

LEGAL DEVELOPMENTS

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SUPREME COURT ABANDONS PRESUMPTION OF MARKET POWER IN PATENT-TYING CASES

On March 1, in *Illinois Tool Works, Inc. v. Independent Ink, Inc.*, No. 04-1329, the Supreme Court finally abandoned the longstanding rule that where a patent holder ties the sale of an unpatented product to the sale of a patented product, the market power of the patent holder in the market for the patented tying product – an essential element of a tying claim – is presumed, merely because that product is patented.

Although the case was closely watched in the antitrust and intellectual property communities, its outcome was by no means a surprise. While the rule dated back more than a half-century, in more recent years the rule had been criticized by leading academics, lower federal courts, and also abandoned by the Federal Trade Commission and the Department of Justice in their *Intellectual Property Guidelines*. Importantly, in the patent misuse context, Congress abandoned the presumption in the Patent Misuse Reform Act of 1988, which provides that a defendant in a patent infringement action must prove market power in the patented tying product market in order to invoke the affirmative defense of patent misuse. That legislative move, although not expressly applicable to antitrust claims, proved central to the Court's decision to rule as it did.

The dispute at issue concerned a requirement imposed by a manufacturer of patented printheads and ink cartridges that buyers also purchase the manufacturer's unpatented ink for use with those

patented machines. A rival ink producer sued the patent holder on the grounds that the requirement was an illegal tying arrangement in violation of the antitrust laws.

In general, to prove an illegal tying arrangement, a plaintiff must show that: (1) two separate products or services are involved; (2) the sale or agreement to sell one product or service is conditioned on the purchase of another; (3) the seller has sufficient economic power in the market for the tying product to enable it to restrain trade in the market for the tied product; and (4) a not insubstantial amount of interstate commerce in the tied product is affected. In most cases, the third element – market power in the tying product – is proven by defining a relevant product and geographic market and assessing the defendant's share of that market and other relevant factors such as barriers to entry.

However, in *Independent Ink*, the plaintiff did not seek to prove defendant's market power by resort to such economic evidence. Rather, plaintiff relied upon a legal presumption that a patent holder has market power – a presumption created by the Supreme Court over the years in a number of prior cases. While this case was initially dismissed by the trial court, which did not observe that longstanding presumption, the Federal Circuit reversed the dismissal since, while expressing doubt as to the continuing viability of the presumption on the merits, it considered itself bound to follow the

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older Supreme Court precedent in the absence of an express statement to the contrary by the Supreme Court.

In a unanimous 8-0 opinion (Justice Alito did not participate), the Supreme Court provided that express statement. Framing the question presented as “whether the presumption of market power in a patented product should survive as a matter of antitrust law despite its demise in patent law,” the Court unequivocally answered that “the mere fact that a tying product is patented does not support such a presumption.” Recounting the legislative and judicial history of the presumption, the Court observed that the antitrust rule against tying arose and migrated from the doctrine of patent misuse, an affirmative defense to a claim of patent infringement. That defense holds that where a patent infringement defendant can prove that the plaintiff-patentee engaged in tying, a patent court will not enforce that patent under equitable principles. Historically, to make out such a misuse defense (like the analogous antitrust claim) no affirmative showing of market power needed to be made. Rather, the requisite power was presumed due to the existence of the patent. However, in 1988, Congress amended the Patent Act to require that a successful patent misuse defense include a demonstration of such market power and thus eliminated the presumption in the patent context. Thus, “[a]fter considering the congressional judgment reflected in the 1988 amendment,” the Court “conclude[d] that tying arrangements involving patented products should be evaluated under the standards applied” in all tying cases and “must be supported by proof of power in the relevant market rather than by a mere presumption thereof.”

The Court reached its holding despite a possibly deliberate choice by Congress to enact legislation abolishing the presumption in the patent context while simultaneously declining to do so in the antitrust arena. The legislative history of the Patent Misuse Reform Act reveals that a prior Senate bill would have abolished the presumption in both the antitrust and patent misuse contexts, whereas the final Act did not include any language regarding antitrust.

The Court did not mention this legislative history but did buttress its holding by reference not

only to its interpretation of the “judgment” of Congress, but also to the fact that that “the antitrust enforcement agencies, and most economists have all reached the conclusion that a patent does not necessarily confer market power upon the patentee.”

Fortunately for the plaintiff, the Court did not simply dismiss the case but, instead, given that the plaintiff “reasonably relied on [the Court’s] prior opinions in moving for summary judgment without offering evidence defining the relevant market or proving that petitioners possess power within it,” ordered that the plaintiff “be given a fair opportunity to develop and introduce evidence on that issue, as well as any other issues that are relevant to its remaining §1 claims.”

Although the demise of the presumption was widely anticipated and had been rejected by the enforcement agencies, the case has significance in that it has authoritatively removed an antitrust rule that lower courts felt compelled to apply. In that regard, the case continues a more than decade long trend in which the Supreme Court has consistently and unflinchingly ruled in favor of antitrust defendants in a variety of substantive and procedural contexts.

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