to define a relevant market or has otherwise failed to show any significant threat to the health of competition in the tied market."<sup>131</sup> A determination that a patent tying arrangement is illegal "must be supported by proof of power in the relevant market rather than by a mere presumption thereof."<sup>132</sup> The Court's decision provides for a more equitable treatment of defendants in patent tying cases at a cost of increasing the burden on parties to prove the existence, or non-existence, of market power.

124. See 17 U.S.C. § 102(a) (West 2006) (defining works of authorship as literary and musical works, sculpture, motion pictures, and others); see also CHISUM, *supra* note 47, § 1.01.

125. See Charles W. Adams, *The Doctrine of Equivalents: Becoming a Derelict on the Waters of Patent Law*, 84 NEB. L. REV. 1113, 1114 (2006); see also Edmund W. Kitch, *Elementary and Persistent Errors in the Economic Analysis of Intellectual Property*, 53 VAND. L. REV. 1727, 1730 (2000).

126. Hayden, *supra* note 8, at 98 n.26.

127. 504 U.S. 451 (1992).

128. See *Eastman Kodak*, 504 U.S. at 466-67; see also *Maple Flooring Mfrs. Ass'n v. United States*, 268 U.S. 563, 579 (1925); Hayden, *supra* note 8, at 115 n.145.

129. See *Indep. Ink*, 126 S. Ct. at 1291.

130. See AREEDA, *supra* note 13, ¶ 1511; see also Aliza Reicher, Comment, *Off With Their Printheads! An End to the Per Se Presumption of Illegality for Patent Ties in Illinois Tool Works v. Independent Ink*, 24 CARDOZO ARTS & ENT. L.J. 297, 300 n.20 (2006); see also 35 U.S.C.A. § 101 (West 2006).

131. Hayden, *supra* note 8, at 104 n.67.

132. *Indep. Ink*, 126 S. Ct. at 1291.

While it may be argued that a rebuttable presumption would have “fairly allocate[d] the burdens [on plaintiffs and defendants] and dictate[d] an efficient ordering of proof at trial,”<sup>133</sup> it is unlikely. Even if there is a rebuttable presumption of market power, each party has an incentive to develop evidence of market power, or lack thereof. In other words, a rebuttable presumption is the worst of both worlds: it lacks the efficiencies inherent in an irrebuttable presumption and plaintiffs, fairly or unfairly, are burdened with developing evidence contradicting the patent-holder’s denial of market power.<sup>134</sup> In its own brief for this case, and as further developed below, respondent Independent Ink states that it developed evidence that the petitioner’s tying product had market power, undermining its arguments that developing evidence of market power is costly to plaintiffs, is difficult to obtain, and that such evidence is not necessary to succeed in a patent tying claim.

### 3. Presumption was Unfair to Defendants

Though the Court has evaluated tying arrangements under a more liberal standard than other antitrust behaviors deemed to be *per se* illegal, the standard applied to tying arrangements has been interpreted to prohibit tying that economic analysis has shown to be beneficial to consumers.<sup>135</sup> “Application of the *per se* standard and presumption of market power for patented products eliminates the need to define a relevant market,” ignoring any pro-competitive benefits created by the tie.<sup>136</sup>

“The Supreme Court has consistently grounded its *per se* rule . . . on the special statutory grant of monopolistic rights afforded patentees.”<sup>137</sup> Ironically, while patent tying rules were shaped to fit antitrust law, the patent policy of encouraging innovation via a grant of a limited monopoly is at odds with the antitrust policy of prevention of restraints on competition and trade.<sup>138</sup> However, a legal monopoly protected by a patent “is not necessarily or even typically a market monopoly.”<sup>139</sup> “The fact that a tying agreement involves a patented product should not matter for

133. McLaughlin, *supra* note 6, at 46.

134. *Contra* McLaughlin, *supra* note 6, at 46.

135. *See Jefferson Parish Hosp.*, 466 U.S. at 34 (O’Connor, J., concurring).

136. *See* Hayden, *supra* note 8, at 116.

137. McLaughlin, *supra* note 6, at 42.

138. *See* *Axis S.P.A. v. Micafil, Inc.*, 870 F.2d 1105, 1111 (6th Cir. 1989).

Our patent and antitrust laws seek to further different and opposing policies. Patent laws grant a monopoly for a limited time in order ‘to promote the progress of . . . useful arts . . .’ Antitrust laws, on the other hand, are designed to promote and protect competition in the marketplace. Thus, a lawfully acquired patent creates a monopoly that does not violate the antitrust laws.  
*Axis S.P.A.*, 870 F.2d at 1111 (citing *United States v. Westinghouse Elec. Corp.*, 648 F.2d 642, 647 (9th Cir. 1981)).

139. AREEDA, *supra* note 13, at ¶ 1737a.

purposes of an antitrust inquiry.”<sup>140</sup> While market forces may not impact or impede patented products in the same manner as unpatented products, market power for the patented product does not automatically follow from the fact that the product is patented.<sup>141</sup> Despite such evidence indicating differences between the legal monopoly granted by a patent and the anticompetitive aspects of an economic monopoly, the irrebuttable presumption unfairly prevented defendants from presenting evidence distinguishing legal monopoly from economic monopoly.

Those in favor of the presumption have argued that the elimination of the presumption will only shift a heavy burden from defendants onto plaintiffs and consumers.<sup>142</sup> First, proponents argue that defendants should prove the absence of market power in the tying product because the “defendant . . . is best positioned to have [market power information.]”<sup>143</sup> This argument is undermined by the market power evidence presented by Independent Ink in its brief.<sup>144</sup> Further, a plaintiff would also be strategically disadvantaged by not developing contradictory evidence to refute a defendant’s definition of the relevant market.

Second, proponents also claim that big business will force consumers to purchase “replacement tires, batteries, motor oil, or even gasoline from only your automobile’s manufacturer” in the absence of the presumption.<sup>145</sup> This proposition exaggerates the potential impact of the abolition of the presumption. Such forced arrangements would still be subject to review of the economic benefits offered by the tie.<sup>146</sup>

Finally, Independent Ink, relying on the amicus brief of Professor F. M. Scherer, argues that a rebuttable presumption of market power is correct because patents involved in litigation are much more valuable than simi-

140. Hayden, *supra* note 8, at 114 n.139 (citing Hovenkamp et al., *The Interface Between Intellectual Property Law and Antitrust Law: Anticompetitive Settlement of Intellectual Property Disputes*, 87 MINN. L. REV. 1719, 1725 (2003)).

141. See Hayden, *supra* note 8, at 114-15 n.141; see also *Int’l Salt Co. v. United States*, 332 U.S. 392, 395-96, 401-02 (1947) (holding that the challenged tying agreements were unlawful despite the fact that the tying item was patented, not because of it); John Hornick, *The Per Se Rule in Tying Contexts: A Critical View*, 10 DEL. J. CORP. L. 703, 714 (1985) (“In arriving at its decision . . . the Court 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.”).

142. See McLaughlin, *supra* note 6, at 38-39 (“Defendants seek to have the Court require plaintiff to prove by way of survey evidence, expert market analysis including complicated and expensive proofs of cross-elasticity of demand, and likely more, that defendants actually possess true market power in the printhead, monopoly power of its patent notwithstanding.”).

143. *Id.* at 45-46.

144. See Brief for Respondent at 45-48, *Ill. Tool Works Inc. v. Indep. Ink, Inc.*, 126 S. Ct. 1281 (2006) (No. 04-1329) (conducting a market power analysis entitled “The Judgment Below Should Be Affirmed Because, Even Without a Presumption, Market Power Was Demonstrated on the Record Below”).

145. McLaughlin, *supra* note 6, at 39 (“This case should be important to everyone who does not wish to be forced to purchase, for example, replacement tires, batteries, motor oil, or even gasoline from only your automobile’s manufacturer, or replacement film from only the maker of your camera, or generic or off-patent drugs in combination with desirable patented drugs.”).

146. *Jefferson Parish Hosp.*, 466 U.S. at 35 (O’Connor, J., concurring).

lar patents that were not involved in litigation.<sup>147</sup> However, the value of one patent isolated from all other substitutes is irrelevant in an antitrust context, and thus Professor Scherer's basis for maintaining a presumption fails on two grounds. First, Justice O'Connor's market power analysis guidelines require a comparison of the tying product to others in the marketplace.<sup>148</sup> Professor Scherer's method, in contrast, analyzes the tying product in isolation, failing to consider possible substitute products.<sup>149</sup> Second, by determining market power on the grounds that a party filed a lawsuit effectively substitutes the courtroom for the marketplace, failing to consider the possible beneficial effects of the tie on the marketplace.<sup>150</sup> Adopting the litigation equals market power standard advanced by Professor Scherer would place an even more egregious burden on defendants than already exists.

*D. Under the Rule of Reason, How Do Parties Prove Market Power and How Much Market Power is Sufficient to Deem a Patent Tying Arrangement Illegal?*

By abolishing the market power presumption, the Court now requires both parties in a patent tying suit to present evidence of the tying product's market power, or lack thereof, sufficient to meet a rule of reason standard. This new standard requires parties to "prove by way of survey evidence, expert market analysis including complicated and expensive proofs of cross-elasticity of demand . . . that defendant's actually possess true market power."<sup>151</sup> While the United States Department of Justice defines market power as "the ability profitably to maintain prices above, or output below, competitive levels for a significant period of time,"<sup>152</sup> in her concurrence in *Jefferson Parish*, Justice O'Connor offered a more open-ended explanation of market power. An examination of how regulators and competitors in the satellite-broadcast market have defined the market provides a view of how difficult it can be to define a product's market. It will also provide guidance on how future litigants in

147. See Brief for Professor F. M. Scherer, as Amici Curiae Supporting Respondents, *Ill. Tool Works Inc. v. Indep. Ink, Inc.*, 126 S. Ct. 1281 (2006) (No. 04-01329). Professor Scherer's brief states,

Research into the subject of why particular patents are valuable has shown that patents involved in litigation are much more valuable than similar patents that were not involved in litigation. Results from a study of German patents show that patents in litigation are between 11.2 and 42.6 times more valuable than other patents, all else equal. In other words, the fact of litigation itself is a strong signal of a patent's "appreciable economic power."

*Id.* (citing *Eastman Kodak*, 504 U.S. at 464); see also *Indep. Ink*, 126 S. Ct. at 1291.

148. See *Jefferson Parish Hosp.*, 466 U.S. at 37-38 nn.6-7 (arguing that market power, measured by a high market share, is a factor in determining illegality, but only when it includes "all reasonable substitutes for the product").

149. See Brief for Respondent, *supra* note 147.

150. See *id.* at 34 (noting that courts have not found tying agreements illegal *per se* without further proof of an anticompetitive effect on the market place).

151. McLaughlin, *supra* note 6, at 39.

152. U.S. DEPT. OF JUSTICE & FED. TRADE COMM'N, *supra* note 68, § 2.2.

patent tying cases will strategically define the market to suit each party's desired outcome.

### 1. Justice O'Connor's Concurrence in *Jefferson Parish*

In her concurrence in *Jefferson Parish*, Justice O'Connor touched on, but left unresolved, the question of how much market power is necessary to adversely impact the tied-product market.<sup>153</sup> While Justice O'Connor identified several Court opinions that considered market power in tying arrangements, previous attempts at market power analysis by the Court were tepid at best.<sup>154</sup> These cases demonstrate that the Court, even when applying the patent-equals-market-power presumption, has never been willing to condemn all tying arrangements as illegal without proof of market power.<sup>155</sup> Because a patent was automatically presumed to confer market power, the courts were not required to conduct a substantial market power analysis, instead relying on a "uniqueness test."<sup>156</sup> The Court in *Independent Ink* likewise neglected to state how much market power is required to affect the marketplace.<sup>157</sup> The Court's reticence to define such a key, qualitative component of the anti-trust analysis in either case runs counter to Congress's intention that the courts would do so.<sup>158</sup>

Though Justice O'Connor did not provide future courts with clear directions of how to assess market power, she stated several general elements that should be considered. In *Jefferson Parish*, a market share of thirty per cent was not considered to be an indication of significant market power.<sup>159</sup> From *Fortner II*, Justice O'Connor cited the Court's consideration of "the size and profitability of the firm seeking to impose the tie, the character of the tying product, and the effects of the tie."<sup>160</sup> In both *Fortner I* and *II* the Court defined market power as the ability to raise prices "above the levels that would be charged in a competitive market."<sup>161</sup>

A second analysis proposed by Justice O'Connor attempts to determine whether there is "a substantial threat that the tying seller will ac-

153. *Jefferson Parish Hosp.*, 466 U.S. at 37-38 n.6.

154. *Id.*

155. *Id.* at 34 (stating that tying arrangements are unlike other antitrust behaviors such as price fixing and division of markets are subject to *per se* illegality).

156. Montgomery, *supra* note 119, at 1146.

157. See *Indep. Ink*, 126 S. Ct. at 1291-92 (arguing against a *per se* rule as patents can convey varying degrees of market power resulting in different abilities to affect the market place).

158. See Kenneth J. Burchfiel, *Patent Misuse and Antitrust Reform: "Blessed Be the Tie?"*, 4 HARV. J.L. & TECH. 1, 90 n.556 (1991) (noting that Congress intentionally provided a vague and open-ended definition, with the direction that the Courts should tailor the remedy to fit the particular market context of patent rights).

159. *Jefferson Parish Hosp.*, 466 U.S. at 26-27.

160. *Id.* at 38 (citing *Fortner II*, 429 U.S. at 620) ("[T]he effects of the tie [are] the price charged for the products, the number of customers affected, [and] the functional relation between the tied and tying product.").

161. See *id.* at 27 n.46 (citing *Fortner II*, 429 U.S. at 620 and *Fortner I*, 394 U.S. at 503-04).

quire market power in the tied-product market."<sup>162</sup> This analysis is concerned with the tendency of the tying agreement to preclude a buyer from purchasing the unpatented tied product elsewhere<sup>163</sup> and addresses the Court's historical concern that tying arrangements "attempt to increase the scope of the monopoly granted by a patent"<sup>164</sup> to impact the market for the tied product. In markets with many stable sellers or with low barriers to entry, the risk of the seller acquiring market power in the tied-product market is likely low.<sup>165</sup> For example, "if one of a dozen food stores in a community were to refuse to sell flour unless the buyer also took sugar it would hardly tend to restrain competition in sugar if its competitors were ready and able to sell flour by itself."<sup>166</sup> Applying this example to *Independent Ink*, the tied unpatented ink, like example's sugar, is a commodity available and used for a plethora of purposes.

Through analyzing the availability of substitutes, the final indicia of market power identified by Justice O'Connor, courts are better able to evaluate market share evidence.<sup>167</sup> Evidence of a product's high market share indicates market power only if the market is properly defined to include all reasonable substitutes. Since *Jefferson Parish* did not involve a patent tying arrangement, it is likely that "Justice O'Connor's reference to 'close substitutes' presumably does not include close substitutes that are infringing"<sup>168</sup> on a patent. In defining the boundaries of a patent, courts include close substitutes of the patented product under the doctrine of equivalents.<sup>169</sup> In applying the doctrine of equivalents, the court determines whether the disputed product falls within the claims of the patented product.<sup>170</sup> Because a patent grants the holder the exclusive right to manufacture and sell the patented invention and its substantial equivalents, substitutes may either infringe upon the patented product or are too distinct to actually be considered a substitute.<sup>171</sup>

*Independent Ink* provides an example of how substitutes do not violate the doctrine of equivalents. Illinois Tool Works's patented printhead was developed as an alternative to print-and-apply labels.<sup>172</sup> The printhead performs the same basic functions as the labels, but it does it at a lower cost and more efficiently.<sup>173</sup> When the case returns to the district

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162. *Id.* at 38.

163. Hayden, *supra* note 8, at 108.

164. *Henry v. A. B. Dick Co.*, 224 U.S. 1, 70 (1912) (White, J., dissenting).

165. *See Jefferson Parish Hosp.*, 466 U.S. at 38.

166. *Id.* at 12 (internal quotations omitted).

167. *See* Hayden, *supra* note 8, at 109 n.99.

168. McLaughlin, *supra* note 6, at 44.

169. *Id.*; *see also* CHISUM, *supra* note 47, § 16.02[1][a][ii].

170. *See* CHISUM, *supra* note 47, § 16.02[1][a][ii] (stating that when an accused product or process falls within a patent's claims, there is literal [patent] infringement and that using the claims of a patent to develop a new product or process meets the definition of equivalency).

171. *See* McLaughlin, *supra* note 6, at 44.

172. *Id.* at 39.

173. *Id.*

court, Illinois Tool should be able to argue that while its printhead is both unique and distinct enough to deserve a patent, it does not have market power because there are substitutes available that perform the same functions.

## 2. Example: United States Satellite Television Broadcasting Market 1997-2006

In defining a product's market, "there are a range of markets varying in scope that may be chosen for use in an antitrust case."<sup>174</sup> For an example of how both time and expectation shape market identification, consider the satellite television industry from 1997 and 2006. In this ten year period, the Department of Justice, EchoStar, and DirecTV in a less than public fashion, reversed their market definitions of satellite-broadcast companies.<sup>175</sup> While this example discusses market definition in the context of mergers, it is analogous to the sort of scenario a court might face in a patent tying case. As such, it reveals the complexity of identifying a product's relevant market. As demonstrated in the example, EchoStar reversed the definition of its own product's relevant market in a twenty-month period.<sup>176</sup> The process of identifying the product's relevant market will likely be a protracted endeavor, possibly foreclosing business opportunities to litigants, as the speed of change in the business world outpaces the drawn-out judicial review process.<sup>177</sup>

DirecTV and EchoStar are satellite television providers that offer consumers hundreds of channels of programming with the purchase of a satellite receiver and a monthly subscription.<sup>178</sup> In 2002, EchoStar failed in its bid to acquire DirecTV from Hughes Electronics Corporation on antitrust grounds. DirecTV was later sold to News Corp. in 2003. DirecTV and EchoStar provide satellite service to 27 million of the 110 million homes in the United States,<sup>179</sup> or roughly ninety percent of all satellite-connected homes in the U.S.<sup>180</sup> Cable television companies provide service to 66.5 million of the 110 million households.<sup>181</sup>

174. Hayden, *supra* note 8, at 116 n.150.

175. See Andy Pasztor & Yochi J. Dreazen, *EchoStar's Past Arguments May Foil Its Bid for Hughes*, WALL ST. J., Nov. 12, 2001, at B8 [hereinafter Pasztor & Dreazen, *EchoStar's Past Arguments*]; Andy Pasztor & Peter Grant, *Leading the News: Regulators Sue to Block EchoStar Deal*, WALL ST. J., Nov. 1, 2002, at A3 [hereinafter Pasztor & Grant, *Regulators Sue to Block*].

176. See Pasztor & Dreazen, *EchoStar's Past Arguments*, *supra* note 175, at B8.

177. See Editorial, *Who Defines a Market?*, WALL ST. J., Feb. 23, 2004, at A16.

178. See <http://www.directv.com/DTVAPP/global/contentPage.jsp?assetId=1400010> (last visited Sept. 26, 2006); [http://www.dishnetwork.com/content/aboutus/company\\_profile/index.shtml](http://www.dishnetwork.com/content/aboutus/company_profile/index.shtml) (last visited Sept. 26, 2006).

179. Julia Angwin & Andy Pasztor, *Weaker Reception: Satellite TV Growth is Losing Altitude as Cable Takes Off*, WALL ST. J., Aug. 5, 2006, at A1 [hereinafter Angwin & Pasztor, *Weaker Reception*].

180. Pasztor & Dreazen, *EchoStar's Past Arguments*, *supra* note 175, at B8.

181. Angwin & Pasztor, *Weaker Reception*, *supra* note 179, at A1.

Since 1997, the Department of Justice, EchoStar, and DirecTV have publicly and frequently offered seemingly contradictory definitions of market for satellite-broadcasting companies.<sup>182</sup> In 1997, in reviewing a proposed acquisition of a satellite-broadcast firm by News Corp., the “Justice Department ruled that [the satellite-broadcast company] competed in a broad market comprising both cable and the satellite company.”<sup>183</sup> In a lawsuit filed in February 2000 by EchoStar against DirecTV’s former parent company, “EchoStar’s lawyers specifically argued that satellite-to-home broadcast services constituted a stand-alone market, distinctly separate from the cable business;”<sup>184</sup> a narrow market definition. In 2001, when EchoStar attempted to purchase DirecTV from Hughes Electronics, it changed its argument to combat antitrust concerns.<sup>185</sup> EchoStar now argued for a broader market definition, insisting that satellite and cable providers “should be considered a single market, providing . . . entertainment options and Internet connections that are indistinguishable from each other regardless of how consumers get the signal.”<sup>186</sup> EchoStar’s bid to purchase DirecTV was blocked by regulators and lawmakers, with News Corp. initiating a behind-the-scenes lobbying campaign that emphasized the antitrust issues of the acquisition, as seen through a narrow market definition.<sup>187</sup> Today, now that cable providers bundle television programming, broadband internet, and telephone service at a price comparable to an EchoStar or DirecTV television programming price, some analysts predict EchoStar and DirecTV will be forced to merge.<sup>188</sup> For these companies to merge, DirecTV would be compelled to adopt a broad market definition that recognizes cable operators as competitors.

#### *E. How Will the Burden to Develop Evidence of Market Power Impact Judicial Resources?*

The two subsections below provide a context for understanding the type of information that future patent tying litigants will present and how courts will analyze this information. While arguing that a market power analysis is burdensome, unjustifiably costly,<sup>189</sup> and irrelevant where the

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182. See Pasztor & Dreazen, *EchoStar’s Past Arguments*, *supra* note 174, at B8; Pasztor & Grant, *Regulators Sue to Block*, *supra* note 175, at A3.

183. Pasztor & Dreazen, *EchoStar’s Past Arguments*, *supra* note 175, at B8.

184. *Id.*

185. *See id.*

186. *Id.*

187. See Andy Pasztor & John Lippman, *EchoStar Talks with Murdoch*, *Liberty Media About Possible Deal*, WALL ST. J., Jan 21, 2003, at A1.

188. See Angwin & Pasztor, *Weaker Reception*, *supra* note 179, at A1.

189. See McLaughlin, *supra* note 6, at 42 (“The rationale for per se rules in part is to avoid a burdensome inquiry into actual market conditions in situations where the likelihood of anticompetitive conduct is so great as to render unjustified the costs of determining whether the particular case at bar involves anticompetitive conduct.” (quoting *Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2, 16 n.25 (1984))).

[I]t should seldom be necessary in a tie-in sale case to embark upon a full-scale factual inquiry into the scope of the relevant market for the tying product and into the corollary



tying product is patented or copyrighted, Independent Ink actually submitted a market power analysis of International Tool Works's patented printhead in its brief to the Court.<sup>190</sup> The sole purpose of a presumption is to fill an otherwise unavailable, evidential void.<sup>191</sup> Independent Ink's argument that maintaining the presumption is undermined by presenting evidence that previously unavailable evidence of market power of the tying product is, in fact, available.

While the brief did not mention Independent Ink's source or process for obtaining such information, it is of a type that might logically be prepared by an expert. In future cases, it is likely that courts will define the tying product's relevant market, only after hearing competing testimony from party experts.

Also, in *A.I. Root v. Computer/Dynamics, Inc.*,<sup>192</sup> a case heard twenty years before *Independent Ink*, the Sixth Circuit Court of Appeals' very broad interpretation of *Loew's* compelled it to examine market power evidence of a copyrighted tying product. While the court may have decided issues of fact in an appeal from summary judgment, neither party appealed. Though *A.I. Root* was summarily adjudicated, it is likely that future parties would prefer to more fully litigate patent tying claims than settle. As explained through the satellite-broadcast market example above, the process of defining the relevant market of a tying product can be a complicated and confusing proposition. A party whose expert can bring clarity to the court will be greatly advantaged.

### 1. Independent Ink's Evidence of Market Power for Illinois Tool Works's Patented Printhead

The market power evidence presented by Independent Ink is substantial.<sup>193</sup> In the final section of its brief, Independent Ink defines the relevant market for Illinois Tool Works's printhead,<sup>194</sup> presents printhead market share information currently and historically,<sup>195</sup> and compares Illinois Tool Works's tied-ink pricing to competitors.<sup>196</sup> While Independent Ink provides a good roadmap for conducting market analysis in

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problem of the seller's percentage share in that market. This is even more obviously true when the tying product is patented or copyrighted, in which case . . . sufficiency of economic power is presumed.

*See id.* (quoting *United States v. Loew's, Inc.*, 371 U.S. 38, 45 n.4 (1962)).

190. *See* Brief for Respondent, *supra* note 147, at 45-48 (conducting a market power analysis).

191. *See* Hayden, *supra* note 8, at 115 nn.142-43.

192. 806 F.2d 673 (6th Cir. 1986).

193. *See* Brief for Respondent, *supra* note 147, at 45-48 (presenting market power evidence).

194. *Id.* at 45 (stating inkjet printers used for carton coding applications are the relevant market).

195. *Id.* (stating that Illinois Tool Works accounts for ninety five percent of the inkjet printers for carton coding applications market currently, and approximately 100% of the marketplace from 1994 to 1998).

196. *Id.* at 46 ("[Illinois Tool Works] charged nearly three times more than Independent Ink and other competitors for replacement ink . . .").

future patent tying cases, the analysis' quality and location as Independent Ink's final argument to the Court undermines Independent Ink's central goal of maintaining some form of presumption.

2. *A.I. Root Co. v. Computer/Dynamics, Inc.*

In *A.I. Root Co. v. Computer/Dynamics Inc.*, the Court of Appeals for the Sixth Circuit found the tying arrangement involving a copyrighted product to be legal after examining the market power of the tying product.<sup>197</sup> By analyzing the tying product's market power, the court veered from the *per se* rule, rejected *Loew's* and instead relied on Justice O'Connor's concurrence in *Jefferson Parish* and a Columbia University Law Review note.<sup>198</sup> This case and the emphasis it places on identifying a product's relevant market, provides a roadmap to understanding the structure of future patent tying cases.

The court conducted a two-part analysis that first determined the relevant market of the tying product and second analyzed the defendant's position within the relevant market. To identify the tying product's relevant market, the court used a reasonable interchangeability standard that examined identical or available substitutes to the tying product.<sup>199</sup> The plaintiff, A.I. Root Co., sought to define the relevant market narrowly to only equipment that used the copyrighted software.<sup>200</sup> The court, however, identified the relevant product market as the small business computer market, a much larger market that includes IBM, NCR, and Seiko as competitors to the defendant.<sup>201</sup> By comparing the defendant in the larger, small business computer market, the defendant's market share was determined to be two to four per cent of the market.<sup>202</sup> Since the tying product was copyrighted, application of the narrower standard advanced by the plaintiff would likely find the defendant possessed the requisite market power.

#### IV. CONCLUSION

The Court's decision to abolish the presumption that a patent confers market power was not only the logical choice of the three alternatives presented by the parties, it was also the correct decision. The *per se* presumption of market power in patent tying cases was incorrect for three reasons. First, courts have adopted an overly broad interpretation

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197. *A.I. Root*, 806 F.2d at 675.

198. See McLaughlin, *supra* note 6, at 43-44; see also *A.I. Root*, 806 F.2d at 675-76.

199. *A.I. Root*, 806 F.2d at 675 ("The essential test for ascertaining the relevant product market involves the identification of those products or services that are either (1) identical to or (2) available substitutes for the defendants' product or service." (quoting *White & White, Inc. v. Am. Hosp. Supply*, 723 F.2d 495, 500 (6th Cir. 1983))).

200. *Id.*

201. See *id.* at 675-76.

202. See *id.* at 675.

of the Court's holding in *Loew's*<sup>203</sup> by blurring the distinctions between patent and copyright law. Second, the Court has traditionally disfavored presumptions in antitrust law, preferring instead to examine each claim on a case-by-case basis.<sup>204</sup> Third, the presumption, especially when it is irrebuttable, treats defendants in patent tying claims unfairly. For the foregoing reasons, the Court correctly rejected Independent Ink's arguments for a limited irrebuttable presumption or a broader, rebuttable presumption, and instead adopted a rule of reason standard to examine market power.

While the Court in *Independent Ink* did not define the factors of an illegal tie, other sources provide guidance. Future courts faced with patent tying cases should refer to the elements cited by Justice O'Connor in *Jefferson Parish*, the Sixth Circuit's market power analysis in *A.I. Root*, and the market analysis submitted by Independent Ink in the final section of its brief. The most difficult element for courts in future patent tying cases will be to define the relevant market of a tying product, because parties have a strategic interest in having the Court adopt their own definition of the tying product's relevant market.

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203. See *United States v. Loew's, Inc.*, 371 U.S. 38, 45, 46 (1962) (stating that the economic power required for a claim arising under Section 1 of the Sherman Act may be presumed where the tying product is patented or copyrighted).

204. See Hayden, *supra* note 8, at 115 n.145 ("Legal 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. In determining the existence of market power, and specifically the responsiveness of the sales of one product to price changes of the other, this Court has examined closely the economic reality of the market at issue." (quoting *Eastman Kodak Co. v. Image Technical Servs.*, 504 U.S. 451, 466-67 (1992)) (internal quotations omitted)).

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