



Patents And Tying: Why The Supreme Court Is Getting Involved

Law360, New York (June 22, 2005, 12:00 AM ET) -- On January 25, 2005, a three-judge panel of the Court of Appeals for the Federal Circuit decided that "a rebuttable presumption of market power arises from the possession of a patent over a tying product" in the context of a Sherman Act section 1 antitrust violation based on tying of a patented product to an unpatented product. *Independent Ink, Inc., v. Illinois Tool Works, Inc., and Trident, Inc.*, 396 F.3d 1342, 1344 (Fed. Cir. 2005). On June 20, 2005, the Supreme Court agreed to review the Federal Circuit's decision. The Court's decision can be expected during its October 2005 term.

Background

Trident is a subsidiary of Illinois Tool Works (ITW) and owns U.S. Patent No. 5,343,226, which claims an ink jet device and an ink-supply system. Trident makes the patented device and unpatented ink that can be used in the device, and sells the device and ink to printer manufacturers. Trident's standard form-licensing agreement permits the printer manufacturers to use the patented device and system, but requires the printer manufacturers to purchase ink for the patented device and system exclusively from Trident. Thus, Trident explicitly ties the unpatented ink to the sale of its patented device and system. Independent Ink makes inks that can be used in Trident's patented device and system. Independent Ink sued ITW and Trident for a declaratory judgment that Trident's patent is invalid and not infringed, and that ITW's and Trident's acts constitute illegal tying and monopolization in contravention of sections 1 and 2 of the Sherman Act (15 USC §§ 1 and 2)

Dispositions by the District Court and the Federal Circuit

In the district court, Independent Ink submitted no evidence establishing Trident's power within a relevant market. The court granted ITW's and Trident's motions for summary judgment holding that for patent tying to constitute a violation of the antitrust laws, the antitrust-plaintiff must affirmatively prove market power and, here, Independent Ink provided no evidence of market power. *Independent Ink, Inc., v. Illinois Tool Works, Inc., and Trident, Inc.*, 210 F. Supp.2d 1155, 1162 (C.D. Cal. 2002). The district court dismissed Supreme Court precedent* contrary to its grant as "vintage," and dismissed as dictum the Court's majority opinion in *Jefferson Parish Hosp. Distr. No. 2 v. Hyde*, 466 U.S. 2, 16 (1984), which stated that the patentee's "sale or lease of a patented product on condition that the buyer make all of its purchases of a separate tied product from the patentee is unlawful." The court dismissed Independent Ink's claims for declaratory judgment of invalidity and non-infringement.

On appeal, the Federal Circuit acknowledged that it was duty-bound to apply the precedents of the Supreme Court until the Court overrules those precedents:

The fundamental error in all of [ITW's and Trident's] 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. ... Even where a Supreme Court precedent contains many "infirmities" and rests upon "wobbly, moth-eaten foundations," it remains the "Court's prerogative alone to overrule one of its precedents."

Independent Ink, 396 F.3d at 1351 (citation omitted). The Federal Circuit concluded that the Supreme Court has held that there is a presumption of market power in patent tying cases and, therefore, it must follow those holdings. The Federal Circuit interpreted the Court's dicta to conclude that a patent presumptively defines the relevant market as the nationwide market for the patented product itself, and creates a rebuttable presumption of power within the market. Once the antitrust-plaintiff establishes a patent-tying agreement, it is the patent owner's burden to rebut the presumption of market power and consequent illegality that arises from patent tying. Moreover, the Federal Circuit stated 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.* at 1352 (emphasis added).

According to the Federal Circuit, the district court erred in dismissing such precedent, and the record on appeal does not demonstrate ITW and Trident rebutted the presumption of market power. Therefore, the Federal Circuit reversed the district court's grant of summary judgment on the section 1 Sherman Act claim and remanded to provide ITW and Trident an opportunity to supplement the summary judgment record with evidence that may rebut the presumption.

Why is Supreme Court Review Necessary?

According to the American Intellectual Property Law Association (AIPLA), the American Bar Association (ABA), and the Intellectual Property Owners Association (IPO), virtually all patents cover improvements to existing products representing only modest advances; patents rarely claim pioneering inventions opening entirely new markets; and, patents only rarely afford its owner or licensor any appreciable market power in a relevant product market in the antitrust context. Based on these "actual market realities," the associations recommend the Court reject the rebuttable presumption set forth in the Federal Circuit's decision and the decisions by the Court in *International Salt and Loew's*.

If the Court does not reject the rebuttable presumption, the AIPLA predicts the presumption will encourage accused infringers to routinely file patent-tying antitrust claims. Because antitrust liability is typically accompanied by treble damages, the Federal Circuit's decision may dissuade patent owners from enforcing patents and possibly dissuade inventors from publicly disclosing their inventions via patents in the first place. Furthermore, the AIPLA states the rebuttable presumption will unfairly "handicap" the patent owner, who now bears the bulk of expenses incurred by the parties litigating the antitrust claim, because patent owner will bear a high burden of rebutting the market-power presumption in the limited manner identified by the Federal Circuit just to survive summary judgment. Still further, the AIPLA states the rebuttable presumption with respect to a Sherman Act section 1 claim is inconsistent with the lack of such a presumption in Sherman Act section 2 and patent misuse claims, which claims are often all tried together. The ABA and IPO also suggest, contrary to the Federal Circuit's opinion, that the Court's prior decisions in *International Salt and Loew's* should not control the Federal Circuit's decision below; but, if they are controlling, then they should now be overruled by the Court.

**See e.g., International Salt Co. v. United States, 332 U.S. 392 (1947) (leasing patented machines on the condition that the lessee purchase unpatented salt consumed in the machines from the lessor is illegal patent tying under section 1 of the Sherman Act); see also United States v. Loew's, Inc., 371 U.S. 38 (1962) (presuming market power when the tying product is patented or copyrighted).*

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