

## Note

# *Illinois Tool Works v. Independent Ink:* Inking Out Limits of the Patent Grant

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**T**YING ARRANGEMENTS OCCUR when a seller conditions the sale of one product, the tying product, upon the sale of a second, the tied product.<sup>1</sup> There are myriad examples where a seller might require the purchase of a tied product as a condition for buying the tying product—Microsoft Office for a Dell personal computer, Firestone tires for a Ford sport utility vehicle, salt for salt-depositing machines, or even ink for printers.

Antitrust laws protect competition and thereby consumers. When coerced, tying arrangements limit consumer choices in the tied product. The goal of policing tying arrangements is to protect the tied product market. Concerns arise if the seller has the power to enforce a tying arrangement.<sup>2</sup> Standard antitrust tying analysis requires a showing of market power in the tying product market.<sup>3</sup> This is be-

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1. See generally 1 JULIAN O. VON KALINOWSKI, PETER SULLIVAN & MAUREEN MCGUIRL, ANTITRUST LAWS AND TRADE REGULATION § 22.01 (2d ed. 2006) (defining tying arrangements and outlining the competitive harm such arrangements impose). Services can also be tied. See *id.*

2. See *Jefferson Parish Hosp. v. Hyde*, 466 U.S. 2, 12 (1984). However, the Chicago School of economic thought asserts that tying is not detrimental to competition in most cases since you cannot get two monopolies for the price of one. See generally ROBERT BORK, THE ANTITRUST PARADOX (1978); Ward S. Bowman Jr., *Tying Arrangements and the Leverage Problem*, 67 YALE L.J. 19, 21 (1957); Richard Posner, *The Chicago School of Antitrust Analysis*, 127 U. PA. L. REV. 925 (1979). But see Louis Kaplow, *Extension of Monopoly Power Through Leverage*, 85 COLUM. L. REV. 515 (1985).

3. See generally 1 VON KALINOWSKI ET AL., *supra* note 1, § 22.02. The other requirements are: there must be two separate products or services, the sale of one of the products must be conditioned on the purchase of the other product, and a “not insubstantial”

cause tying arrangements theoretically do not present a problem if there is no market power in the tying product market. A buyer who does not want to buy the tied product has the option to purchase the tying product from the seller's competitors.

Arrangements that the seller has the power to enforce raise anticompetitive concerns because they are potentially harmful to competition on the merits and innovation in the tied product market.<sup>4</sup> In these cases, there is potential for the seller to inhibit competition on the merits in the tied product market.<sup>5</sup> Anticompetitive concerns in the tied market are particularly acute in requirements ties, where the seller conditions the sale of the tying product on the condition that the buyer purchase all tied products from the seller in the future.<sup>6</sup>

For sixty years, the courts applied a presumption that a patent on the tying product created a presumption of market power sufficient to force a consumer to buy a tied product.<sup>7</sup> An antitrust defendant could rebut the market power presumption by showing lack of market power or, in other words, availability of reasonable substitutes. The rationale was based on a patent's presumed uniqueness.

In *Illinois Tool Works v. Independent Ink*,<sup>8</sup> the United States Supreme Court removed the rebuttable presumption that a patented tying product conferred the market power sufficient to enforce a tying arrangement.<sup>9</sup> After *Independent Ink*, tying arrangements involving intellectual property rights are treated in the same manner as tying arrangements that do not involve an intellectual property right. The Court declared that a government-granted intellectual property right in the tying product does not warrant a presumption of market power.<sup>10</sup>

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amount of commerce in the market for the tied product is foreclosed. *Id.* This Note focuses on per se illegality of ties, though a tie can also be unlawful under the rule of reason if the elements of the per se rule are not met. *See id.* § 22.03 (discussing tying arrangements under the rule of reason).

4. *See id.* § 22.01.

5. *See Jefferson Parish*, 466 U.S. at 14.

6. *See generally* Brief of Professors Barry Nalebuff, Ian Ayres, and Lawrence Sullivan as Amici Curiae in Support of Respondent, *Illinois Tool Works v. Indep. Ink*, 126 S. Ct. 1281, at 5–7 (2006) (No. 04-1329) (discussing requirements ties and contrasting to a tying arrangement where the tied sale is contemporaneous to the tying product sale).

7. *See United States v. Loew's Inc.*, 371 U.S. 38 (1962); *Int'l Salt Co. v. United States*, 332 U.S. 392 (1947).

8. 126 S. Ct. 1281 (2006).

9. *Id.* at 1293.

10. *Id.*

This Note argues that, in deciding *Independent Ink*, the Court was overbroad in its characterization of the market power presumption, and the Court's analysis neglected important policies justifying the United States patent system. In failing to narrowly focus its analysis on the subset of patents used to enforce patent tying arrangements, the Court based its decision on the wrong pool of patents. Also, the Court was overbroad when it relied on standard antitrust tying cases not involving intellectual property without reconciling specific concerns that arise with patent ties. Addressing the strength of the market power presumption would be more responsive to the concerns of antitrust and patent law. Lastly, and perhaps most importantly, the Court made no inquiry into patent law's incentive justification<sup>11</sup> and the potential for harm to innovation and competition on the merits in the tied product market.

Part I of this Note enumerates the elements of a per se tying violation of antitrust law, details the background of the market power presumption in patent tying cases, and explains the underlying policies of patent law. Part II outlines the *Independent Ink* decision, the parties to the action, and the parties' contentions. Part III offers a critical analysis of the Court's reasoning, suggests more appropriate concerns that the Court overlooked, and attempts to offer insight into the practical effects of the now-abandoned presumption. While the effects may be nominal at the micro level, abandoning the presumption represents a shift favoring patent holders and increasing their reward. At the macro level, to the extent that patent holders are insulated from attack due to the difficulties and costs plaintiffs face without the presumption, patent holders will be able to impose more harmful and coercive patent ties.

## **I. Background: Conflict at the Intersection of Antitrust and Patent Law**

Courts have struggled to find principles capable of unifying two potentially conflicting bodies of law—antitrust and patent.<sup>12</sup> Patent law grants a limited right to exclude others, with the objective of encouraging innovation,<sup>13</sup> while antitrust law attempts to curtail improper uses of market power, with the objective of promoting

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11. The incentive theory posits that innovation will increase if innovators are given the right to exclude others.

12. See Louis Kaplow, *The Patent-Antitrust Intersection: A Reappraisal*, 97 HARV. L. REV. 1813 (1984).

13. 1 HERBERT HOVENKAMP ET AL., IP AND ANTITRUST, § 1.1, at 1-2 (2006).

competition.<sup>14</sup> These objectives sometimes clash. There are three basic forms of claims that patent rights are abused where patent law and antitrust clash: (1) antitrust claims for affirmative relief, (2) defenses to claims of infringement by the patent holder, i.e., patent misuse, and (3) defenses to breach of contract involving a license of a patent.<sup>15</sup> The outcome in each situation depends on some balance between the policies of antitrust law and patent law. To understand the difference in outcome between each of these different forms, this section outlines the basic policies of patent law, the elements of an antitrust tying violation, the origins of the market power presumption in patent misuse, and the relationship between patent misuse and antitrust.

### A. Basic Patent Policy: The Incentive Justification

The justification for the patent system rests largely on the classical economic incentive theory: the idea that granting property rights for inventions incentivizes further innovation.<sup>16</sup> The Constitution references the incentive theory directly, stating that the rationale of the patent system is “[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.”<sup>17</sup> The underlying policies of patent law can be illustrated with a simple contract analogy: the patent is a contract between the inventor and the government; the inventor, in consideration for a limited right to exclude others,<sup>18</sup> discloses to the government and the public how to make and use a novel, useful, and nonobvious invention.<sup>19</sup>

Patent law seeks to enforce the bargain so that the inventor produces his or her consideration by way of various requirements that

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14. *Id.* § 1.2, at 1-5.

15. See Robin C. Feldman, *The Insufficiency of Antitrust Analysis for Patent Misuse*, 55 HASTINGS L.J. 399, 406 (2003).

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

17. *Id.*

18. Some refer to this as a limited “monopoly,” but this terminology is inconsistent with how “monopoly” is defined in the antitrust context. See generally 1 HOVENKAMP ET AL., *supra* note 13, § 4.2a, 4-8, 4-9 (2006). In the antitrust context, monopoly is defined as the ability to raise prices or restrict output. *Id.* at 4-9. A patent, however, only gives the patent holder the right to exclude others from practicing the invention. *Id.*

19. See DONALD S. CHISUM, CRAIG ALLEN NARD, HERBERT F. SCHWARTZ, PAULINE NEWMAN & F. SCOTT KIEFF, *PRINCIPLES OF PATENT LAW* 3 (3d ed. 2004).

must be met before a patent is granted.<sup>20</sup> The patent holder receives the benefit of the bargain by negotiating licenses with competitors or suing for infringement.<sup>21</sup> Assuming the patent has some value, the price of the end product or service will be greater than the competitive price of the product absent the intellectual property right.

From a purely economic standpoint, this is undesirable—less output is produced and consumers are charged a higher price.<sup>22</sup> Overall, there is a shift of consumer surplus to the patent holder.<sup>23</sup> That is, because the seller is able to charge a higher price to those who are willing to pay more, consumers pay more than they otherwise would have.<sup>24</sup> There is also a deadweight loss since, as a result of the higher price charged, some consumers who would have bought at the competitive price will no longer buy.<sup>25</sup> However, from the incentive theory standpoint, the transfer of wealth and the deadweight loss are the price paid for incentivizing innovation.<sup>26</sup> If the value of innovation does not compensate society's loss, the incentive structure has failed. Therefore, patent policy also seeks to ensure that the patentee does not take too much by extending his or her right to exclude beyond the scope of the claims or duration of the term. Allowing such extension would place uncompensated costs on society.

## B. Antitrust Tying Requirements

The goal of condemning harmful tying arrangements is to protect competition on the merits and innovation in the tied product market.<sup>27</sup> Generally, for a tie to violate the antitrust laws per se, four requirements must be met: (1) there are two separate products or services; (2) the sale of one of the products is conditioned on the purchase of the other product; (3) the seller has sufficient market power for the tying product to enable it to restrain trade in the market

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20. *Id.* The enablement, disclosure, and best mode requirements, to name a few, must all be fulfilled in order for the government to grant a patent. *See generally* DONALD S. CHISUM, 1 CHISUM ON PATENTS (2006).

21. Of course, not all patents are valuable enough to license or litigate, but Professor Scherer found that litigation is the most significant factor in determining the value and market power of a patent. *See* Brief of Professor F.M. Scherer as Amicus Curiae in Support of Respondent at 5–8, *Ill. Tool Works v. Indep. Ink*, 126 S. Ct. 1281 (2006) (No. 04-1329).

22. *See generally* ROBERT S. PINDYCK & DANIEL L. RUBINFELD, MICROECONOMICS, 354–55 (4th ed. 1998).

23. *See id.*

24. *See id.*

25. *See id.*

26. *See* 1 HOVENKAMP ET AL., *supra* note 13, § 1.2, at 1-10.

27. *See* 1 VON KALINOWSKI ET AL., *supra* note 1, § 22.01.

for the tied product; and (4) a "not insubstantial" amount of commerce in the market for the tied product is foreclosed.<sup>28</sup>

To meet the first requirement, the plaintiff must prove that there are two distinct products or services.<sup>29</sup> Whether the tying and the tied products are separate products turns on consumer demand.<sup>30</sup> If there is demand for each product in absence of the other, then the products are separate.<sup>31</sup> However, if there is not consumer demand for the products separately, and if there is only demand for a tied package, then the products together are considered one product.<sup>32</sup>

To fulfill the second requirement, the plaintiff must show that the seller conditioned the sale of the tying product on the agreement to buy the tied product.<sup>33</sup> The focus of this element is on the seller's ability to force the consumer to purchase something that he or she would not purchase in a competitive market.<sup>34</sup> If the buyer is free to purchase the products separately at a reasonable price, then the forcing requirement is not met.<sup>35</sup>

Third, the seller must command market power in the tying product market.<sup>36</sup> To determine if the seller meets this standard, the inquiry is "whether the seller has the power, within the market for the tying product, to raise prices or to require purchasers to accept burdensome terms that could not be exacted in a completely competitive market."<sup>37</sup> The Supreme Court focused on three guidelines for determining whether a defendant-seller has sufficient market power: (1) defendant's market share is sufficient to force buyers to purchase the tied product; (2) high acceptance rate of the tying arrangement; and (3) uniqueness of the tying product.<sup>38</sup>

Fourth, proof of effect on the tied product market requires that the tie affects a "not insubstantial" amount of interstate commerce.<sup>39</sup>

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28. *Id.* § 22.02.

29. *See id.* § 22.02(2)(a).

30. *See* *Jefferson Parish Hosp. v. Hyde*, 466 U.S. 2, 21 (1984); *see generally* 1 VON KALINOWSKI ET AL., *supra* note 1, § 22.02(2)(a).

31. *See* 1 VON KALINOWSKI ET AL., *supra* note 1, § 22.02(2)(a).

32. *See id.*

33. *See id.* § 22.02(3)(a).

34. *See* *Jefferson Parish*, 466 U.S. at 12.

35. *See* 1 VON KALINOWSKI ET AL., *supra* note 1, § 22.02(4)(a).

36. *See id.*

37. *U.S. Steel Corp. v. Fortner Enters., Inc. (Fortner II)*, 429 U.S. 610, 620 (1977).

38. *See* 1 VON KALINOWSKI ET AL., *supra* note 1, § 22.02(4)(b).

39. *See id.* § 22.02(5).

The Supreme Court interpreted a “not insubstantial” amount as anything more than a de minimis amount.<sup>40</sup>

### C. Patent Tying’s Presumption of Market Power: Origins in Patent Misuse

The presumption of market power is derived from the doctrine of patent misuse.<sup>41</sup> The justifications for the misuse doctrine are grounded in patent policy; misuse is a limit on the government-granted right to exclude others from making, selling, or using the patented subject matter in the United States.<sup>42</sup> Misuse focuses on the patentee’s attempt to extend the scope of the patent grant or the duration of the grant.<sup>43</sup>

The Supreme Court first announced the doctrine of patent misuse in *Motion Picture Patents Co. v. Universal Film Manufacturing Co.*,<sup>44</sup> in which the patent holder sold a patented film projector mechanism on the condition that all the film used in conjunction with the film projector would be bought from the patentee.<sup>45</sup> The patent holder sued on a contributory infringement theory.<sup>46</sup> The Court held that the patentee misused the patent by extending the scope and duration of the limited right to exclude. The scope was improperly extended to include unpatented film, and the duration was improperly extended to

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40. *Fortner Enters., Inc. v. U.S. Steel Corp. (Fortner I)*, 394 U.S. 495, 501 (1969).

41. See I HOVENKAMP ET AL., *supra* note 13, § 4.2(e), at 4-13 through 4-14; see also Kenneth J. Burchfiel, *Patent Misuse and Antitrust Reform: “Blessed Be the Tie?”* 4 HARV. J. L. & TECH. 1, 31-35 (1991) (explaining in detail the development of the antitrust presumption).

42. See I HOVENKAMP ET AL., *supra* note 13, § 3.1.

43. See *id.* § 3.2b.

44. 243 U.S. 502 (1917). While the *Motion Picture Patents Co.* case overruled *Henry v. A.B. Dick*, 224 U.S. 1 (1912), and Congress passed Section Three of the Clayton Act between the two Supreme Court cases, the *Motion Picture Patents Co.* case did not rely directly on antitrust law. See *Motion Picture Patents Co.*, 243 U.S. at 518-19.

45. See *Motion Picture Patents Co.*, 243 U.S. at 503.

46. *Id.* at 505. There are two categories of infringement: direct and indirect infringement. Direct infringement occurs where the alleged infringer practices all of the claim limitations set forth by the patent; indirect infringement occurs when one party either contributes to a third party’s direct infringement or induces a third party’s direct infringement. Professor Chisum offers the following definition of contributory infringement: “The seller is liable as a contributory infringer if he knows that the component is ‘especially made or especially adapted for use in an infringement of such patent’ and if the component is ‘not a staple article or commodity of commerce suitable for substantial noninfringing use.’” CHISUM, *supra* note 20, § 17.01 (quoting from 35 U.S.C. § 271(c) (2000)). Accordingly, proving indirect infringement by one party necessarily requires proving that there is an underlying direct infringer.

require the purchase of film after the patent expired.<sup>47</sup> The Court's reasoning rested solely on patent policy.<sup>48</sup>

In *Morton Salt Co. v. G.S. Suppiger Co.*,<sup>49</sup> the Court explicitly extended the patent misuse defense to direct infringers. In *Morton Salt*, the manufacturer of a patented salt tablet dispensing system sued another manufacturer for infringement.<sup>50</sup> The defendant argued that, because the patent holder conditioned the sale of its patented salt dispensing machines on the sale of unpatented salt, the patent holder committed misuse.<sup>51</sup> The Court focused on the "adverse effect upon the public interest of a successful infringement suit, in conjunction with the patentee's course of conduct, which disqualifies him to maintain the suit, regardless of whether the particular defendant has suffered from the misuse of the patent."<sup>52</sup> The Court found that the tie constituted misuse.<sup>53</sup>

Nearly the same facts appeared in *International Salt Co. v. United States*,<sup>54</sup> five years later, in the context of an affirmative antitrust suit.<sup>55</sup> In *International Salt*, the United States alleged International Salt violated Section One of the Sherman Act by tying the sale of salt to the purchase of its patented salt-dispensing machine.<sup>56</sup> Without examining market power, the Court held that "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 for which its patents afford no immunity from the antitrust laws."<sup>57</sup> This was the first appearance of a market power presumption in antitrust.<sup>58</sup>

In 1962, *United States v. Loew's Inc.*<sup>59</sup> solidified the presumption of market power in antitrust cases involving intellectual property tying. *Loew's* involved tying less popular movies to more popular, copy-

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

48. 1 HOVENKAMP ET AL., *supra* note 13, § 3.2a, at 3-4.

49. 314 U.S. 488 (1942).

50. See *id.* at 490-491.

51. See *id.*

52. *Id.* at 494.

53. See *id.*

54. 332 U.S. 392 (1947).

55. See *id.*

56. See *id.* at 393-94.

57. *Id.* at 395-96.

58. See *id.* While the Court did not announce a presumption as such, the Court relied on earlier decisions holding that "it is unreasonable, per se, to foreclose competitors from any substantial market" without examining market power. *Id.* at 396 (internal citations omitted); see also Burchfiel, *supra* note 41, at 36-37.

59. 371 U.S. 38 (1962).

righted movies.<sup>60</sup> The Court held: “The requisite economic power is presumed when the tying product is patented or copyrighted, [citing *International Salt*] . . . . The patentee is protected as to his invention, but may not use his patent rights to exact tribute for other articles.”<sup>61</sup>

The presumption of market power in patent tying antitrust cases is the result of the “cross-fertilization” between patent and antitrust doctrine that culminated with *International Salt* and *Loew’s*.<sup>62</sup> The Supreme Court supported this presumption as recently as 1984 in *Jefferson Parish Hospital v. Hyde*,<sup>63</sup> in which it held:

[I]f the Government has granted the seller a patent or similar monopoly over a product, it is fair to presume that the inability to buy the product elsewhere gives the seller market power. Any effort to enlarge the scope of the patent monopoly by using the market power it confers to restrain competition in the market for a second product will undermine competition on the merits in that second market. Thus, the sale or lease of a patented item on condition that the buyer make all his purchases of a separate tied product from the patentee is unlawful.<sup>64</sup>

In sum, the early patent misuse cases condemned tying arrangements without inquiry into market power of the patented tying product.<sup>65</sup> Taken together, *International Salt* and *Loew’s* imported misuse reasoning and announced the presumption in the antitrust context.<sup>66</sup> The presumption was reaffirmed in *Jefferson Parish*.<sup>67</sup> Until *Independent Ink* was decided, the presumption remained undisturbed.<sup>68</sup>

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60. See *id.* at 40.

61. *Id.* at 45–46 (internal citations omitted).

62. Burchfiel, *supra* note 41, at 35.

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

64. *Id.* at 16 (citations omitted). Justice Stevens wrote the five-member majority opinion. However, Justice O’Connor’s concurrence created uncertainty in the Court’s support of a market power presumption. See Burchfiel, *supra* note 41, at 52–55 (explaining Justice O’Connor’s concurrence). She wrote: “A common misconception has been that a patent or copyright, a high market share, or a unique product that competitors are not able to offer suffices to demonstrate market power.” *Jefferson Parish Hosp. v. Hyde*, 466 U.S. 2, 37 n.7 (1984) (O’Connor, J., concurring) (citations omitted).

65. See *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502 (1917); *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488 (1942).

66. *Int’l Salt Co. v. United States*, 332 U.S. 392, 395–96 (1947); *Loew’s*, 371 U.S. at 45–46 (internal citations omitted).

67. *Jefferson Parish*, 466 U.S. at 35.

68. *Ill. Tool Works v. Indep. Ink*, 126 S. Ct. 1281, 1293 (2006).

#### D. Convergence of Patent Misuse and Antitrust

Gradually, many of the misuse concerns were addressed by anti-trust analysis.<sup>69</sup> Some commentators advocated for abandoning misuse and replacing it with antitrust principles. These commentators argued that antitrust principles were not fully developed when the patent misuse doctrine was conceived and that these antitrust principles address the same concerns as patent misuse.<sup>70</sup> However, some commentators believed patent misuse aimed to remedy two wrongs: anticompetitive use of the patent and expansion of the patent grant.<sup>71</sup> While antitrust law aims to remedy the anticompetitive use of the patent, it does not address all the harm that patent policy addresses.<sup>72</sup>

A second reason for the convergence is that statutory restrictions on patent misuse have substantially limited the doctrine.<sup>73</sup> The Patent Act of 1952 (the "1952 Act")<sup>74</sup> and the Patent Misuse Reform Act of 1988<sup>75</sup> placed significant restrictions on lawsuits concerning patent-tying arrangements.<sup>76</sup> In the Patent Act of 1952, Congress mentioned patent misuse for the first time.<sup>77</sup> Rather than codify the doctrine,<sup>78</sup> Congress merely limited misuse by providing the patent holder with a right to sue for contributory infringement.<sup>79</sup> Similarly, Congress

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69. See generally Feldman, *supra* note 15; Robert J. Hoerner, *The Decline (and Fall?) of the Patent Misuse Doctrine in the Federal Circuit*, 69 ANTITRUST L.J. 669 (2001); 1 HOVENKAMP ET AL., *supra* note 13, § 3.2.

70. For example, Judge Posner supports the elimination of patent misuse in favor of using antitrust principles to analyze tying arrangements. See *USM Corp. v. SPS Techs, Inc.*, 694 F.2d 505, 512 (7th Cir. 1982). Professor Hovenkamp notes that the "modern view of some courts and commentators [is] that effect on competition is the only legitimate concern of patent misuse doctrine." 1 HOVENKAMP ET AL., *supra* note 13, § 3.2b, at 3-8.1 through 3-9; see also Mark A. Lemley, Comment, *The Economic Irrationality of Patent Misuse Doctrine*, 78 CAL. L. REV. 1599 (1990); Note: *Is the Patent Misuse Doctrine Obsolete?*, 110 HARV. L. REV. 1922 (1997).

71. 1 HOVENKAMP ET AL., *supra* note 13, §§ 3.2b, 3.2c, at 3-7, 3-8.1.

72. See Feldman, *supra* note 15, at 400; see also Robert P. Merges, *Reflections on Current Legislation Affecting Patent Misuse*, 70 J. PAT. & TRADEMARK OFF. SOC'Y, 793-94 (1988).

73. See 1 HOVENKAMP ET AL., *supra* note 13, § 3.3c, at 3-37.

74. 82 ch. 950, 66 Stat. 792.

75. Pub. L. No. 100-703, 102 Stat. 4674.

76. 35 U.S.C. § 271(d) (2000).

77. *Id.* The 1952 additions are reflected in § 271(d)(1)-(3), and the 1988 additions are reflected in § 271(d)(4)-(5). See 1 HOVENKAMP ET AL., *supra* note 13, § 3.3c, at 3-37.

78. Then-student, now-Professor Lemley referred to this as "inverse codification" since the common law doctrine is not codified but some of the limitations are. Lemley, *supra* note 70, at 1610; see also 1 HOVENKAMP ET AL., *supra* note 13, § 3.2a, at 3-5.

79. See 35 U.S.C. § 271(d)(1)-(3). This was the congressional response to *Mercoird Corp. v. Mid-Continent Investment Co.*, 320 U.S. 661 (1944). See 1 HOVENKAMP ET AL., *supra* note 13, § 3.2a, at 3-5. *Mercoird* held that the patent holder misused its patent covering a heating system when it sued the manufacturer of a combustion switch that was an integral

passed the Patent Misuse Reform Act in 1988, which exempted a patent holder from misuse in the absence of market power.<sup>80</sup> While not conceding the existence of a market power presumption, some commentators argue that this change in patent misuse eliminates any presumption in patent antitrust.<sup>81</sup> However, the bill as originally drafted explicitly included a provision that would have eliminated any market power presumption in an antitrust case.<sup>82</sup> The failed Intellectual Property Antitrust Protection Act stated:

In any action in which the conduct of an owner, licensor, licensee, or other holder of an intellectual property right is alleged to be in violation of the antitrust laws in connection with the marketing or distribution of a product or service protected by such a right, such right shall not be presumed to define a market or to establish market power, including economic power and product uniqueness or distinctiveness, or monopoly power.<sup>83</sup>

Bills similar to the Intellectual Property Antitrust Protection Act have been proposed, and all have failed.<sup>84</sup> Accordingly, it is unclear what Congress intended: on the one hand, Congress explicitly removed the provision eliminating the market power presumption in antitrust; on the other hand, it is arguably inconsistent to require market power in the misuse defense but not in an affirmative antitrust action.<sup>85</sup> To take the latter position seemingly ignores the compromise reached in the House when it rejected the Senate version.<sup>86</sup>

Lastly, patent misuse and antitrust have converged since the misuse defense has lost its former bite. The Federal Circuit, created pri-

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part of the invention and had no substantial non-infringing use. *Id.* § 3.2a, at 3-5. The 1952 Act overturned this portion of the *Mercoid* holding. See 35 U.S.C. § 271(d)(1)-(3).

80. See 35 U.S.C. § 271(d)(5).

81. See 1 HOVENKAMP ET AL., *supra* note 13, §§ 4.2e1, 4.2e6, at 13-14, 35-36.

[T]he statute itself does not explicitly apply to antitrust actions. Nevertheless, it would be anomalous to require independent proof of power in patent misuse cases, which have historically assessed lesser requirements, while permitting power to be inferred in antitrust challenges to patent ties. It would also be irrational for Congress to immunize patent ties from Patent Act liability only to have them condemned under the Sherman or Clayton Act under the very same circumstances.

*Id.*

82. S. 438, 100th Cong. § 102 (1988).

83. *Id.*

84. See H.R. 401, 105th Cong. (1997); H.R. 2674, 104th Cong. (1995); S. 298, 101st Cong. (1990); S. 270, 101st Cong. (1989); H.R. 469, 101st Cong. (1989). All proposed a similar form of the Intellectual Property Antitrust Protection Act.

85. See 1 HOVENKAMP ET AL., *supra* note 13, § 21.3f4, at 21-46 through 21-46.1.

86. See Richard Calkins, *Patent Law: The Impact of the 1988 Patent Misuse Reform Act and Noerr-Pennington Doctrine on Misuse Defenses and Antitrust Counterclaims*, 38 DRAKE L. REV. 175, 196 (1989); Feldman, *supra* note 15, at 431.

marily to enforce the patent codes, has been extremely hostile to the defense. The Federal Circuit has introduced new requirements and generally limited its findings of misuse to conduct that also violated the antitrust laws.<sup>87</sup> Only one Federal Circuit case has produced a finding of misuse.<sup>88</sup>

### E. Important Distinctions Between Misuse Tying and Antitrust Tying

There are important procedural and remedial distinctions between antitrust tying and patent misuse.<sup>89</sup> First, patent tying in the antitrust context is an affirmative cause of action, a procedural sword.<sup>90</sup> In contrast, patent misuse is a shield and can only be used in defense to a claim of infringement.<sup>91</sup> Second, a patentee who violates antitrust laws with an improper tying arrangement is subject to treble damages.<sup>92</sup> As misuse is only a defense, no damages are available against the patent holder when misuse is successfully argued to defend against a claim of infringement.<sup>93</sup> Third, the standing required for patent misuse differs from the standing required to bring an antitrust claim.<sup>94</sup> Any party that has been sued for patent infringement has standing to raise the patent misuse defense, while antitrust causes of action require a showing of antitrust injury.<sup>95</sup> Further, in patent misuse, no nexus between the patentee's misuse and the harm caused by the misuse is required; in other words, there are no injury or causation requirements.<sup>96</sup>

Notwithstanding the above mentioned argument advocating for a one-to-one replacement of patent misuse with standard antitrust analysis, courts have not adopted a wholesale replacement.<sup>97</sup> Some commentators assert that misuse is directed to remedy harms insufficiently

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87. See 1 HOVENKAMP ET AL., *supra* note 13, § 3.2a, 3-6; see generally Hoerner, *supra* note 69.

88. See *Senza-Gel Corp. v. Seiffhart*, 803 F.2d 661, 669 (Fed. Cir. 1986).

89. See generally Lemley, *supra* note 70, at 1611-13.

90. See *id.*

91. See *id.* at 1608-1609; see also 1 HOVENKAMP ET AL., *supra* note 13, § 3.6b, at 3-60.1.

92. See Lemley, *supra* note 70, at 1607.

93. 1 HOVENKAMP ET AL., *supra* note 13, § 3.6b, at 3-60.1.

94. See Lemley, *supra* note 70, at 1612; see also 1 HOVENKAMP ET AL., *supra* note 13, § 3.6c at 3-62.

95. See Lemley, *supra* note 70, at 1612.

96. See *id.* at 1612-13.

97. See *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 704 (Fed. Cir. 1992) ("The concept of patent misuse arose to restrain practices that did not in themselves violate any law, but that drew anticompetitive strength from the patent right, and thus were deemed to be contrary to public policy. The policy purpose was to prevent a patentee from using

addressed by antitrust law and that antitrust law cannot capture the range of harm to which patent misuse is directed.<sup>98</sup> Professor Feldman stated: “In short, if we use antitrust to test for patent misuse, we may be blind to significant concerns under patent policy.”<sup>99</sup> The non-competitive harms that the patent system creates, which are inadequately addressed by standard antitrust tying analysis, include: duplicative research activity, defensive research activity to block competitors, misallocation of talents, and disincentives for the next generation of inventions.<sup>100</sup> Limits on the scope and duration of patent rights are designed to limit some of the systemic costs to society, listed above, that the patent grant imposes.<sup>101</sup>

## II. The Case: *Illinois Tool Works v. Independent Ink*

### A. The Parties

Petitioners to the United States Supreme Court were Illinois Tool Works, Inc. and Trident, Inc., a subsidiary of Illinois Tool Works (“Illinois Tool Works”).<sup>102</sup> Illinois Tool Works manufactures printheads for use in printing barcodes on corrugated paper, which is ink-intensive and requires transferring large amounts of ink from an ink container to the printhead.<sup>103</sup> The printheads and container are covered by Illinois Tool Works’s patent.<sup>104</sup> The standard form licensing agreement allows printer manufacturers to use the patent so long as they purchase ink exclusively from Illinois Tool Works. Moreover, the

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the patent to obtain market benefit beyond that which inheres in the statutory patent right.”).

98. See Feldman, *supra* note 15, at 431.

99. *Id.* at 401.

100. *Id.* at 434–35. Duplicative activity is a non-competitive harm that antitrust law does not detect; it occurs when parties waste resources by trying to design around rather than improving on a patent. See *id.* This creates disincentives for the next generation of inventions. See *id.* Also, the patent system encourages defensive research activity aimed at blocking competitors. See *id.* Often, defensive research activity results in an invention no better than the original. See *id.* The patent system can misallocate talents since more emphasis will be placed on developing patentable inventions. See *id.*

101. See *id.* at 436.

102. Ill. Tool Works v. Indep. Ink, 126 S. Ct. 1281, 1284 (2006).

103. *Id.* at 1284–1285; Indep. Ink, Inc. v. Ill. Tool Works, Inc., 396 F.3d 1342, 1344 (Fed. Cir. 2005).

104. *Indep. Ink*, 126 S. Ct. at 1284. Before Illinois Tool Works acquired Trident, Trident owned the patents in question. Trident did not manufacture the technology covered by the patent; rather, it only manufactured ink and licensed the technology subject to the ink restriction. See Craig McLaughlin, *Monopoly Power of Patents and Antitrust Law Collide in Patent Tying: A Presumption of Market Power Should Arise from Forcing Consumer to Purchase an Unpatented Good as a Condition of Using a Patented Good*, 48 ORANGE COUNTY LAW. 38, 40 (2006).

agreement precludes end-consumers from refilling the container with other ink.<sup>105</sup>

Respondent was Independent Ink, a manufacturer of printer ink that can be utilized in the patented printheads.<sup>106</sup> Fearing an infringement suit, Independent Ink brought suit against Illinois Tools Works for antitrust violations and a declaratory judgment of non-infringement and invalidity.<sup>107</sup>

Respondent was supported by the American Antitrust Institute,<sup>108</sup> several professors,<sup>109</sup> an association of printer remanufacturers,<sup>110</sup> and various states as amici.<sup>111</sup> However, numerically, Petitioner had the overwhelming support from amici, including the United States government,<sup>112</sup> various intellectual property law associations,<sup>113</sup> industry groups,<sup>114</sup> and the American Bar Association.<sup>115</sup>

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105. *Indep. Ink*, 126 S. Ct. at 1285; *Indep. Ink*, 396 F.3d at 1345.

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

107. *Id.* at 1285. Illinois Tool Works had previously brought a patent infringement action against Independent Ink, but that suit was dismissed for lack of personal jurisdiction. *Id.*

108. Brief of Amici Curiae American Antitrust Institute, American Library Association, American Association of Law Libraries, Association of Research Libraries, Special Libraries Association, Certified Automotive Parts Association, Computer & Communications Industry Association, Automotive Parts Remanufacturers Association, Production Engine Remanufacturers Association, Service Station Dealers of America & Allied Trades, Tire Industry Association, and ValueClick, Inc. in Support of Respondent, *Ill. Tool Works v. Indep. Ink*, 126 S. Ct. 1281 (2006) (No. 04-1329).

109. Brief of Professor F.M. Scherer as Amicus Curiae in Support of Respondent, *Ill. Tool Works v. Indep. Ink*, 126 S. Ct. 1281 (2006) (No. 04-1329); Brief of Professors Barry Nalebuff, Ian Ayres, and Lawrence Sullivan as Amici Curiae in Support of Respondent, *Ill. Tool Works v. Indep. Ink*, 126 S. Ct. 1281 (2006) (No. 04-1329).

110. Brief of Amici Curiae of International Imaging Technology Council and Remanufacturing Industries Council in Support of Respondent, *Ill. Tool Works v. Indep. Ink*, 126 S. Ct. 1281 (2006) (No. 04-1329).

111. Brief of the District of Columbia and the State of California and the States of Arizona, Florida, Iowa, Louisiana, Maryland, Massachusetts, Missouri, Ohio, Tennessee, Utah, West Virginia, and Wyoming as Amici Curiae in Support of Respondent, *Ill. Tool Works v. Indep. Ink*, 126 S. Ct. 1281 (2006) (No. 04-1329).

112. Brief for the United States as Amicus Curiae Supporting Petitioners, *Ill. Tool Works v. Indep. Ink*, 126 S. Ct. 1281 (2006) (No. 04-1329).

113. Brief Amicus Curiae Intellectual Property Owners Association in Support of the Petitioners, *Ill. Tool Works v. Indep. Ink*, 126 S. Ct. 1281 (2006) (No. 04-1329); Brief of New York Intellectual Property Law Association as Amicus Curiae in Support of Petitioners, *Ill. Tool Works v. Indep. Ink*, 126 S. Ct. 1281 (2006) (No. 04-1329); Brief of the Houston Intellectual Property Law Association as Amicus Curiae in Support of Petitioners, *Ill. Tool Works v. Indep. Ink*, 126 S. Ct. 1281 (2006) (No. 04-1329); Brief Amicus Curiae of the Intellectual Property Law Association of Chicago in Support of Petitioners, *Ill. Tool Works v. Indep. Ink*, 126 S. Ct. 1281 (2006) (No. 04-1329).

114. Brief for Verizon Communications as Amicus Curiae in Support of Petitioners, *Ill. Tool Works v. Indep. Ink*, 126 S. Ct. 1281 (2006) (No. 04-1329); Motion for Leave to File

## B. Procedural History

### 1. United States District Court, Central District of California

In August 1998, Independent Ink filed suit against Illinois Tool Works seeking a declaratory judgment of non-infringement, invalidity, and illegal tying in violation of Section One of the Sherman Act.<sup>116</sup> The district court granted defendants' motion for summary judgment on the Section One Sherman Act claim and denied plaintiff's cross-motion for summary judgment.<sup>117</sup> The district court held that there is no presumption that a patent confers market power, and since Independent Ink offered no direct evidence of market power, Illinois Tool Works was entitled to summary judgment.<sup>118</sup> In rejecting the market power presumption, the district court relied on Justice O'Connor's concurrence in *Jefferson Parish*,<sup>119</sup> various circuit courts of appeals decisions, and commentators' criticisms of the presumption while dismissing several Supreme Court cases as "vintage" precedents.<sup>120</sup> Finally, the district court held that, even if there was a presumption of market power, the defendants successfully rebutted the presumption by offering testimony that the printhead system had at least two competitors.<sup>121</sup>

### 2. The Federal Circuit Decision

On appeal, the three-judge panel reversed the district court decision.<sup>122</sup> The panel examined the history of tying arrangement cases and Supreme Court precedent. Relying on a long history of tying

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Amici Curiae Brief and Brief for the Motion Picture Association of America, Inc., the Ass'n of American Publishers, the American Society of Media Photographers, Inc., the Business Software Alliance, the Entertainment Software Association, the Independent Film & Television Alliance, the National Football League, and the Recording Industry Association of America, Inc. as Amici Curiae Supporting Reversal, *Ill. Tool Works v. Indep. Ink*, 126 S. Ct. 1281 (2006) (No. 04-1329).

115. Brief of the American Bar Association as Amicus Curiae in Support of Petitioners, *Ill. Tool Works v. Indep. Ink*, 126 S. Ct. 1281 (2006) (No. 04-1329).

116. See *Indep. Ink, Inc. v. Trident, Inc.*, 210 F. Supp. 2d 1155, 1159 (C.D. Cal. 2002). This suit was actually brought against Trident, Inc., a company later acquired by Illinois Tool Works in the course of the litigation. See *Indep. Ink, Inc. v. Illinois Tool Works, Inc.*, 396 F.3d 1342, 1344 (Fed. Cir. 2005).

117. *Indep. Ink*, 210 F. Supp. 2d at 1173.

118. *Id.* at 1163, 1165-67.

119. *Jefferson Parish Hosp. v. Hyde*, 466 U.S. 2, 32 (1984) (O'Connor, J., concurring).

120. See *Indep. Ink*, 210 F. Supp. 2d at 1163-64. For example, *Fortner II*, *Loew's*, and *International Salt* were all dismissed in a footnote by the district court. See *id.* at 1165 n.10.

121. See *id.* at 1166-67.

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

cases, the panel held that the Supreme Court “squarely establish[ed] that patent and copyright tying, unlike other tying cases, do not require an affirmative demonstration of market power.”<sup>123</sup> The panel grudgingly rejected Illinois Tool Works’s arguments that *International Salt* and *Loew’s* were no longer good law.<sup>124</sup>

First, the panel rejected reliance on a “nose-counting” argument.<sup>125</sup> According to this argument, a “then-majority” of the Court would have rejected the presumption because Justice O’Connor’s *Jefferson Parish* concurrence clearly rejected it and, two years later, Justices White and Blackmun, both members of the *Jefferson Parish* majority, dissented from denial of certiorari in *Data General* indicating that they now disapproved of the presumption.<sup>126</sup> The district court endorsed the reasoning that a then-majority of the Supreme Court believed *International Salt* and *Loew’s* were no longer good law.<sup>127</sup> The panel rejected this reasoning and held that speculation about Justice O’Connor’s *Jefferson Parish* concurrence and a dissent from denial of certiorari in *Data General* hardly repudiates the long-standing presumption of market power.<sup>128</sup>

Second, Illinois Tool Works relied on numerous academic articles that criticize the presumption of market power.<sup>129</sup> The panel held that the “fundamental error in all of the 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.”<sup>130</sup> The panel went on to express doubt as to the wisdom of the Supreme Court precedent—referring to possible “infirmities” and “wobbly, moth-eaten foundations” of the market power presumption—but declined to abandon the presumption in the absence of a congressional mandate or ruling by the Supreme Court.<sup>131</sup>

The panel then turned to the scope of the presumption and held that “a patent presumptively defines the relevant market as the nation-

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123. *Id.* at 1348.

124. *See id.* at 1349–51.

125. *Id.* at 1350.

126. *See id.* at 1350 (referring to *Jefferson Parish*, 466 U.S. at 37 n.7 (O’Connor, J., concurring)); *Data General Corp. v. Digidyne Corp.*, 473 U.S. 908 (1985) (cert. denied) (White, J., joined by Blackmun, J., dissenting from denial of certiorari).

127. *See Indep. Ink*, 396 F.3d at 1350.

128. *See id.*

129. *See id.* For an example of such criticism, see 1 HOVENKAMP ET AL., *supra* note 13, § 4.2.

130. *Indep. Ink*, 396 F.3d at 1351.

131. *Id.*

wide market for the patented product itself, and creates a presumption of power within this market.”<sup>132</sup> The presumption is rebuttable, but the panel held that the “mere presence of competing substitutes for the tying product” is not sufficient to rebut the presumption.<sup>133</sup> The panel indicated that a full-blown market analysis is required to rebut the presumption.<sup>134</sup> The court reversed and remanded the case to allow Illinois Tool Works to supplement the summary judgment record with evidence to rebut the presumption.<sup>135</sup> The Supreme Court subsequently granted certiorari.<sup>136</sup>

### C. The Parties’ Contentions

#### 1. Illinois Tool Works’ Contentions

Petitioner, Illinois Tool Works, argued that the presumption that patents confer market power had never been examined in accordance with modern antitrust principles.<sup>137</sup> It contended that the origins of the presumption are in patent misuse, which never inquired or explained why market power was unnecessary to establish an illegal tie.<sup>138</sup> Illinois Tool Works argued that, as a product of the patent misuse doctrine, based on a judicial interpretation of patent policy, this presumption was improperly transplanted into antitrust law without analysis of antitrust principles.<sup>139</sup> Illinois Tool Works asserted that proof of market power is required under modern antitrust jurisprudence to effectively screen out procompetitive ties.<sup>140</sup>

Next, Illinois Tool Works disputed whether the market power requisite to antitrust claims should be presumed from a patent in the tying product.<sup>141</sup> Since empirical data suggests that a large percentage of patents produce little or no economic value, Illinois Tool Works argued that there should be no presumption of market power.<sup>142</sup> Fur-

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132. *Id.* at 1352.

133. *Id.*

134. *See id.*

135. *See id.* at 1352–53. The district court’s grant of summary judgment to the defendant on the Section Two Sherman Act claim was affirmed and is not relevant to the question presented before the Supreme Court. *See id.*

136. *Ill. Tool Works, Inc. v. Indep. Ink, Inc.*, 125 S. Ct. 2937 (2005) (granting cert.).

137. Brief for the Petitioners at 15, *Ill. Tool Works v. Indep. Ink*, 126 S. Ct. 1281 (2006) (No. 04-1329).

138. *Id.* at 16.

139. *Id.* at 19.

140. *Id.* at 21.

141. *Id.* at 23.

142. *Id.* at 25.

ther, since many patents are incremental improvements, there is no basis for assuming there are no close substitutes.<sup>143</sup>

Illinois Tool Works also argued that the presumption penalizes procompetitive behavior, encourages unjustified litigation, and tends to have a chilling effect on innovation.<sup>144</sup> With the presumption, an antitrust defendant must conduct an expensive economic analysis to meet the bar of rebuttal set by the Federal Circuit.<sup>145</sup> Illinois Tool Works argued that the rebuttable nature of the presumption is not an effective screen against meritless litigation.<sup>146</sup>

Finally, Illinois Tool Works pointed out that the weight of academic criticism favors abrogating the presumption, that the federal antitrust enforcement agencies no longer follow the presumption, and that the Patent Misuse Reform Act of 1988 eliminated the presumption in antitrust as well as in misuse.<sup>147</sup> In sum, Illinois Tool Works petitioned the Court to remove the presumption of market power when the tying product is patented.

## 2. Independent Ink's Contentions

Respondent, Independent Ink, argued that the longstanding presumption of market power structures the burden of proof in a fair and efficient manner.<sup>148</sup> To support this argument, Independent Ink focused on the narrow pool of patents to which the presumption attaches.<sup>149</sup> Patents involved in tying litigation are more likely to have value and confer market power.<sup>150</sup> Illinois Tool Works's assertion that most patents are valueless is directed to all patents generally; however, the appropriate class of patents, those patents used to enforce a tying arrangement, are likely to confer market power.<sup>151</sup> Independent Ink argued that shifting the burden of producing evidence regarding market power to the defendant is fair because the patent holder is in the

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143. *Id.* at 25–26.

144. *Id.* at 27–30.

145. *Id.* at 32–33. Recall, the Federal Circuit held that “[t]he presumption can only be rebutted by expert testimony or other credible economic evidence of the cross-elasticity of demand, the area of effective competition, or other evidence of lack of market power.” *Indep. Ink, Inc. v. Illinois Tool Works*, 396 F.3d 1342, 1352 (Fed. Cir. 2005).

146. See Brief for Petitioners at 32 n.10, *Ill. Tool Works v. Indep. Ink*, 126 S. Ct. 1281 (2006) (No. 04-1329).

147. *Id.* at 37–39.

148. Brief for Respondent at 20, *Ill. Tool Works v. Indep. Ink*, 126 S. Ct. 1281 (2006) (No. 04-1329).

149. *Id.* at 21.

150. See *id.*

151. *Id.* at 29–30.

best position to determine whether the patent in question has market power and may justify any procompetitive benefits for the tie.<sup>152</sup> The burden can be rebutted by producing evidence that the patented product has close, non-infringing substitutes.<sup>153</sup>

Independent Ink argued that if the presumption causes meritless litigation, deters innovation, and punishes procompetitive conduct, Petitioners could offer examples of these occurrences in the years following *International Salt* and *Loew's*.<sup>154</sup> Independent Ink asserted that the presumption had not generated meritless litigation because there are other screens built into antitrust law to protect innovation and procompetitive conduct, which deter meritless litigation.<sup>155</sup> Lastly, Independent Ink urged the court to rely on the principles of *stare decisis*—arguing that Petitioners must meet a very high burden for the Court to overturn a precedent that had been followed for over fifty years.<sup>156</sup>

#### D. The Court's Reasoning

Justice Stevens<sup>157</sup> delivered the opinion of the Court; all members of the Court joined except Justice Alito.<sup>158</sup> The Court held that the presumption of market power in the tying product market cannot be presumed in antitrust law, given its “demise” in the patent misuse context.<sup>159</sup> Accordingly, the decision of the Court of Appeals for the Federal Circuit was vacated and remanded to the district court to allow Independent Ink to develop and to introduce evidence on the issue of market power.<sup>160</sup>

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152. *Id.* at 32.

153. *See id.*

154. *Id.* at 36.

155. *Id.* at 10.

156. *Id.* at 13–19.

157. An interesting tidbit for the legal historian: now-Justice Stevens was a law clerk for the late-Justice Wiley Rutledge in 1947 when *International Salt* was decided. Justice Rutledge voted in the majority, creating the presumption of market power. *See* Tony Mauro, *Ruling Weakens Competitors' Ability to Sue Patent Holders*, RECORDER, Mar. 2, 2006, at 2. Justice Stevens also wrote the *Jefferson Parish* majority opinion, which affirmed the market power presumption in dicta. 466 U.S. 2 (1984).

158. *Illinois Tool Works v. Indep. Ink, Inc.*, 126 S. Ct. 1281 (2006). The Supreme Court heard oral arguments in this case before Justice Alito was confirmed by the Senate and sworn-in; therefore, he did not hear oral arguments in the case. *See id.* at 1293. Justice O'Connor, while present at the oral argument, took no part in the Court's decision. *See id.*; *see also* Transcript of Oral Argument at 6–8, 23, *Ill. Tool Works v. Indep. Ink*, 126 S. Ct. 1281 (2006) (No. 04-1329).

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

160. *See id.* at 1293.

The Court granted certiorari to allow for a “fresh examination” of the judicial and legislative developments since the 1947 *International Salt* decision that were relevant to the consideration of tying arrangements.<sup>161</sup> The Court first traced the history of tying arrangements.<sup>162</sup> It examined the 1912 case, *Henry v. A.B. Dick Co.*,<sup>163</sup> which condoned a licensing agreement for a patented printing machine that contained a condition that the machine only be used with ink made by A.B. Dick.<sup>164</sup> In dissent, Justice White voiced his concern about tying arrangements and their potential use to extend the patent grant.<sup>165</sup> Congress agreed with Justice White and passed Section Three of the Clayton Act in 1914,<sup>166</sup> which specifically disapproved tying arrangements involving a patented tying product when competition would be lessened.<sup>167</sup> The Court noted in *Independent Ink* that tying arrangements were strongly disapproved after the passage of the Clayton Act.<sup>168</sup> As evidence of this strong disapproval, the Court cited language from several historic precedents stating that tying arrangements “serve hardly any purpose beyond the suppression of competition”<sup>169</sup> and “generally serve no legitimate business purpose.”<sup>170</sup>

As time passed, the Court noted that this strong disapproval of tying arrangements had “substantially diminished” and that proof of market power in the tying product is generally required.<sup>171</sup> In *Fortner I*, the four dissenting justices agreed that tying can, in fact, serve a

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161. *See id.* at 1285.

162. *See id.*

163. 224 U.S. 1 (1912).

164. *See id.* at 25–26; *see also Indep. Ink*, 126 S. Ct. at 1286 (explaining the *Henry v. A.B. Dick* holding).

165. *Henry*, 224 U.S. at 49 (White, J., dissenting).

166. Pub. L. No. 63-212, 38 Stat. 730 (1914) (codified as amended 15 U.S.C. § 14 (2000)).

167. 15 U.S.C. § 14.

It shall be unlawful for any person . . . to lease or make a sale or contract for sale of goods, wares, merchandise, machinery, supplies or other commodities, whether patented or unpatented, . . . 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 [is to] . . . substantially lessen competition or tend to create a monopoly in any line of commerce.

*Id.*

168. *Indep. Ink*, 126 S. Ct. at 1286.

169. *Id.* (citing *Standard Oil Co. v. United States*, 337 U.S. 293, 305–06 (1949)).

170. *Indep. Ink*, 126 S. Ct. at 1287 (citing *Fortner Enters., Inc. v. U.S. Steel Corp.* (*Fortner I*), 394 U.S. 495, 498–99 (1969)).

171. *Id.* at 1286.

procompetitive purpose.<sup>172</sup> The justices in *Fortner II* adopted the dissenting view of *Fortner I*—that tying can be procompetitive.<sup>173</sup> Finally, the Court noted the *Jefferson Parish* holding that “per se condemnation—condemnation without inquiry into actual market conditions—is only appropriate if the existence of forcing is probable.”<sup>174</sup>

However, after citing *Jefferson Parish*, the Court had to reconcile the strong dicta stating that “the sale or lease of a patented item on [a] condition that the buyer make all his purchases of a separate tied product from the patentee is unlawful.”<sup>175</sup> The Court explained that this statement did not support a presumption of market power whenever the tying product was patented; rather, it established a narrower rule—when a contract conditions the purchase of an unpatented tied good on the sale of a patented tying product, there is an illegal tie.<sup>176</sup> To further minimize the significance of the language quoted from *Jefferson Parish* above, the Court noted that there was strong disagreement as to whether a patent conferred market power, as illustrated in Justice O’Connor’s concurring opinion in *Jefferson Parish*.<sup>177</sup> It is this “vestige of the Court’s historical distrust of tying arrangements” that was at issue in *Independent Ink*.<sup>178</sup>

The Court acknowledged that Justice O’Connor correctly realized that the presumption of market power had its origins in patent misuse<sup>179</sup> and eventually “migrated” into antitrust law in *International Salt*.<sup>180</sup> However, since the analysis in *International Salt* did not mention patent misuse or market power, the Court examined the Government’s brief in *International Salt* to extract the rationales relied upon in that case.<sup>181</sup> In *International Salt*, an antitrust case, the Government argued that the tying arrangement imposed was identical to the tying arrangement in *Morton Salt*, a patent misuse case.<sup>182</sup> The Court did not inquire into market power in *Morton Salt*, and it relied on the fact that the tying product was patented.<sup>183</sup> Arguing by analogy, the Gov-

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172. See *id.* at 1287 (citing *Fortner I*, 394 U.S. at 510).

173. *Id.* at 1287 (citing *U.S. Steel Corp. v. Fortner Enters., Inc. (Fortner II)*, 429 U.S. 610, 622 (1977)).

174. *Jefferson Parish Hosp. v. Hyde*, 466 U.S. at 2, 15 (1984).

175. *Id.* at 16.

176. *Indep. Ink*, 126 S. Ct. at 1288.

177. See *id.*

178. *Id.*

179. See *id.* (referring to Justice O’Connor’s *Jefferson Parish* concurrence).

180. *Id.* at 1289.

181. See *id.*

182. See *id.* (citing the Government’s brief in *Int’l Salt*).

183. See 1 HOVENKAMP ET AL., *supra* note 13, § 3.3b1, at 3-14.

ernment urged “that the earlier patent misuse cases supported the broader proposition ‘that this type of restraint is unlawful on its face under the Sherman Act.’”<sup>184</sup> Based on this examination of the Government’s brief and the *International Salt* holding, the Court concluded that it “necessarily accepted” the Government’s invitation to import the market power presumption into the antitrust context, since it applied the narrower misuse rule to the broader antitrust law.<sup>185</sup>

However, the Court reasoned that subsequent events in patent law and antitrust led to the “untwining” of the two doctrines.<sup>186</sup> The Court found the Patent Misuse Reform Act of 1988 particularly significant to the untwining.<sup>187</sup> Since Congress eliminated the market power presumption in the patent misuse context, the Court believed it would be “absurd” to conclude that Congress supported the continued existence of the presumption in the generally more stringent realm of antitrust when patent misuse is an equitable defense and antitrust is punishable by federal incarceration.<sup>188</sup> Therefore, the Court concluded that tying arrangements in which the tying good is patented should be evaluated under the *Fortner II* and *Jefferson Parish* line of cases—which require proof of market power—rather than the reasoning employed by *Morton Salt* and *Loew’s*.<sup>189</sup>

The Court then addressed two other grounds that Independent Ink advanced for maintaining a narrower presumption.<sup>190</sup> First, the Court rejected Independent Ink’s argument for a rebuttable presumption of market power due to the presence of a requirements tie since

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184. *Indep. Ink*, 126 S. Ct. at 1289 (quoting the Government’s brief).

185. *See id.*

Our opinion in *International Salt* clearly shows that we accepted the Government’s invitation to import the presumption of market power in a patented product into our antitrust jurisprudence. While we cited *Morton Salt* only for the narrower proposition that the defendant’s patents did not confer any right to restrain competition in unpatented salt or afford the defendant any immunity from the antitrust laws, [citing *International Salt*], given the fact that the defendant was selling its unpatented salt at competitive prices, [citations], the rule adopted in *International Salt* necessarily accepted the Government’s submission that the earlier patent misuse cases supported the broader proposition “that this type of restraint is unlawful on its face under the Sherman Act.”

*Id.* (citations omitted).

186. *Id.* at 1289–90.

187. *Id.* at 1290–91 (referencing 35 U.S.C. § 271(d)(5) (2000)).

188. *Id.* at 1291.

189. *Id.*

190. *Id.* at 1291–92.

there was no requirements tie in *International Salt*.<sup>191</sup> Second, and more significantly, the Court rejected Independent Ink's argument that a patentee possesses market power when the purchase of the patented product is conditioned on buying the tied product exclusively from the patentee.<sup>192</sup>

The Court recognized that the vast majority of academic literature agrees that patents do not necessarily confer market power.<sup>193</sup> Further, the Court reasoned that even though price discrimination may be evidence of market power, price discrimination can also occur in competitive markets.<sup>194</sup> Since neither of the factors standing alone would give rise to a presumption of market power, the Court concluded that neither should the combination of the factors.<sup>195</sup> Lastly, the Court buttressed its conclusion by pointing out that the antitrust enforcement agencies reject a market power presumption.<sup>196</sup>

Accordingly, the Court vacated and remanded the decision of the Court of Appeals for the Federal Circuit, thereby eliminating the patent-equals-market-power presumption.<sup>197</sup> On remand, Independent Ink will be given an opportunity to show the market power element.<sup>198</sup>

### III. Analysis

#### A. While Superficially Appealing, the Court's Legal Reasoning for Abandoning the Market Power Presumption Is Misguided

##### 1. The Supreme Court Focused on the Wrong Pool of Patents

The Supreme Court merely paid lip service to Independent Ink's contention that, while the majority of patents may be valueless, patents used to enforce a tie are most often valuable.<sup>199</sup> Citing the "vast majority of academic literature," the Court stated that obtaining a patent does not necessarily result in market power.<sup>200</sup> There are two problems with the Court's cursory dismissal of Independent Ink's argument that when focusing on the proper pool of patents—patents

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191. *Id.* at 1292.

192. *Id.* at 1291–92.

193. *Id.*

194. *Id.* at 1292.

195. *Id.*

196. *Id.* at 1293.

197. *Id.*

198. *See id.*

199. *Id.* at 1291.

200. *Id.* at 1291 n.4, 1292.

used to enforce a tying arrangement—there is a reasonable likelihood that the patent confers sufficient market power. First, the Court relied on the vast majority of academic literature but failed to examine the qualifications to the contentions made in the literature. Second, since the presumption urged is rebuttable, the question should not have been whether a patent “necessarily confer[s] market power.”<sup>201</sup> Rather, the question should be whether patents used to enforce ties tend to confer market power.

In its cursory dismissal of the first problem—mentioned only in a footnote—the Court cited various academic commentators.<sup>202</sup> However, the language cited from these sources does not support abandoning the presumption when the rationales of these statements are examined. The Court cited the Hovenkamp IP and Antitrust treatise: “[C]overage of one’s product [sic] with an intellectual property right does not confer a monopoly.”<sup>203</sup> In the abstract, this statement is correct, but the question is whether a patent used in a tying arrangement confers market power sufficient to enforce a tie, not “a monopoly.” Further, the same treatise admits, albeit grudgingly, that imposing a burden on the patent tying defendant to go forward with evidence of lack of market power is within “more credible bounds.”<sup>204</sup>

The Court also cited Professor Phillip Areeda’s treatise: “[T]here is no economic basis for inferring any amount of market power *from the mere fact* that the defendant holds a valid patent.”<sup>205</sup> By relying on this statement, the Court failed to address the argument in question; instead, it addressed whether the broad pool of patents confers market power. By the Court’s own characterization of the argument, this is not what Independent Ink asserted.<sup>206</sup> If the Court did examine the appropriate pool of patents, the outcome would have been quite different. In a recent study, Professor Scherer found that litigation is the most significant factor in determining the value and market power of

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201. *Id.* at 1292.

202. *See id.* at 1291 n.4.

203. *See id.* (citing 1 HOVENKAMP ET AL., *supra* note 13, § 4.2a).

204. *See* 1 HOVENKAMP ET AL., *supra* note 13, § 4.2e2, at 4-24. *See infra* Part III.A.4, for a discussion of the suggestion that a more appropriate focus for the Court would be an examination of the strength of the presumption, rather than the polar extremes that the Court decides between.

205. *Indep. Ink*, 126 S. Ct. at 1291 n.4 (citing 10 AREEDA ET AL., *ANTITRUST LAW* 1737a (2d ed. 2004) (emphasis added)).

206. *See id.* at 1291; *see* Brief for Respondent at 21–23, *Ill. Tool Works v. Indep. Ink*, 126 S. Ct. 1281 (2006) (No. 04-1329).

a patent.<sup>207</sup> In his amicus brief in support of Independent Ink, Professor Scherer explained that the market power presumption is consistent with this “litigation effect” since suits against harmful ties would be brought by independent producers or consumers.<sup>208</sup> This is consistent with focusing on whether the consumer was forced to buy something he or she otherwise would not have bought in a competitive market so as to not discourage beneficial ties.

Justice Breyer’s questioning of Petitioners and amici indicated his concern regarding whether the Court examined the proper set of patents.<sup>209</sup> However, in the opinion, there is no mention of the amount of market power, or lack of market power, that the relevant set of patents confers. Rather, the Court’s reasoning rested on the flawed assumption that the relevant pool is all patents granted by the Patent and Trademark Office, the majority of which are valueless.

Second, even if the Court focused on the relevant pool of patents, the Court erroneously concluded that, because a patent did not “necessarily” confer market power, no presumption was warranted.<sup>210</sup> Presumptions are directed to evidentiary concerns and do not require that the trigger of the presumption (existence of a patent) and the presumed conclusion (existence of market power) be correlated in all instances.<sup>211</sup> The market power presumption is merely a burden-shifting device supported by a “judicial determination that it is reasonably probable that the patent claims protect commercially useful subject matter that is sufficiently distinctive or unique to persuade others to pay a considerable risk premium above the cost of any substitutes on the market.”<sup>212</sup> The Court neglected to inquire into the reasonable probability of market power in patents used to enforce tying arrangements. Further, the Court failed to explain why patents must necessarily show market power to support the application of a presumption.

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207. See Brief of Professor F.M. Scherer as Amicus Curiae in Support of Respondent at 6–8, *Ill. Tool Works v. Indep. Ink*, 126 S. Ct. 1281 (2006) (No. 04-1329).

208. See *id.* at 5–6.

209. See Transcript of Oral Argument at 6–8, 23–24, *Ill. Tool Works v. Indep. Ink*, 126 S. Ct. 1281 (No. 04-1329).

210. *Indep. Ink*, 126 S. Ct. at 1292–93. In several instances, the Court stated that since a patent did not “necessarily” confer market power, no presumption was warranted. *Id.*

211. See Burchfiel, *supra* note 41, at 79. It is worth noting the Court cited the Burchfiel article in the footnote purporting to represent that the “vast majority” of academic literature agreed with the abandonment of the presumption. See *Indep. Ink*, 126 S. Ct. at 1291 n.4. While the Burchfiel article does outline the academic criticism of the market power presumption, it argues that the presumption should remain in tact. See Burchfiel, *supra* note 41, at 4 (“[T]he historical antitrust presumption of market power from patent ownership retains its usefulness.”).

212. See Burchfiel, *supra* note 41, at 79.

Here, the market power presumption is merely a vehicle for efficiently structuring the burden of proof.<sup>213</sup> As discussed above, when the inquiry is correctly focused on patents used to enforce a tying arrangement, the patent holder is in the best position to explain the arrangement and its alleged procompetitive aspects. Those critical of the presumption fail to recognize that considerable evidentiary problems will preclude many would-be tying plaintiffs from filing suit.<sup>214</sup>

However, this argument applies generally to all antitrust offenses where market power must be shown. There are at least two reasons why market power proof should be structured differently in patent tying antitrust offenses. First, there is an obvious, and significant, distinction between patent tying and regular tying: the nature of the tying product. The market power of the tying product depends on the availability of substitutes.<sup>215</sup> To determine the availability of substitutes in the general case, the court examines cross-elasticity of supply and demand, entry barriers, and ease of arbitrage.<sup>216</sup> This alone presents formidable proof problems.<sup>217</sup> Full-blown market power analysis is often cost prohibitive. Further, the plaintiff does not participate in the tying market so difficulties in conducting the analysis are compounded. Proof problems also hinder a plaintiff in a tying case when determining the availability of substitutes in the market for licenses of patented technology. This is because a patent is not limited merely to its literal terms due to the doctrine of equivalents.<sup>218</sup> The doctrine of equivalents is an extremely flexible and uncertain equitable doctrine that allows a finding of infringement for close substitutes to the literal terms of the patent.<sup>219</sup> The presumption of market power in the patented tying product maintains a balance between patent holders and competitors in the tied market—and correspondingly benefits the public.<sup>220</sup>

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213. See Brief for Respondent at 21, *Ill. Tool Works v. Indep. Ink*, 126 S. Ct. 1281 (2006) (No. 04-1329).

214. See Burchfiel, *supra* note 41, at 3.

215. See 1 HOVENKAMP ET AL., *supra* note 13, § 4.3.

216. See *id.* "Arbitrage" is the practice of buying a product in one market for a lower price and selling it another market at a higher price. PINDYCK & RUBINFELD, *supra* note 22, at 9.

217. Burchfiel, *supra* note 41, at 3.

218. See *id.* at 4.

219. See generally CHISUM, *supra* note 20.

220. See *Merges*, *supra* note 72, at 797 (arguing that patent misuse helps maintain the "equitable symmetry" within patent law). Though Professor Merges' arguments are directed to patent misuse, they apply to maintaining the presumption of market power. In

Second, without a procompetitive justification, tying patented products imposes the costs of patent law on another market. This may stifle innovation in an entirely different market. This is inconsistent with the goals of patent policy. The grant of a patent in one market should generally not be used to stifle innovation in a separate market. The patent right is intended to promote innovation in the market for which the patent is granted.<sup>221</sup>

## 2. The Supreme Court Does Not Reconcile Antitrust with the Patent Misuse Reform Act of 1988

The Supreme Court's decision finally made sense of the statutory additions made by the House and Senate in enacting the Patent Misuse Reform Act of 1988. Since 1988, a showing of market power has been required in the patent misuse context.<sup>222</sup> Since the presumption of market power originated in misuse, its elimination in misuse could infer its elimination in antitrust tying. This reasoning was accepted by the Court.<sup>223</sup> After *Independent Ink*, market power is also required to prove a per se tying violation in the antitrust context.<sup>224</sup> However, in order to accept this interpretation, the Court blinded itself to Congress's explicit rejection of a provision eliminating the presumption in the antitrust context.

While this decision makes antitrust jurisprudence logically consistent with the Patent Misuse Reform Act, it ignores the fact that the Intellectual Property Antitrust Protection Act (which was included by the Senate) was deleted in the House of Representatives.<sup>225</sup> The Pat-

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fact, the arguments apply with even more force since the patent misuse doctrine has been largely reduced to antitrust doctrine. Like patent misuse, patent law and the presumption of market power "should be seen as part of the larger fabric of patent law, designed to ensure the integrity of the claims but also prevent them from becoming too powerful." *Id.* at 797 n.5.

221. See discussion *infra* Part III.B.

222. 35 U.S.C. § 271(d)(5) (2000).

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

224. See *generally id.* However, there is debate as to whether the threshold market power is the same for patent misuse and antitrust tying, as compared with showings of market power in other antitrust violations. See Burchfiel, *supra* note 41, at 23–26.

225. Calkins, *supra* note 86, at 192–196. Calkins explained that Senate Bill 438 provided

first, that ownership of an intellectual property right—patent, copyright, or trademark—shall not create a presumption of market power under the antitrust laws; and, second, that a patent owner shall not be guilty of misuse or illegal extension of a patent unless such practices or actions violate the antitrust laws.

*Id.* at 193 (citing S. 438, 100th Cong. (1988)). Only the second part was passed by the House. *Id.* at 196–97.

ent Misuse Reform Act only changed patent misuse law, not antitrust law.<sup>226</sup> Relying on the inconsistency created by the Patent Misuse Reform Act to abandon the presumption, the Court ignored an important yet “absurd” (as the Court characterized it) compromise that the House demanded.<sup>227</sup> The Court reasoned that since Congress required a showing of market power in the patent misuse context, Congress also intended to abandon a well-settled presumption in the antitrust context.<sup>228</sup> This ignores the congressional compromise clearly illustrated by the House’s rejection of Senate Bill 438. Further, subsequent legislation similar to the Intellectual Property Antitrust Protection Act was rejected numerous times.<sup>229</sup> This shows Congress’s intent to preserve the presumption in antitrust.

Any absurdity, as referred to by the court, shows that Congress did not consider the competing interests at stake and the implications of its decision. Rather, Congress hastily responded to the strong lobby of the computer hardware and software industries.<sup>230</sup> While Congress’s action may have been absurd, when the competing interests are examined, the Court’s conclusion may be more absurd. This is because abandonment of the antitrust presumption of market power in patent tying arrangements is at odds with the underlying principles of patent policy and the incentive theory of patent law.<sup>231</sup>

### 3. The Supreme Court’s Basis for Abandoning the Presumption Rests on the Wrong Set of Tying Arrangement Cases

It is odd that the Supreme Court used standard tying analysis, in which there was no intellectual property right associated with the ty-

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226. 35 U.S.C. § 271(d)(4)–(5) (2000). See Feldman, *supra* note 15, at 423.

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

228. *Id.* at 1289–1291.

229. See H.R. 401, 105th Cong. (1997); H.R. 2674, 104th Cong. (1995); S. 298, 101st Cong. (1990); S. 270, 101st Cong. (1989); H.R. 469, 101st Cong. (1989). All proposed a similar form of the Intellectual Property Antitrust Protection Act.

230. See Burchfiel, *supra* note 41, at 21–22. Burchfiel explains Congress’ limited considerations of the repercussions of its decision:

One remarkable aspect of the legislative history is the anomaly that while Congress acted based on a professed concern to allow software owners to sell tying copyrighted programs with tied hardware, it amended the patent statute and made no corresponding change in the copyright act. Indeed, there was little if any consideration in Congress of the significant differences in the scope of protection offered by patents and copyrights, or of what a smoke signal from the pyre of patent misuse would communicate to the judiciary in copyright misuse or antitrust cases.

*Id.* at 22 (footnote omitted).

231. See *infra* Part III.B.

ing product, to eliminate a presumption that was created to combat the specific dangers of exploitation associated with tying arrangements involving such a right.<sup>232</sup> For example, the Court relied on the imposition of more stringent market power requirements in *Fortner II* and *Jefferson Parish*.<sup>233</sup> Specifically, the Court viewed these cases as a rejection of the “historical distrust of tying arrangements” and the assumption that tying arrangements only harm competition.<sup>234</sup> Neither case involved patent tying. Significantly, the *Jefferson Parish* and *Fortner II* courts both reaffirmed the market power presumption when the tying product is patented.<sup>235</sup>

Further, it is unclear why the “vestige of the Court’s historical distrust of tying arrangements” as a whole is relevant to whether there is justification for a rebuttable presumption of market power. The Court interpreted the cases to show an evolution towards a stricter market power requirement. This illustration does show a progression of the Supreme Court’s treatment of tying generally. However, any argument based on the evolution of tying arrangements generally must make careful inquiry into the concerns of patent law since the presumption arose from patent law’s policy of promoting innovation in one market without stifling other innovation.

At oral argument, Justice Scalia asked counsel for Illinois Tool Works whether it would be odd to treat patent tying differently than regular tying.<sup>236</sup> A separate analysis for patent tying cases would not be “odd,” as Justice Scalia’s almost rhetorical question suggests, and may in fact be necessary to prevent specific threats in tying arrangements where there is an intellectual property right associated with the tying product. The Court should have examined the “historical distrust” of tying arrangements involving patents and the harms on competition and innovation in the tied product market. Had this been done, the Court would have ultimately found that the justification for the distrust of patent tying is far from a vestige. While purporting to take a “fresh examination” of patent tying, the Court incorrectly relied on

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

233. See *id.*

234. See *id.* at 1288.

235. See *Jefferson Parish Hosp. v. Hyde*, 466 U.S. 2 (1984); *U.S. Steel Corp. v. Fortner Enters., Inc. (Fortner II)*, 429 U.S. 609, 619 (1977).

236. See Transcript of Oral Argument at 9–10, *Ill. Tool Works v. Indep. Ink*, 126 S. Ct. 1281 (2006) (No. 04-1329).

the trend in standard tying cases and neglected to examine the appropriate concerns specifically associated with patent tying.<sup>237</sup>

#### 4. Focusing on the Strength of the Presumption Would Better Address the Supreme Court's Concerns About Procompetitive Ties

At oral argument, Justice Breyer was concerned about the polarizing effects of the *Independent Ink* decision, and he seemed to consider only two options.<sup>238</sup> He was concerned, on the one hand, that large technology companies may be insulated from attack due to costs of expensive economic analysis.<sup>239</sup> On the other hand, Justice Breyer was also concerned that some technologies might not gain market acceptance without the use of a procompetitive discount tie.<sup>240</sup> However, the discussion focused on the polar extremes—employing a presumption versus not employing a presumption—and neither discussion addressed a middle ground, which could afford a potential solution. The strength of the presumption could address concerns voiced by both Justice Breyer and the other members of the court.

The presumption is referred to very loosely in the Federal Circuit decision<sup>241</sup> and academic commentary.<sup>242</sup> Further, it is unclear what was required to rebut the presumption when it existed. Professor Hovenkamp suggests the presumption shifted the burden of proof.<sup>243</sup>

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237. Part III.B makes the argument that courts should be wary of patent tying based on patent policy.

238. See Transcript of Oral Argument at 45, *Ill. Tool Works v. Indep. Ink*, 126 S. Ct. 1281 (2006) (No. 04-1329).

239. See *id.*

240. See *id.*

241. *Indep. Ink, Inc. v. Ill. Tool Works*, 396 F.3d 1342, 1352 (Fed. Cir. 2005). The Federal Circuit stated:

“[T]he mere presence of competing substitutes for the tying product . . . is insufficient to destroy the legal, and indeed the economic, distinctiveness of the [patented] product.” Rather, the definition of a market requires careful consideration of both the product and geographic markets. The presumption can only be rebutted by expert testimony or other credible economic evidence of the cross-elasticity of demand, the area of effective competition, or other evidence of lack of market power.

*Id.* (internal citations omitted).

242. Professor Hovenkamp seemed concerned that the presumption placed the burden of persuasion on the issue of market power when he states: “The Federal Circuit’s rule appears to measure market power in a patent tie case by reference to the usual criteria . . . but with the all important difference that the *burden of proof* is shifted from the plaintiff to the defendant.” 1 HOVENKAMP ET AL., *supra* note 13, § 4.2e9, at 4-45 (emphasis added).

243. *Id.*

However, according to the Federal Rules of Evidence, the presumption shifted the burden of producing evidence of lack of market power.<sup>244</sup> Therefore, Professor Hovenkamp's alarming characterization of the presumption as a shift in the burden of proof is largely unfounded.

Instead of deciding between two extremes, the Court could have addressed Justice Breyer's concerns by focusing on the evidentiary threshold that the patent holder-antitrust defendant must meet in order to overcome the presumption. The strength of the presumption would determine the benefits and consequences of maintaining the presumption. If properly constructed, the presumption of market power can balance competing interests and effectuate patent policy within an antitrust framework. Some commentators suggest that the burden of establishing market power is onerous in intellectual property cases because variable costs are very low and there are significant fixed and sunk costs associated with the development or acquisition of intellectual property.<sup>245</sup> Even so, proof problems do not justify abandoning the presumption. In fact, that argument cuts more in favor of retaining the presumption since the defendant will be in a much better position to show whether or not market power exists. Given the difficulties, shifting the burden slightly in the plaintiff's favor may be the only way to facilitate the removal of marginally anticompetitive ties.

Since traditional notions of variable, fixed, and sunk costs do not apply well to intellectual property, the Court should focus on a less economically-rigorous definition of market power. While Illinois Tool Works claimed that it was impossible to prove a negative,<sup>246</sup> proving lack of market power only requires showing the availability of reasonable substitutes. The Federal Circuit stated that "the mere presence of competing substitutes for the tying product . . . is insufficient to destroy" the presumption.<sup>247</sup> But perhaps evidence of competitors plus something more would be enough, such as high acceptance rate of the tie without a corresponding benefit to the buyers. For example, if the tie is in fact procompetitive, the defendant should be able to rebut the presumption by showing that there were competitors in the tying market and that the buyers accepted the tying arrangement because a

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244. See FED. R. EVID. 301.

245. See 1 HOVENKAMP ET AL., *supra* note 13, § 4.2e9, at 4-45, 4-46.

246. See Brief for Petitioners at 32, *Ill. Tool Works v. Indep. Ink*, 126 S. Ct. 1281 (2006) (No. 04-1329).

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

discount was given on the tying product as a method for spreading the risk of a developing technology.<sup>248</sup>

In conclusion, Justice Breyer's concern—that technology companies may be insulated due to a cost-prohibitive economic analysis—was overlooked. Instead of focusing narrowly on the strength of the presumption and reconciling competing interests, the Court made a choice between two polar extremes—presumption or no presumption.

## **B. Inked Out: Policies the Court Neglected to Examine**

Since the enactment of the Sherman Act, the patent-antitrust intersection has been a source of constant debate.<sup>249</sup> The consensus is that recent trends favor strengthening the patent grant and limiting the applicability of antitrust. As patents have gained strength, important constraints on the grant have been left behind. Without recognizing these constraints, patents may stifle innovation if societal costs become greater than societal benefits.<sup>250</sup> The Court in *Independent Ink*, while striving for consistency within antitrust doctrine, overlooked countervailing policies and failed to analyze assumptions regarding the consequences of its holding.

### **1. Abandoning the Presumption Blindly Replaces Patent Policy with Antitrust Policy**

The *Independent Ink* decision chips away at the policies of patent law and favors a purely economic-driven theory based solely on antitrust principles. Antitrust law's concern with tying arrangements is rooted in the patent misuse doctrine.<sup>251</sup> Originally, patent misuse was directed to both anticompetitive effects and extensions of the patent grant.<sup>252</sup> Over time, patent misuse has borrowed from the antitrust doctrine to the point where the two doctrines largely overlap.<sup>253</sup>

The question becomes: what happened to patent law's concern over the extension of the patent grant? Professor Feldman argues that this harm justifies the continued existence of the patent misuse doc-

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248. For a discussion of the procompetitive justification of tying used to spread risk and gain market acceptance, see 1 HOVENKAMP ET AL., *supra* note 13, § 21.2f, at 21-16 through 21-17.

249. See generally Kaplow, *supra* note 12.

250. See *id.*

251. See Burchfiel, *supra* note 41, at 31-41.

252. See Feldman, *supra* note 15, at 402-03.

253. See 1 HOVENKAMP ET AL., *supra* note 13, § 3.2c (“[P]atent misuse doctrine is largely coexistent with antitrust doctrine.”).

trine.<sup>254</sup> However, the patent misuse doctrine currently has no bite beyond what antitrust laws already provide. There are clear costs associated with the patent system to which antitrust law is not sensitive.<sup>255</sup> The rebuttable presumption of market power is an effective tool to corral the societal costs of patent grants—both systemic costs and marginally anticompetitive costs which would otherwise escape detection.

The critics of the presumption characterize it as a “litigation tax” that patent holders incur by virtue of owning patents.<sup>256</sup> This argument appears misdirected since there are many costs associated with litigation that both sides incur. The argument cuts both ways—why should consumers, who are forced to accept a tying arrangement, have to pay a “litigation tax” in order to serve the public good and remove the restraint of trade?

This litigation tax argument also overlooks the requirement that only patent holders who use tying to exact their reward will be subject to the “tax.” Maintaining the presumption of market power serves mostly as notice to patent holders that society is suspicious of using a government-granted right in a manner to exclude rivals from secondary markets. It does not follow from a rebuttable presumption of market power that all patent tying arrangements are harmful to competition and innovation. Ties are harmful when they force the consumer “to do something that he would not do in a competitive market.”<sup>257</sup> Accordingly, if tying is imposed, the seller must be prepared to show why it was procompetitive and good for consumers.

In any case, critics argue the presumption is “effectively a penalty” and will “disincentivize” innovators from innovating.<sup>258</sup> This view of the incentive theory makes a fatal assumption. Such an assumption “represents a highly unlikely and unorthodox view of the incentives created by the patent system and implies counterfactually that most patent owners engage in tying conduct.”<sup>259</sup> Nothing suggests that all or most inventors rely on the ability to exact returns from a tied market when deciding to innovate. In its purest form, nothing in the in-

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254. See Feldman, *supra* note 15, at 423.

255. See *id.*

256. See Transcript of Oral Argument at 29, *Ill. Tool Works v. Indep. Ink*, 126 S. Ct. 1281 (2006) (No. 04-1329).

257. *Eastman Kodak Co. v. Image Tech. Servs.*, 504 U.S. 451, 464 (1992) (citing *Jefferson Parish Hosp. v. Hyde*, 466 U.S. 2, 14 (1984)).

258. Brief of Amicus Curiae of the Intellectual Property Law Association of Chicago in Support of Petitioner at 11, *Ill. Tool Works v. Indep. Ink*, 126 S. Ct. 1281 (2006) (No. 04-1329).

259. Brief of Amici Curiae American Antitrust Institute et al. in Support of Respondent at 25, *Ill. Tool Works v. Indep. Ink*, 126 S. Ct. 1281 (2006) (No. 04-1329).

centive theory justification for patent law contemplates allowing inventors to exploit the grants from a patent in a wholly separate, tied market. However, it seems consistent with patent policy to allow the practice if tying is the only way to incentivize innovation in the tying product market. By the same token, patent policies would be offended if a tying arrangement—enforced with the power granted from a patent—harms innovation in another market. It seems unlikely that putting a small speed bump in front of patent holders will have a significant effect on the incentives of inventors. The rebuttable presumption serves to strike a balance, providing the appropriate incentive to innovate and protecting innovation in secondary markets.

## **2. Leverage or Not, Societal Harm Depends on the Manner in Which the Government-Granted Right to Exclude Is Exploited**

The debate over whether leverage is possible has been waged for years.<sup>260</sup> If, as the Chicago School asserts, the monopolist has but one monopoly profit to extract, and since the monopolist can extract from one or more markets through a tying arrangement, the patent and antitrust laws should favor extraction from one market. Professor Kaplow analogizes use of market power to use of a stick of dynamite.<sup>261</sup> If a terrorist has one stick of dynamite, it matters greatly where and how that dynamite is used.<sup>262</sup> That is, harm to societal welfare is affected depending on how market power is exploited.<sup>263</sup> How the power conferred by a patent is employed and in what market it is used is of even greater concern than use of market power generally. A patent is granted for an invention to incentivize people to make inventions, but the grant is not without costs. The patent right granted by the government is artificial, and it represents the tradeoff whereby the societal benefits must be sufficient to compensate for the societal loss. When the tying arrangement involves a patented tying product rather than a standard tying product, the systemic costs associated with the patent grant are imposed on secondary markets. Therefore, it is bene-

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260. This Note does not attempt to point out general criticisms of price theory and the assumptions that the Chicago School's antitrust analysis rests on. For a summary and general outline of the Chicago School underpinnings, see Richard A. Posner, *The Chicago School of Antitrust Analysis*, 127 U. PA. L. REV. 925 (1979). For a response to the Chicago School's reliance on price theory to explain why leverage cannot occur, see Louis Kaplow, *Extensions of Monopoly Power Through Leverage*, 85 COLUM. L. REV. 515 (1985).

261. See Kaplow, *supra* note 12, at 516.

262. See *id.*

263. See *id.*

ficial to at least attempt to corral the patent right to the market for which it was granted.

The law should be cautious of ties that may cause a patent in the tying product market to trump another's innovation in the tied product market. The rebuttable presumption of market power embodies this concern. By minimally disfavoring patent tying arrangements, the presumption keeps the societal costs associated with the patent restricted to the market for which the patent was granted when possible. It is worth noting that the presumption only favors extraction of patent rewards from the tying market and does not preclude procompetitive ties.

The problem with the Chicago School attack<sup>264</sup> on leveraging the patent grant is that the focus is solely on price, to the exclusion of other factors that affect innovation and competition.<sup>265</sup> There is a developing body of economic work that uses dynamic, long-run models and suggests that tying can foreclose innovation in the tied market.<sup>266</sup> As a result, the only thing commentators can say for certain is that the dynamic effects of leverage and tying are unknown. Due to the lack of evidence of the dynamic effect on innovation and market structure, patent policy should favor competition and innovation in the tied product market. In short, direct exploitation of this artificial grant imposes lower costs than indirect exploitation.<sup>267</sup>

Critics argue that there are many procompetitive justifications for tying.<sup>268</sup> This Note does not attempt to endorse or refute these justifications. It argues only that, when a patent holder engages in tying, he or she should be certain that the tying arrangement is in fact procompetitive and beneficial to consumers. For example, a tying arrange-

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264. The Chicago School's price theory attack assumes that the monopolist has one monopoly profit to extract and can do so in one or more markets but cannot extract more than one monopoly profit. See Posner, *supra* note 260, at 926.

265. See Kaplow, *supra* note 12, at 527-31. The Chicago School does not look at the long-run effects on competition, entry barriers, strategic positioning, and other changes in firms' costs. *Id.* at 530.

266. See generally Dennis W. Carlton & Michael Waldman, *The Strategic Use of Tying to Preserve and Create Market Power in Evolving Industries*, 33 RAND J. ECON. 194 (2002); Jay Pil Choi & Christodoulos Stefanadis, *Tying, Investment, and the Dynamic Leverage Theory*, 32 RAND J. ECON. 52 (2001); Michael D. Whinston, *Tying, Foreclosure, and Exclusion*, 80 AM. ECON. REV. 837 (1990); Barry Nalebuff, *Bundling as an Entry Barrier*, 119 Q. J. ECON. 159 (2004).

These models and the assumptions they rely on are beyond the scope of this Note and do not necessarily apply directly to the facts of *Independent Ink*. The important point these "Post-Chicago" economists make is that dynamic models show the effects of tying and possible harm to competition and innovation in the tied product market.

267. See Kaplow, *supra* note 12.

268. See, e.g., 1 HOVENKAMP ET AL., *supra* note 13, § 21.2f, at 21-16, 21-17.

ment might be procompetitive if the tying product is a new technology, sold at a reduced price to break into the market, and the price reduction is recouped in sales of the tied product. In that case, there is possible upside, such as availability of new technology to consumers, to balance the unknown effects of tying arrangements in a dynamic market. Presumably, the patent holder would be able to show that the tying arrangement was procompetitive or that it lacked market power.

Justice White's reaction in his *A.B. Dick* dissent correctly articulated concerns about patent tying.<sup>269</sup> Given the strong lobby power of intellectual property owners who wish to strengthen their rights on all fronts, the courts should be concerned that the patent grant may be too strong.<sup>270</sup> With unknown long-run effects, patent tying might stifle innovation and competition on the merits in another market. The presumption mitigates this concern and alleviates the collective action problem faced by consumers and independent manufacturers in secondary markets. Before *Independent Ink*, the law at least was concerned about harm resulting from using a patent right in a secondary market even when market power is not proven by the plaintiff. In absence of the presumption, these concerns are overlooked.

#### IV. Conclusion: Patent Tying After *Independent Ink*

On a micro level, the practical consequences for antitrust plaintiffs will be minimal, though at the margins, the lack of a market power presumption will significantly exacerbate the public good problem. Even with a market power presumption, most plaintiffs went to trial armed with market power evidence anticipating that the defendant would attempt to rebut the presumption.<sup>271</sup> In short, no antitrust

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269. See *supra* Part II.D.

270. See Burchfiel, *supra* note 41, at 21–22. Burchfiel explains how the strong computer industry lobby successfully lobbied Congress for an exemption from patent misuse:

The patent misuse tying amendment proceeded neither directly from concern related to patent misuse, nor from ties of patents to staples. Instead, it was engendered by the desire of computer manufacturers to tie sales of computer hardware to copyrighted operating system software. Statutory immunity was sought primarily due to the fears of antitrust liability on the part of computer manufacturers employing such tying arrangements.

*Id.*

271. Professor Eugene Crew, Lecture in Antitrust and Intellectual Property at the University of San Francisco School of Law (Feb. 2, 2006).

plaintiff<sup>272</sup> would bring a tying claim without being prepared to show evidence of market power.

Further, *Eastman Kodak* makes it clear that exercise of market power is sufficient evidence that the defendant actually had market power.<sup>273</sup> Market power may be shown by direct evidence such as increased price or restricted output.<sup>274</sup> *Eastman Kodak* stated: "It is clearly reasonable to infer [that the defendant has] market power to raise prices . . . [by presenting] direct evidence that [the defendant] did so."<sup>275</sup> For most harmful ties, where the plaintiff does not want the tied product on the terms offered, the plaintiff will be able to show market power based on the successful exercise of market power as articulated in *Eastman Kodak*.

On a macro level, abandoning the market power presumption represents the larger trend of equating patent and antitrust policies in a one-to-one fashion. This abandonment also illustrates the trend of overlooking the internal constraints of patent law, such as the patent misuse doctrine. On the one hand, equating patent misuse and antitrust doctrines is desirable for consistency since misuse is criticized as being too uncertain. On the other hand, antitrust law is by no means certain, but it is an extensively-developed doctrine. Clearly, there are some policies of patent law that antitrust law does not capture. A presumption of market power in scenarios where the patent in question is likely to be highly valuable is an effective proxy for the internal constraints of patent law. If there is a procompetitive reason for the tie, then the defendant simply must come forward with evidence disproving market power. This is an efficient procedure to structure proof in a fair and organized fashion.

After *Independent Ink*, patent holders have the green light for tying arrangements to the extent that they are effectively insulated from attack by the difficulties and costs plaintiffs face without the presumption.<sup>276</sup> Elimination of the presumption creates one more hurdle that consumers and small independent manufacturers in secondary markets will have to jump over before the restraints on trade and innovation can be remedied. Further, in light of the well-organized lobby for intellectual property owners and the disaggregated consumers and in-

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272. This precise issue only appears in rare instances, such as in *Independent Ink*, where there was complete reliance on the presumption. This is because, even before *Independent Ink*, most antitrust plaintiffs were prepared to offer at least some evidence of market power.

273. See *Eastman Kodak Co. v. Image Tech. Servs.*, 504 U.S. 451, 481 (1992).

274. See *id.*

275. *Id.* at 477.

276. See McLaughlin, *supra* note 104.

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dependent manufacturers, it is unlikely that Congress will curb the increasing rewards granted with patents. The shift to pure economic considerations, void of patent policy considerations, shows the Court is headed in the same direction.