THE JOHN MARSHALL
REVIEW OF INTELLECTUAL PROPERTY LAW

PATENT TYING AGREEMENTS: PRESUMPTIVELY ILLEGAL?

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ABSTRACT

On January 25, 2005, the CAFC decided the case of *Independent Ink, Inc. v. Illinois Tool Works, Inc.*, holding that market power will be presumed in a tying agreement whenever a tying product is patented. This rule puts patent holders at a disadvantage, and will increase the amount of antitrust lawsuits brought against patent holders and holders of other exclusive intellectual property rights. Indeed, this rule conflicts with the intended effect of antitrust law. This comment proposes that tying agreements involving a patented product be evaluated the same way as all other tying agreements, and that the presumption of market power, a dispositive factor in antitrust cases, for patented products be eliminated.

Cite as Alison K. Hayden, Comment, *Patent Tying Agreements: Presumptively Illegal?*, 5 J. MARSHALL REV. INTELL. PROP. L. 94 (2005).

PATENT TYING AGREEMENTS: PRESUMPTIVELY ILLEGAL?

ALISON K. HAYDEN*

"Presumptions may be looked on as the bats of the law, flitting in the twilight but disappearing in the sunshine of actual facts."[1]

INTRODUCTION

The purpose of antitrust law[2] is to protect the business economy from the negative effects of unreasonable restraint of trade, monopolies, price-fixing, and price discrimination. Antitrust law was established to encourage the competitive process.[3] The history of antitrust litigation proves, however, that this protection actually puts restraints on the competitive process and makes economic activity less efficient.[4] In

* Juris Doctor Candidate, January 2007, The John Marshall Law School. Bachelor of Engineering in Civil Engineering, Vanderbilt University, May 1999. Thank you to my parents, for their love, support and encouragement always; Dan Lechleiter, for suggesting this topic and his crash course in Antitrust Law; Professor McGrath, for help with brainstorming and providing additional sources; Timir Chheda and Kevin Kelly, for painstakingly poring over every word to help ensure success; and the entire staff of The John Marshall Review of Intellectual Property Law.

1 Mockowik v. Kan. City, 94 S.W. 256, 262 (Mo. 1906).

2 15 U.S.C. § 1 (2000). (commonly known as The Sherman Act) "Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is hereby declared to be illegal." *Id.* § 2. "Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a felony. . . ." 15 U.S.C. § 14 (2000) (commonly known as The Clayton Act).

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

Id.

3 BLACK'S LAW DICTIONARY 92 (7th ed. 1999); N. Pac. Ry. Co. v. United States, 356 U.S. 1, 517.

> The Sherman Act was designed to be a comprehensive charter of economic liberty aimed at preserving free and unfettered competition as the rule of trade. It rests on the premise that the unrestrained interaction of competitive forces will yield the best allocation of our economic resources, the lowest prices, the highest quality and greatest material progress, while at the same time providing an environment conducive to the preservation of our democratic political and social institutions. But even were that premise open to question, the policy unequivocally laid down by the Act is competition.

Id.

4 D. T. Armentano, *The Immorality of Antitrust Law*, THE FREEMAN: IDEAS ON LIBERTY, (Aug., 1999), *available at* http://www.fee.org/vnews.php?nid=4394 (aggressively attacking antitrust law enforcement and arguing that antitrust law also goes against "commonsense notions of liberty and justice" because it interferes with the free market and consensual business arrangements and that

the area of patent law especially, the restraints imposed by antitrust law are pronounced. In addition to restraining competitive processes, antitrust law may work to restrain the creative processes that patent law seeks to promote.[5]

An example will illustrate the effect of the intersection between these competing policies. Sports Fan invents a novel, non-obvious, and useful idea for which he obtains a patent.[6] His invention consists of an apparatus used to affix sunglasses to a baseball hat.[7] In an effort to make a profit, he seeks to market his invention and share it with others. He creates a license agreement conditioning the use of his patented apparatus on the purchase of a baseball hat. The license agreement may be between either Sports Fan and an end user or Sports Fan and a "middle man" seeking to manufacture and market the apparatus himself, which is typical of many patent licensing agreements. Although the end user or "middle man" must agree to purchase a single baseball hat from Sports Fan, they remain free to purchase additional hats elsewhere.

This type of licensing agreement is known as a "tying" agreement.[8] Tying is an antitrust term used to describe the sale of one product (the "tying" product) conditioned on the sale of a second product (the "tied" product).[9] Sports Fan's patented apparatus is the tying product, while the hats for use with the apparatus are the tied product.[10]

Tying agreements are prohibited by antitrust law only when the defendant possesses a sufficient amount of market power in the tying product market.[11] As

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inconsistent case law prevents businesses from knowing which practices are illegal and which are not).

[5] 7 DONALD S. CHISUM, CHISUM ON PATENTS § 19.04(2) (2000) ("Advancement of the useful arts is the end, and grant of a limited monopoly the means of the patent laws."); *see also* William E. Kovacic & Andreas P. Reindl, *An Interdisciplinary Approach to Improving Competition Policy and Intellectual Property Policy*, 28 FORDHAM INT'L L.J. 1062, 1065 ("Unwise antitrust rules can diminish incentives to create certain forms of property and the capacity to use such property efficiently."); SCM Corp. v. Xerox Corp., 645 F.2d 1195, 1204 (2d Cir. 1981) (stating that whether or not Xerox's activities constituted a violation of antitrust law, "monetary damage liability could not be imposed upon Xerox without seriously undermining the patent system").

[6] *See* U.S. PAT. & TRADEMARK OFFICE, U.S. DEP'T OF COMMERCE, MANUAL OF PATENT EXAMINING PROCEDURE § 1504 (8th ed. Aug. 2001) ("In design patent applications, ornamentality, novelty and unobviousness are necessary prerequisites to the grant of a patent.").

[7] *See* U.S. Patent No. 6,792,619 B1 (filed Mar. 25, 2003) ("Eyeglasses and pencil retaining assembly").

[8] *See* Int'l Salt Co. v. United States, 332 U.S. 392, 394–95 (1947) (explaining the conditional tying clause in a contract which required the lessees to purchase all unpatented salt and salt tablets consumed in the leased (patented) machines as a restrictive licensing agreement).

[9] Christopher R. Leslie, *Unilaterally Imposed Tying Arrangements and Antitrust's Concerted Action Requirement*, 60 OHIO ST. L.J. 1773, 1773 (1999) ("A tying arrangement exists when a seller refuses to sell one product, 'the tying product,' unless the buyer also purchases a second product, 'the tied product.'"); *see also* RICHARD A. POSNER, ANTITRUST LAW 197 (2001) (describing the tying agreement as a practice that was once considered exclusionary, but now is recognized as exclusionary only rarely).

[10] Not all tying agreements involve a patented product. This comment proposes that tying agreements involving a tying product covered by a patent should be analyzed the same way as all other tying agreements.

[11] William M. Landes & Richard A. Posner, *Market Power in Antitrust Cases*, 94 HARV. L. REV. 937, 937–38 (1981).

> The term "market power" refers to the ability of a firm (or a group of firms, acting jointly) to raise price above the competitive level without losing so many

defined by the United States Department of Justice, market power is "the ability to profitably maintain prices above, or output below, competitive levels for a significant period of time."[12] When a patented product is involved, the United States Supreme Court ("Court") has noted in dicta that courts might presume market power simply by existence of the patent on the tying product.[13] However, the Court has not addressed the specific issue of whether tying agreements are presumptively illegal when a patent is involved since *International Salt v. United States* in 1947.[14]

On January 25, 2005, the United States Court of Appeals for the Federal Circuit ("CAFC") decided the case of *Independent Ink, Inc. v. Illinois Tool Works, Inc.*[15] Independent Ink, Inc. ("Independent Ink") alleged that Trident, Inc. ("Trident") (a subsidiary of Illinois Tool Works, Inc.) engaged in illegal tying by conditioning the lease of Trident's patented inkjet technology on the additional sale of Trident ink

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> sales so rapidly that the price increase is unprofitable and must be rescinded. Market power is a key concept in antitrust law
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> The standard method of proving market power in antitrust cases involves first defining a relevant market in which to compute the defendant's market share, next computing that share, and then deciding whether it is large enough to support an inference of the required degree of market power. Other evidence – for example, of the defendant's profits, or of the ability of new firms to enter the market, or of price discrimination – may be presented to reinforce or refute the inference from market shares.

Id.

[12] U.S. DEP'T OF JUSTICE AND FED. TRADE COMM'N, ANTITRUST GUIDELINES FOR THE LICENSING OF INTELLECTUAL PROPERTY § 2.2 (1995), *available at* http://www.usdoj.gov/atr/public/guidelines/0558.htm.

> Market power can be exercised in other economic dimensions, such as quality, service, and the development of new or improved goods and processes. It is assumed in this definition that all competitive dimensions are held constant except the ones in which market power is being exercised; that a seller is able to charge higher prices for a higher-quality product does not alone indicate market power. The definition in the text is stated in terms of a seller with market power. A buyer could also exercise market power (e.g., by maintaining the price below the competitive level, thereby depressing output).

Id. at n.10.

[13] United States v. Loew's Inc., 371 U.S. 38, 45 (1962) (stating that the "requisite economic power is presumed when the tying product is patented or copyrighted" although the case did not involve any patent); Jefferson Parish Hosp. Dist. No. 2 v. Hyde, 466 U.S. 2, 16 (1984) (stating that if the seller holds a patent over a product, it can be presumed that the seller has market power due to purchaser's lack of ability to buy the product from someone else, although this case involved only the services of anesthesiologists and not a patented product).

[14] Int'l Salt Co. v. United States, 332 U.S. 392, 395–97 (1947) (holding that International Salt was engaged in an illegal restraint of trade by conditioning the lease of its patented machines on the purchase of its salt).

[15] Indep. Ink, Inc. v. Ill. Tool Works, Inc., 396 F.3d 1342, 1344 (Fed. Cir. 2005), *cert. granted,* 73 U.S.L.W. 3733 (U.S. June 20, 2005) (No. 04-1329) [hereinafter *Indep. Ink II*]. Defendant Trident, a wholly owned subsidiary of Illinois Tool Works, uses its patented ink jet technology to manufacture print heads. *Id.* Trident licenses this technology to other printer manufacturers. *Id.* In addition, Trident sells ink for use with its patented technology. *Id.* at 1345. Independent Ink also produces ink that can be used in Trident's print heads. *Id.*

products.[16] The district court found that Independent Ink could not prevail on either of its two antitrust claims.[17]

On appeal, the CAFC considered whether a plaintiff bringing an antitrust claim has the burden of proving that a defendant's patent confers market power in the tying product market.[18] The CAFC concluded that a patent "presumptively defines the relevant market for the patented product itself, and creates a presumption of power within this market. Once the plaintiff establishes a patent tying agreement, it is the defendant's burden to rebut the presumption of market power and consequent illegality that arises from patent tying."[19] This conclusion was based on an analysis of prior Supreme Court opinions in this area. However, the CAFC conceded the absence of any Supreme Court case directly on point, and stated that it was "obliged to follow" the "clearly articulated dicta."[20]

This comment addresses the implications of this holding. Section I discusses the history of patent tying case law, antitrust law in general, and the dicta from which the CAFC chose to create this rule. Section II analyzes the two types of tests applied to tying agreements. Section III addresses how this holding will increase the amount of antitrust claims brought against patentees because of the "presumption of market power" applied to a patentee. Section III also proposes that the antitrust inquiry into patent tying agreements should be no different from the inquiry for general (non-patent) tying agreements. Section IV concludes with a summary of significant points.

I. TYING LAW BACKGROUND

Part A of this section begins with a discussion of tying agreements in general and the cases which have been relied on to develop rules with respect to these agreements. Part B discusses the history of tying agreements with respect to patents, including a discussion of the earliest cases which addressed patent tying agreements and the changes in the Court's treatment of the subject over the years.

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[16] *Id.* at 1345. Independent Ink initially filed suit seeking a declaratory judgment of non-infringement and invalidity against Trident's patents. *Id.* It subsequently amended its complaint to allege that Trident was engaged in illegal tying and monopolization in violation of the Sherman Act. *Id.* The district court granted summary judgment in favor of Trident on both claims. *Id.*

[17] Indep. Ink, Inc. v. Trident, Inc., 210 F. Supp. 2d 1155, 1177 (C.D. Cal. 2002) [hereinafter *Indep. Ink I*]. Independent Ink alleged that Trident's agreements were restraining trade in violation of § 1 of the Sherman Act by preventing end users from purchasing printer ink from third parties (such as Independent Ink) and that Trident was monopolizing, attempting to monopolize, and conspiring to monopolize the market for ink used in Trident's print head system in violation of § 2 of the Sherman Act. *Id.* at 1159.

[18] *Indep. Ink II*, 396 F.3d at 1346.

[19] *Id.* at 1352.

[20] *Id.* at 1351.

A. Tying Agreements: Development of the Rules

The original objection to tying agreements was that they enabled an increase of seller monopoly power by spreading this power from the tying market to the tied market.[21] This assumed, however, that the seller was in fact a monopolist, or had some sort of market power. However, not all tying agreements have anticompetitive consequences, and in reality, a monopoly in the tied market rarely occurs.[22] Many tying agreements actually benefit the consumer because the packaged sale enables an overall reduction in price, and most tying agreements have no restraining effect on competition.[23]

Even though the Sherman Act purports to prohibit every restraint of trade,[24] it has been applied to prohibit only *unreasonable* restraints of trade, though certain restraining agreements are inherently or per se unreasonable.[25] The two types of antitrust analyses used by the Court are the per se standard and the rule of reason.[26] Under the per se standard, certain classes of agreements that are presumptively

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[21] POSNER, *supra* note 9, at 197; *see also* Int'l Bus. Mach. Corp. v. United States, 298 U.S. 131, 139, 140 (1936) (suggesting that it would be possible for a seller with monopoly power in the market for business machines to obtain a monopoly of punch cards as well, simply by refusing to sell or lease its machines unless the purchaser or lessee agreed to use only the seller's punch cards in the machines); Int'l Salt Co., Inc. v. United States, 332 U.S. 392, 395–396 (1947).

> The appellant's patents confer a limited monopoly of the invention they reward. From them appellant derives a right to restrain others from making, vending or using the patented machines. But the patents confer no right to restrain use of, or trade in, unpatented salt. By contracting to close this market for salt against competition, International has engaged in a restraint of trade for which its patents afford no immunity from the antitrust laws.

Id.; Standard Oil Co. of Cal. v. United States, 337 U.S. 293, 306 (1949) (stating that the existence of market power in the tying product market allows the presumption that this power will be used to gain power in the tied product market as well).

[22] United States v. Microsoft Co., 253 F.3d 34, 87 (D.C. Cir. 2001) (noting that tying in software markets may produce efficiencies not previously considered by the courts and that many contractual ties benefit consumers through higher output and reduced transaction costs).

[23] *See* Jefferson Parish Hosp. Dist. No. 2 v. Hyde, 466 U.S. 2, 12 (1984) ("Buyers often find package sales attractive; a seller's decision to offer such packages can merely be an attempt to compete effectively—conduct that is entirely consistent with the Sherman Act."); *see also* N. Pac. Ry. Co. v. United States, 356 U.S. 1, 6–7 (1958).

> Of course where the seller has no control or dominance over the tying product so that it does not represent an effectual weapon to pressure buyers into taking the tied item any restraint of trade attributable to such tying arrangements would obviously be insignificant at most. As a simple example, if one of a dozen food stores in a community were to refuse to sell flour unless the buyer also took sugar it would hardly tend to restrain competition in sugar if its competitors were ready and able to sell flour by itself.

Id.

[24] Sherman Act § 1, 15 U.S.C. § 1 (2000).

[25] PHILLIP E. AREEDA & HERBERT HOVENKAMP, ANTITRUST LAW: AN ANALYSIS OF ANTITRUST PRINCIPLES AND THEIR APPLICATION § 1719b (2d ed. 2000).

[26] POSNER, *supra* note 9, at 38–39. The distinction between the rule of reason analysis and the per se standard is a fundamental legal distinction between a rule and a standard: "A rule singles out a few facts and makes them legally determinative. A standard allows a more open-ended inquiry. Rules are generally simpler and cheaper to enforce than standards and provide clearer guidance both to the people subject to them and to the courts that administer them." *Id.* at 39.

unreasonable are struck down.[27] Under the rule of reason analysis, *all* factors are taken into account, especially an agreement's potential effect on the market. Under this more thorough inquiry, only those agreements that are found to unreasonably interfere with competition are struck down.[28] Factors that are taken into consideration by the courts when deciding whether to apply the per se standard or rule of reason include increased efficiency and market outputs.[29]

In 1969 in *Fortner Enterprises, Inc. v. United States Steel Corp.*, hereinafter *Fortner I*, the Court reaffirmed the applicability of the per se standard for general tying agreements without the necessity for inquiry into the amount of market power held by a defendant.[30] Market power was inferred from the desirability of the product (in this case, credit) to consumers or "uniqueness in its attributes."[31] The presence of *any* "appreciable restraint" on competition was enough to condemn a tying agreement.[32] This was a boldly stated rule that would have struck down many pro-competitive agreements had it lasted. However, it was not followed for long.

Four of the Supreme Court Justices disagreed with the rule set out in *Fortner I*.[33] In their dissenting opinions, these Justices discussed the benefits of tying

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[27] *Id.* at 38–39.

[28] *Id.* This rule was first enunciated in Standard Oil Co. of N.J. v. United States, 221 U.S. 1, 66–67 (1911). The Court's opinion was unclear with respect to this rule and the Court has not since made it clearer. POSNER, *supra* note 9, at 38. This rule allows for a "fuller and more flexible inquiry into the economic consequences of a challenged agreement." *Id.* at 38.

[29] AREEDA & HOVENKAMP, *supra* note 25, § 1719b; *see also* Hovenkamp et al., *Anticompetitive Settlement of Intellectual Property Disputes*, 87 MINN. L. REV. 1719, 1728 (2003).

> Antitrust generally applies the "rule of reason" to practices that present some potential for competitive harm but also hold out the promise of social gains. Such practices cannot be assessed without an inquiry into the defendant's individual or collective market power and a determination of competitive effects. Fundamentally, the antirust tribunal wants to know whether the challenged practice is likely to increase or decrease market output. By contrast, antitrust applies the "per se rule" when it has sufficient experience to conclude that a certain class of practices is so likely to be anticompetitive without offsetting social benefits that the much more expensive and cumbersome analysis required by the rule of reason is unnecessary.

Id.

[30] Fortner Enters., Inc. v. United States Steel Corp., 394 U.S. 495, 498 (1969) [hereinafter *Fortner I*]. The Court relied on *International Salt Co. v. United States,* 332 U.S. 392 (1947) (patented tying product), *United States v. Loew's,* 371 U.S. 38 (1962) (copyrighted tying product), and *Northern Pacific Railway Co. v. United States,* 356 U.S. 1 (1958) (land as the tying product) as examples of cases where the Court held that the uniqueness of the these tying products conferred economic power without inquiry into market power because other competitors were prevented from offering these distinctive products. *Fortner I*, 394 U.S. at 506 n.2. *International Salt* was the first case in which the Court applied per se analysis to tying agreements. Int'l Salt, Co. v. United States, 332 U.S. 392, 396 (1947).

[31] *Fortner I*, 394 U.S. at 503. In this case, the agreement conditioned the purchase of credit on the purchase of pre-fabricated homes. *Id.* at 497. The district court held that the petitioner, Fortner, had failed to prove that United States Steel Corporation had market power in the credit market, but this Court reversed. *Id.* at 497–98; *see also* United States v. Loew's Inc., 371 U.S. 38, 45 (1962).

[32] *Fortner I*, 394 U.S. at 503 ("Such appreciable restraint results whenever the seller can exert *some* power over *some* of the buyers in the market, even if his power is not complete over them and over all other buyers in the market.") (emphasis added).

[33] *Id.* at 510 (White, J., dissenting) ("Provision of favorable credit terms may be nothing more or less than vigorous competition in the tied product, on a basis very nearly approaching the price

agreements, and argued that the majority holding had departed from established doctrine by not requiring proof of market power.[34] Eight years later in *Fortner II*, the Court reversed the holding of *Fortner I* with respect to this point.[35] *Fortner II* held that market power may not be inferred from "mere uniqueness" of the product, and that in order to prevail, the plaintiff must prove the defendant had market power in the relevant market.[36]

B. Historical Development of Patent Tying Case Law and the Per Se Standard

Patent tying agreements are subject to both patent and antitrust law. The patent policy of encouraging innovation via a grant of a limited legal monopoly is at odds with the antitrust policy of prevention of restraints on competition and trade.[37] The government grants exclusive rights to inventors in exchange for the public disclosure of their inventions. This in turn allows the general public to benefit from these inventions.[38] This governmental grant of a legal monopoly has led to conflict

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competition which it has always been the policy of the Sherman Act to encourage."). "The effect of this novel extension—this distortion, as I view it—of the tying doctrine may be vast and destructive." *Id.* at 524 (Fortas, J., dissenting).

[34] *Id.* at 511, 514 n.9 (White, J. and Harlan, J. dissenting) (stating that tie-ins may be beneficial to the economy by facilitating entry into markets where established sellers have established customers, by allowing price cutting for products that otherwise have no price competition at all, by protecting the reputation of the tying product via ensuring it will function correctly by using it with the tied product, and by reducing costs through economies of joint production and distribution). "[T]he fact that tie-ins are not entirely unmitigated evils should be borne in mind." *Id.*

[35] United States Steel Corp. v. Fortner Enters., Inc., 429 U.S. 610, 622 (1977) [hereinafter *Fortner II*]. In *Fortner I*, the Court remanded the case to give Fortner the opportunity to prove that petitioner United States Steel Corp.'s Home Division and Credit Corp. possessed "appreciable economic power" in the market for the tying product (credit). *Fortner I*, 394 U.S. at 509. In *Fortner II*, the Court addressed only the issue of whether Fortner had proven that the petitioners held such market power, *Fortner II*, 429 U.S. at 611–12, and the Court held that Fortner had not met this burden of proof, stating that the "unique character of its financing" does not automatically give rise to a presumption of market power. *Id.* at 622.

[36] *Id.*

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

> Our patent and antitrust laws seek to further different and opposing policies. Patent laws grant a monopoly for a limited time in order "[t]o promote the [p]rogress of . . . useful [a]rts. . . ." Antitrust laws, on the other hand, are designed to promote and protect competition in the marketplace. Thus, a lawfully acquired patent creates a monopoly that does not violate the antitrust laws.

Id.

[38] 35 U.S.C. § 154(a)(1) (2000).

> Every patent shall contain a short title of the invention and a grant to the patentee, his heirs or assigns, of the *right to exclude* others from making, using, offering for sale, or selling the invention throughout the United States or importing the invention into the United States, and, if the invention is a process, of the *right to exclude* others from using, offering for sale or selling throughout the United States, or importing into the United States, products made by that process, referring to the specification for the particulars thereof.

Id. (emphasis added). U.S. CONST. art. I, § 8, cl. 8 (stating the authorization for the grant of limited monopoly is to "promote the Progress of . . . useful Arts, by securing for limited Times to with antitrust law which seeks to limit the monopolizing practices that lead to restraints of trade and unfair competition.[39]

In the earliest cases addressing patent tying agreements, after the Sherman Act[40] was passed in 1890, the Supreme Court tended to favor the exclusionary statutory rights granted to patentees over the restraints imposed by antitrust law.[41] The "general rule" was that patentees could legally impose any and all restrictions on the use of their patent.[42] If tying the sale of one product to the sale or license of another patented product would improve the patented product's performance, then this was a legal means to a legitimate end.[43]

Later, in a 1917 landmark patent infringement case, *Motion Picture Patents Co. v. Universal Film Manufacturing Co.*, the Supreme Court overruled its earlier

. . . Inventors the exclusive Right to their . . . Discoveries."); *see also* Motion Picture Patents Co. v. Universal Film Mfg. Co., 243 U.S. 502, 511 (1917).

> While one great object [of our patent laws] was, by holding out a reasonable reward to inventors, and giving them an exclusive right to their inventions for a limited period, to stimulate the efforts of genius; the main object was "to promote the progress of . . . useful arts."
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> It is undeniably true, that the limited and temporary monopoly granted to inventors was never designed for their exclusive profit or advantage; the benefit to the public or community at large was another and doubtless the primary object in granting and securing that monopoly.

Id.

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

[40] 15 U.S.C. § 1 (2000).

[41] *See* Heaton-Peninsular Button Fastener Co. v. Eureka Specialty Co., 77 F. 288, 291 (6th Cir. 1896) (commonly known as the *Button Fastener* case). The patentee conditioned the sale of his patented button-fastening machines on the purchase of unpatented staples ("fasteners") for use with the machine. *Id.* at 289–90. The Sixth Circuit held that the agreement was lawful. *Id.* at 301. Any control that the patent holder achieved over the non-patented product would last only until the patented machine was superseded by a more efficient button-fastening machine. *Id.* at 296. Therefore, the conditional license was "neither obnoxious to public policy, nor an illegal restraint of trade." *Id.* This case also emphasized the importance of protecting the freedom of contract and the paramount public policy of not interfering with this freedom. *Id.* at 294.

In *Henry v. Dick Co.*, the patent held on a mimeograph machine was sold with the license restriction that it could only be used with the stencil paper, ink, and other (unpatented) supplies made by the patentee. Henry v. Dick Co., 224 U.S. 1, 11 (1912). The Court found that the patentee merely had chosen to take his profit through the sale of accessories rather than by charging a high purchase price for the mimeograph machines. *Id.* at 32. "By selling it subject to the restriction he took nothing from others and in no [way] restricted their legitimate market." *Id.*

In *United States v. Winslow*, the patentees leased patented shoe machines to shoe manufacturers on the condition that the manufacturers use only the patentee's machines. United States v. Winslow, 227 U.S. 202, 215–16 (1913). If they were to purchase a machine from any other manufacturer, the lease and the patented machine would be rescinded. *Id.* *See generally* John F. Hornick, *The Per Se Rule in Tying Contexts: A Critical View.*, 10 DEL. J. CORP. L. 703, 703 (1986).

[42] Bement v. Nat'l Harrow Co., 186 U.S. 70, 91 (1902) ("[T]he general rule is absolute freedom in the use or sale of rights under the patent laws of the United States. . . . The fact that the conditions in the contracts keep up the monopoly or fix prices does not render them illegal.").

[43] *Winslow*, 227 U.S. at 218 (using the example of one corporation making every individual part of a single steam engine and also putting the engine together being just as lawful as if one company made the boilers and another made the wheels that went into the single steam engine).

holdings.[44] The Court held that patent law granted only the exclusionary rights to the patented device and nothing more.[45] These rights did not include the right to restrict any of the materials to be used in operating the patented device, nor did it include the right to impose conditions regarding the use of the device.[46]

This trend away from absolute protection of the patentee in patent tying cases continued for many years with numerous cases holding that the "patent privilege" had been extended in violation of the Sherman Act.[47] In these later patent tying cases, the proof of "sufficient economic power" that was necessary to establish an antitrust violation was inferred or presumed by the lawful patent monopoly.[48] Note, however, that there is a legal distinction between the terms "market power" and "economic power," though the Court tends to use them interchangeably.[49]

In *International Salt Co. v. United States*, the Court relied on *Mercoid Corp. v. Minneapolis-Honeywell Co.*[50] for the proposition that the patents held by International Salt to cover their salt machines did not give International Salt the

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[44] Motion Picture Patents Co. v. Universal Film Mfg. Co., 243 U.S. 502, 518 (1917) (expressly overruling Henry v. Dick Co., 224 U.S. 1 (1912)). The patent in this case covered a part of the mechanism used in "motion picture exhibiting machines." *Id.* at 505. The license agreement contained restrictions including the condition that the machines shall be used solely with the motion pictures of the patentee. *Id.* at 506–07. The Court held that the restriction was invalid because the motion pictures were not any part of the invention of the patent and because it was an attempt to improperly extend the patent monopoly outside the scope of patent law. *Id.* at 518.

[45] *Id.* at 510.

[46] *Id.* at 512; *see also* Morton Salt Co. v. Suppinger Co., 314 U.S. 488, 494 (1942) ("It is 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.")* (emphasis added).

[47] *See* United States v. Singer Mfg. Co, 374 U.S. 174, 196–97 (1963).

> [B]eyond the limited monopoly which is granted, the arrangements by which the patent is utilized are subject to the general law, and it is equally well settled that the possession of a valid patent or patents does not give the patentee any exemption from the provisions of the Sherman Act beyond the limits of the patent monopoly. By aggregating patents in one control, the holder of the patents cannot escape the prohibitions of the Sherman Act. That Act imposes strict limitations on the concerted activities in which patent owners may lawfully engage . . . .

Id. (citations omitted); Int'l Salt Co. v. United States, 332 U.S. 392, 397 (1947) (stating that the tying agreement in the lease provides a measure of protection to the lessee in terms of ensuring performance of the salt machine, but does not avoid the "stifling effect of the agreement on competition"); United States v. Masonite Corp., 316 U.S. 265, 277–78 (1942) (stating that the power of the patentee to exercise his statutory rights is not unlimited, and when a patented product is leased to another, the legal monopoly no longer protects the patentee).

[48] *See* William Montgomery, *The Presumption of Economic Power for Patented and Copyrighted Products in Tying Arrangements*, 85 COLUMB. L. REV. 1140, 1143 (1985).

[49] WILLIAM C. HOLMES, ANTITRUST LAW HANDBOOK § 2:22, at 422 n.28 (2004 ed. 1983) (explaining that there is a lesser amount of market power required for a tying claim than is required for a claim of actual monopolization under the Sherman Act, which is why the courts refer to market power as "economic power" in tying contexts); *see Fortner I*, 394 U.S. 495, 503 (1969) ("Market power is . . . a source of serious concern . . . regardless of whether the seller has the greatest economic power possible or merely some lesser degree of appreciable economic power."); Eastman Kodak Co. v. Image Technical Servs., 504 U.S. 451, 462–464 (1992) (referring to "economic power" and "market power" interchangeably when discussing the tying claim).

[50] Mercoid Corp., Inc. v. Minneapolis-Honeywell Regulator Co., 320 U.S. 680, 684 (1944) ("[A]n unpatented part of a combination patent is no more entitled to monopolistic protection than any other unpatented device.").

right to restrain trade in the market for salt.[51] *International Salt*, the last patent tying case decided by the Supreme Court, has been cited for the proposition that a patent creates a presumption of market power.[52] However, *Mercoid Corp.*, the case which the *International Salt* Court relied on for this proposition, has been legislatively overruled, and as a result, makes this proposition suspect.[53]

C. Further Development of Tying Law: The Per Se Standard

In *Northern Pacific Railway Company v. United States*, the Court eliminated the requirement of proof of economic or market power, and the per se standard was applied to tying agreements once again, relying on and reaffirming the rule laid out in *International Salt*.[54] The Court stated that the purpose behind the application of the per se standard is to avoid "an incredibly complicated and prolonged economic investigation . . . an inquiry so often wholly fruitless when undertaken."[55]

In *United States v. Loew's, Inc.*,[56] the Court attempted to limit the per se standard by holding that per se condemnation was no longer warranted without proof of "sufficient economic power."[57] The Court gave little guidance, however, as to what this proof would constitute.[58] Once a tying agreement was found to exist in an area where the owner of the tied product had "sufficient economic power," the agreement was found illegal "without elaborate inquiry as to . . . the business excuse for [its] use."[59] Furthermore, the Court stated that this economic power would be presumed

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[51] Int'l Salt Co. v. United States, 332 U.S. 392, 395–96 (1947).

[52] *See Indep. Ink II*, 396 F.3d 1342, 1348 (Fed. Cir. 2005), *cert. granted*, 73 U.S.L.W. 3733 (U.S. June 20, 2005) (No. 04-1329).

[53] 35 U.S.C. § 271(d)(5) (2001). No patent owner will be guilty of "misuse or illegal extension of the patent right" for conditioning the license of any rights to the patent on the "purchase of a separate product, unless, in view of the circumstances, the patent owner has market power in the relevant market for the patent or patented product on which the license or sale is conditioned." *Id.*

[54] N. Pac. Ry. Co. v. United States, 356 U.S. 1, 8 (1958). The issue in this case was whether defendant railway's "preferential routing" agreements were illegal restraints of trade under § 1 of the Sherman Act. *Id.* at 3–4. The Court relied on *International Salt Co. v. United States*, 332 U.S. 392 (1947) to hold that they were. *Id.* at 12. In *International Salt*, however, the Court "held the challenged tying arrangements unlawful *despite* the fact that the tying item was patented, not because of it." *Id.* at 9 (emphasis in original); *see also* Hornick, *supra* note 41, at 704, 714.

[55] *N. Pac. Ry. Co.*, 356 U.S. at 5.

[56] United States v. Loew's, Inc., 371 U.S. 38, 51–52 (1962). In this case, individual distributors of copyrighted films were held to have illegally "block booked"—conditioned the sale ("license") of one copyrighted film on the sale of another (usually inferior), non-copyrighted film. *Id.* at 40, 52.

[57] *Id.* at 45.

[58] *Loew's*, 371 U.S. at 45 (citing *N. Pac. Ry. Co.*, 356 U.S. at 6) (declaring that the seller must have "sufficient economic power with respect to the tying product to appreciably restrain free competition in the market for the tied product . . ."). In all of these cases it is apparent that some amount of economic or market power in the tying product market is necessary for a tying agreement to be condemned; however, the Court fails to set out any guidelines as to what would constitute this "sufficient economic power."

[59] *Loew's*, 371 U.S. at 52 (citing *N. Pac. Ry. Co.*, 356 U.S. at 5).

whenever the tying product is patented.[60] Thus, with respect to patentees, this attempt at limiting the per se standard had little effect.[61]

In 1984, in the landmark *Jefferson Parish Hospital District No. 2 v. Hyde*, the Court upheld the validity of an exclusive services contract between a hospital and a group of anesthesiologists.[62] Here, the allegedly "tying" product was the hospital operating rooms, and the "tied" product was the anesthesia services.[63] In this case, the Court stated that the per se standard should only be applied to agreements in which anticompetitive "forcing" is probable.[64]

D. Rule of Reason

Once a plaintiff in a tying antitrust case fails to prevail under the per se standard, a court may then proceed to apply the rule of reason.[65] However, the Supreme Court has generally given little guidance regarding application of the rule of reason.[66] The courts that apply the rule of reason usually note briefly that the plaintiff has failed to define a relevant market or has otherwise failed to show any significant threat to the health of competition in the tied market.[67] This was the situation in the *Jefferson Parish* case, where an unreasonable restraint on competition could not be found without "an inquiry into the actual effect of the exclusive contract on competition among anesthesiologists" (the tied product).[68]

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[60] *Loew's*, 371 U.S. at 45; *see also* Montgomery, *supra* note 48, at 1143.

[61] *Id.* at 45–46 (citing the list of cases from which the presumption of economic power for patented products developed and stating that "a patentee who utilized tying arrangements would be denied all relief against infringements of his patent").

[62] Jefferson Parish Hosp. Dist. No. 2 v. Hyde, 446 U.S. 2, 32 (1984).

[63] *Id.* at 8.

[64] *Id.* at 15. Forcing describes a situation where a purchaser is "forced" into buying a product he did not otherwise want. *Id.*

> Our cases have concluded that the essential characteristic of an invalid tying arrangement lies in the seller's exploitation of its control over the tying product to force the buyer into the purchase of a tied product that the buyer either did not want at all, or might have preferred to purchase elsewhere on different terms. When such "forcing" is present, competition on the merits in the market for the tied item is restrained and the Sherman Act is violated.

Id. at 12. *International Business Machines v. United States* was one of the earliest cases specifically addressing tying arrangements. 298 U.S. 131 (1936). In this case, agreements conditioning the lease of patented mechanical tabulation machines on the purchase of punch cards for use with the machine were found to be illegal. *Id.* at 140. Although IBM argued that the use of IBM cards was essential to the successful performance of the leased machines, the Court stated that there was no reason other manufacturers could not meet the high degree of precision required for use in IBM the machines, and held that IBM could not "force" consumers to buy the cards from them. *Id.* at 138–39.

[65] AREEDA & HOVENKAMP, *supra* note 25, § 1728f.

[66] AREEDA & HOVENKAMP, *supra* note 25, § 1728f ("[T]he cases give little guidance on how the rule of reason should be applied to tie-ins."); *see* POSNER, *supra* note 9, at 38–39.

[67] *See Fortner I*, 394 U.S. at 499–501. In this case, the Court insisted that the rule of reason remained available even if a per se claim failed because of insufficient power or dollar volume to satisfy the per se rule. *Id.*

[68] Jefferson Parish Hosp. Dist. No. 2 v. Hyde, 466 U.S. 2, 29 (1984).

The Court stated that the plaintiff has the burden of showing the actual effect of the tying agreement on competition in the tied market.[69] Because the market had not been defined and the plaintiff failed to produce evidence sufficient to find that the contract unreasonably restrained competition, the Court concluded that the tying agreement did not violate the antitrust laws.[70] "[W]ithout a showing of actual adverse effect on competition, [plaintiff] cannot make out a case under the antitrust laws, and no such showing has been made."[71]

This "rule" is not a set standard of behavior, but a general inquiry into whether "all the circumstances" show that the challenged practice "imposes an unreasonable restraint on competition."[72]

> Relevant circumstances can include such diverse factors as the defendants' intent and purpose in adopting the restriction; the structure of and competitive conditions within the affected industry; the relative competitive positions of the defendants; the presence of economic barriers inhibiting the ability of competitors to respond and offset the challenged practice; and apparent justifications for the restriction such as enhanced efficiencies, protection of product or service goodwill, and inducing dealer loyalty. No single such factor is decisive. Rather, the factfinder "weighs all of the circumstances" in deciding whether the challenged practice is . . . competitively unreasonable.[73]

A fundamental question must be answered when antitrust law is applied to patent practices: Do tying agreements fall within the scope of privileges granted by the patentee's legal monopoly?[74] As evidenced from the conflicting case law, the courts lack a clear method for resolving this inquiry.[75] The CAFC in *Independent Ink*, however, claimed a duty to follow precedent set by the Court.[76] The question remains: What is the exact precedent to be followed?

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[69] *Id.*

[70] *Id.*

[71] *Id.* at 31. "There is no evidence that the price, the quality, or the supply or demand for either the 'tying product' or the 'tied product' involved in this case has been adversely affected by the exclusive contract between [plaintiff] and the hospital." *Id.*

[72] HOLMES, *supra* note 49, § 2:10, at 253–54.

[73] *Id.* at 254.

[74] CHISUM, *supra* note 5, § 19.04(2).

[75] *Id.*; *cf.* Image Technical Servs., Inc. v. Eastman Kodak Co., 125 F.3d 1195, 1216–17 (9th Cir. 1997).

> The relevant market for determining the patent or copyright grant is determined under patent or copyright law. . . . The relevant markets for antitrust purposes are determined by examining economic conditions.
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> . . .
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> . . . At the border of intellectual property monopolies and antitrust markets lies a field of dissonance yet to be harmonized by statute or the Supreme Court.

Id.; *see also* N. Pac. Ry. Co. v. United States, 356 U.S. 1, 10 n.8 (1958); ("Of course it is common knowledge that a patent does not always confer a monopoly over a particular commodity. Often the patent is limited to a unique form or improvement of the product and the economic power resulting from the patent privileges is slight."). *See generally* Landes & Posner, *supra* note 11, at 977–79.

[76] *Indep. Ink II*, 396 F.3d 1342, 1351 (Fed. Cir. 2005), *cert. granted*, 73 U.S.L.W. 3733 (U.S. June 20, 2005) (No. 04-1329).

II. ANALYSIS

Parts A and B of this section discuss the two types of antitrust analyses the Court applies to tying agreements. Part A analyzes the per se standard and Part B analyzes the rule of reason. Both parts apply the relevant test to Sports Fan's patent tying agreement and the *Independent Ink* case currently before the Supreme Court.

The Supreme Court now has the opportunity to decide the narrow issue of whether inquiry into the market power of a patented tying product should be different from the inquiry into the market power of a non-patented tying product for purposes of an antitrust tying claim. The guidelines set forth in the most recent general tying cases decided by the Court are a good indication of what factors will be considered. The Court must decide if these general guidelines should be applied more specifically to patent tying cases. Not all patents confer market power in a relevant market,[77] so the existence of a patent in the tying market should not render a tying agreement presumptively illegal. Instead, there should be inquiry into the amount of relevant market power held by the patented product. Patent tying agreements should be evaluated by the same standards as all other tying agreements.[78]

A. The Per Se Standard: Four Requirements

In order to establish an illegal tying agreement, the per se standard requires proof of four threshold elements: the existence of two separate products or services, the presence of anticompetitive forcing, a definition of relevant markets, and a "not insubstantial" amount of commerce affected by the tie.[79] As such, the per se standard for tying agreements is different from pure standards of per se illegality where a situation is rendered illegal by mere proof of its existence.[80] Similar to pure per se

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> [I]t 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. This message has been conveyed repeatedly to the court. The Court's decisions remain binding precedent until it sees fit to reconsider them, regardless of whether subsequent cases have raised doubts about their continuing validity. . . . 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. . . . The time may have come to abandon the doctrine, but it is up to the Congress or the Supreme Court to make this judgment.

Id. In the very next paragraph, however, the Court states: "In this area, unfortunately, there is no Supreme Court case directly addressing the issue, and we are required to ascertain the rule from dictum." *Id.*

[77] *See* Jefferson Parish Hosp. Dist. No. 2 v. Hyde, 466 U.S. 2, 38 n.7 (1984) (plurality opinion) ("A common misconception has been that a patent . . . suffices to demonstrate market power.").

[78] *See* U.S. DEP'T OF JUSTICE AND FED. TRADE COMM'N, ANTITRUST GUIDELINES FOR THE LICENSING OF INTELLECTUAL PROPERTY § 5.3 (1995), *available at* http://www.usdoj.gov/atr/public/uidelines/ipguide.htm ("The Agencies will not presume that a patent . . . necessarily confers market power upon its owner.").

[79] *See Indep. Ink I*, 210 F. Supp. 2d 1155, 1162 (C.D. Cal. 2002).

[80] HOLMES, *supra* note 49, § 2:22, at 408.

standards however, the per se standard for tying agreements shifts the burden to the defendant to overcome the presumption of illegality.[81]

1. Separate Products

The first element requires proof that the allegedly tied and tying items are in fact separate products or services.[82] This separate product inquiry varies with each case and is very fact intensive.[83] The governing standard is that there must be sufficient demand for the purchase of the tied product separate from the demand for the tying product, and there must be a distinct product market in which it is efficient to offer both products separately.[84]

Included in the separate product inquiry is a broad range of market factors. These factors include buyer perceptions and demand characteristics that aid in determining whether the items are economically part of the same overall service market (no tie), or properly fall into different markets for which separate consumer demand exists (tying possible).[85] Applying the separate product inquiry to Sports Fan's hypothetical glasses-holding apparatus and the baseball hat conditionally purchased for use with the apparatus results in these items falling into separate categories. There are customers who desire to purchase hats separately from the apparatus, and this creates a distinct market where it would be more efficient to offer each product separately.[86] In addition, customers who already own baseball hats would be in the market to purchase the apparatus separately.

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[81] *Id.* (stating that it would be less confusing to label the standard "presumed" illegality).

[82] *Id.* at 409.

[83] Erik B. Wulff and Scott A. McIntosh, *The Separate Product Test in Franchise Tying Cases: Through the Microsoft Lens of Reason*, 21 FRANCHISE L.J. 70, 71 (2001). The separate product inquiry becomes especially difficult in franchise agreements where a franchised trademark or service mark is tied to materials used in the franchised business. *Id.*

> A number of courts have held that equipment, food ingredients, and packaging are products separate and distinct from the licensed trademark or the bundle of intellectual property rights constituting the franchise. Other courts have held that the finished product being distributed through a product distribution franchise or key ingredients for the finished product in a business format franchise (such as KFC's secret chicken seasoning) are so interrelated with the trademark or the franchise system that they are not separate products for purposes of a tying analysis.

Id.

[84] *See* Jefferson Parish Hosp. Dist. No. 2 v. Hyde, 466 U.S. 2, 21–22 (1984); Eastman Kodak Co. v. Image Technical Servs., 514 U.S. 451, 462 (1992) ("For service and parts to be considered two distinct products, there must be sufficient consumer demand so that it is efficient for a firm to provide service separately from parts."); United States v. Microsoft Corp., 253 F.3d 34, 87 (D.C. Cir. 2001) ("The consumer demand test is a rough proxy for whether a tying arrangement may, on balance, be welfare-enhancing, and unsuited to per se condemnation."); Wulff & McIntosh, *supra* note 83, at 71–72.

[85] HOLMES, *supra* note 49, § 2:22, at 409; *see also Jefferson Parish*, 466 U.S. at 21–22 (stating that no tying agreement can exist unless there is a sufficient demand for the purchase of anesthesiological services (tied product) separate from hospital services (tying product) to identify a distinct product market in which it is efficient to offer the services separately).

[86] *See* Times-Picayune Publ'g Co. v. United States, 345 U.S. 594, 613 (1953) (holding that a publishing company's contracts for the sale of advertising space in morning and evening papers

The district court in *Independent Ink* found that the plaintiff failed to sufficiently address the separate product inquiry.[87] Independent Ink merely asserted that two distinct products exist because of the functional distinction between the tying product (printhead technology) and the tied product (ink for use with that technology).[88] The court stated that two products are considered separate depending on the character of the demand for the two items, not the functional relation between them, and therefore found Independent Ink's assertion of separate products to be insufficient.[89]

2. Anticompetitive "Forcing"

The second threshold element for an antitrust tying violation requires proof that the tying product's availability for purchase has been conditioned on taking the tied product or upon agreeing not to purchase the tied item from the seller's competitors.[90] Stated differently, this element requires proof of anticompetitive "forcing."[91] Forcing is not present in situations where a purchaser desires to buy the separate products together, or is simply ignorant of other possible purchase choices.[92]

Anticompetitive forcing exists when customers are forced into buying additional products from the seller only because of the seller's market power in the tying product market, rather than for the desirability of the packaged sale.[93] Thus, the application of the per se standard, without inquiry into market power, focuses more on the probability of anticompetitive consequences with respect to the consumer and whether or not the consumer is able to maintain a choice, than with respect to the effect on competition.[94]

Sports Fan's agreement providing for the use of his patented apparatus on the condition that the buyer also purchase a baseball hat becomes forcing only if the buyer is precluded from purchasing additional hats elsewhere. There are a variety of competitors that manufacture baseball hats that the consumer can choose from, and

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constituted an indistinguishable product because no separate customer demand markets existed and therefore that no dominant "tying" product existed).

[87] *Indep. Ink I*, 210 F.Supp. 2d 1155, 1163 n.7 (C.D. Cal. 2002).

[88] *Id.*

[89] *Id.*

[90] HOLMES, *supra* note 49, § 2:22, at 416.

[91] *See* Jefferson Parish Hosp. Dist. No. 2 v. Hyde, 466 U.S. 2, 15 (1984) ("Per se condemnation . . . is only appropriate if the existence of forcing is probable."). "Tying arrangements need only be condemned if they restrain competition on the merits by forcing purchases that would not otherwise be made." *Id.* at 27.

[92] *Id.*; *see Jefferson Parish*, 466 U.S. at 29–30 (concluding that there was no evidence of any patient who was prevented from going to another hospital of his choice for anesthesiologist services and therefore no "forcing" present); Queen City Pizza, Inc. v. Domino's Pizza, Inc., 124 F.3d 430, 443 (3d Cir. 1997) (holding that it was not "forcing" for a pizza franchisor to require its franchisees to purchase pizza dough and other ingredients from it or other approved sources where the alleged "forcing" resulted from the contractual agreement and objecting franchisees could have bought a different franchise).

[93] Data Gen. Corp. v. Digidyne Corp., 473 U.S. 908, 908–09 (1985) (White, J., joined by Blackmun, J., dissenting from denial of certiorari).

[94] *Jefferson Parish*, 466 U.S. at 15–16. However, the Court did state that there must be a "substantial potential for impact on competition in order to justify *per se* condemnation." *Id.* at 16.

therefore there is no anticompetitive forcing involved. Similarly, the tying agreement at issue in *Independent Ink* is an example of an agreement that does not contain elements of anticompetitive forcing. The agreement does not prevent end users from purchasing *additional* ink and ink containers from third party ink manufacturers such as the plaintiff, and there are various manufacturers that offer ink for use in the defendant's printhead system.[95] As long as the consumer retains a choice in where to purchase the tied product, there is no anticompetitive forcing present.[96]

3. Market Power

The third threshold element needed to establish an antitrust tying violation requires proof of enough market power in the tying product market to appreciably affect sales in the tied market.[97] If the seller has no market power in the tying market, purchasers will continue to go to other sources for the tying item and the attempted tie will have no effect whatsoever.[98] A necessary precondition to satisfying this third element of proof is the definition of the relevant market.[99]

Most patented products fail to dominate an economic market.[100] In the case of a lone inventor such as Sports Fan, at the outset his patented apparatus is not likely to have a significant market even though his invention may be the only one of its kind. There may be a large market for baseball hats, but a small entrepreneur starting out in an industry is not likely to have the market power necessary to dominate the hat market. Consumers will not be as familiar with the product brand name, and the entrepreneur will not have the resources necessary to promote the product. These factors weigh against the finding of the necessary market domination. The fact that the apparatus is unique will weigh towards finding market power, but this is only

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[95] *Indep. Ink I*, 210 F. Supp. 2d 1155, 1158 (C.D. Cal. 2002).

[96] *See* T. Harris Young & Assocs., Inc. v. Marquette Elec., Inc., 931 F.2d 816, 821–23 (11th Cir. 1991) (finding that alleged warnings by an equipment manufacturer that its warranty would be void if customers used generic supplies with its equipment, rather than supplies provided by the manufacturer, did not constitute a tying agreement because customers remained free to purchase the equipment without the supplies). "Only after the existence of a tie is shown is it necessary to determine whether an *illegal* tying agreement exists." *Id.*

[97] HOLMES, *supra* note 49, § 2:22, at 421–22.

[98] *Id.*

[99] *See Jefferson Parish*, 466 U.S. at 29–30 (holding that because plaintiffs failed to define the relevant market for services of anesthesiologists (the tied product), they could not prevail and that the hospital's (tying product) market share alone was insufficient as a basis to infer market power); *Indep. Ink II*, 396 F.3d 1342, 1344 (Fed. Cir. 2005), *cert. granted*, 73 U.S.L.W. 3733 (U.S. June 20, 2005) (No. 04-1329) (reversing the district court opinion which found that because plaintiff submitted no evidence to define the relevant market nor prove defendant's power within it, the plaintiff could not prevail on either antitrust claim). Although the district court in *Independent Ink* followed the Supreme Court's ruling in *Jefferson Parish*, the CAFC reversed nonetheless, holding that "a patent presumptively defines the relevant market as the nationwide market for the patented product itself, and creates a presumption of power within this market." *Indep. Ink II*, 396 F.3d at 1352.

[100] Hovenkamp et al., *supra* note 29, at 1722 n.6; *see also* N. Pac. Ry. Co. v. United States, 356 U.S. 1, 10 n.8 (1958) (stating that it is "common knowledge" that a patent does not always confer a monopoly over the market for a particular commodity).

until similar products are developed, giving the consumer a choice of purchasing the product elsewhere.[101]

The potential for market power exists because of the barriers to entry faced by competitors seeking entry into the market for a specific product.[102] Strong consumer preference for the product will also be a source of market power.[103] Market power will be difficult to maintain in a market with adequate substitute products available because consumers will often choose the substitute products, encouraging the competitive market.[104]

Sports Fan will be *facing* such barriers to entry as opposed to creating barriers for other competitors. Other entrepreneurs will be in similar (possibly better) positions with respect to the amount of capital they must invest and what existing consumer base they may draw from. In the case of new businesses entering the market, no existing consumer preferences will be found to prove enough market power to appreciably affect sales in the tied market.[105] The district court in *Independent Ink* noted that both parties agreed that market power was the dispositive element in the case,[106] and held that Independent Ink failed to prove that Trident held the requisite market power.[107]

4. "Not insubstantial" Amount of Commerce Foreclosed

The fourth and final element necessary to establish an antitrust violation under the per se standard requires proof that a "not insubstantial" amount of commerce in the tied market has been affected.[108] The Court has not specifically addressed what amount of commerce is considered not insubstantial, but a showing

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[101] Hornick, *supra* note 41, at 715 (stating that market power may be presumed if there are no viable substitutes for the patented product).

[102] Montgomery, *supra* note 48, at 1150; *see also Fortner I*, 394 U.S. 495, 509 (1969).

> Barriers to entry in the market for the tied product are raised since, in order to sell to certain buyers, a new company not only must be able to manufacture the tied product, but also must have sufficient financial strength to offer [the tied product] comparable to that provided by larger competitors under tying arrangements. If the larger companies have achieved economies of scale in their [tied product], they can of course exploit these economies legitimately by lowering their credit charges to consumers who purchase credit only, but economies . . . should not . . . be used to exert economic power over other products that the company produces no more efficiently than its competitors.

Id. In *Independent Ink I*, Independent Ink argued that Trident's tying arrangements constituted a barrier to entry, but the court declined to address this issue because Independent Ink's failure to define the relevant markets was "fatal to its case." *Indep. Ink I*, 210 F. Supp. 2d 1177 n.23 (C.D. Cal. 2002).

[103] Montgomery, *supra* note 48, at 1150.

[104] *Id.*

[105] *See* Richard A. Posner, *Antitrust in the New Economy*, ALI-ABA COURSE OF STUDY MATERIALS, ANTITRUST LAW IN THE 21ST CENTURY, Sept. 2000, Course Number SF63 ("If a potential competitor has a promising product, other distributors will be delighted to carry it; if there are no other distributors, new ones will appear . . . .")

[106] *Indep. Ink I*, 210 F. Supp. 2d 1155, 1163 n.7 (C.D. Cal. 2002).

[107] *Id.* at 1177.

[108] HOLMES, *supra* note 49, § 2:22, at 431.

that some dollar amount (rather than market share) of business has been "foreclosed" is usually sufficient.[109] In *Fortner I*, a tie foreclosing $200,000 annually of housing purchases was held to be substantial,[110] and in *United States v. Loew's, Inc.* a sum of $61,000 foreclosed by illegal "block booking" was held to be "not insubstantial".[111] This inquiry has no clear standard associated with it, but must be determined on a case by case basis.[112]

Sports Fan's agreements fail to foreclose any significant or "not insubstantial" dollar amount of business in the tied market for baseball hats. The market for baseball hats is established. There will be many consumers interested in buying baseball hats who will not be interested in buying the new glasses-holding apparatus. The plaintiff in *Independent Ink* failed to sufficiently address whether Trident's sales of printer ink (the tied product) involved a "not insubstantial" amount of commerce.[113]

In sum, the Court's general purpose in applying the per se standard is to prevent an extensive antitrust inquiry. A more thorough inquiry, like one that is applied under the rule of reason, balances anticompetitive effects with pro-competitive benefits that arise from a tying agreement.[114] Courts are more inclined to use the per se standard to avoid "the burdensome and lengthy trials that often occur under the rule of reason."[115] The per se standard against tying provides neither guidance nor simplification for businesses trying to understand and comply with antitrust law.[116]

The per se standard does not require a plaintiff to show that a tying agreement has an anti-competitive effect in the tied market.[117] Most tying agreements benefit competition, even when a defendant has power in the tying product market.[118] Tying

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[109] *Id.*; *see also* AREEDA & HOVENKAMP, *supra* note 25, § 1721b.

[110] *Fortner I*, 394 U.S. 495, 501–02 (1969) (stating that the volume of commerce allegedly foreclosed was substantial and that a sum of almost $200,000 was not insubstantial).

[111] United States v. Loew's, 371 U.S. 38, 49 (1962). The "block booking" held to be illegal in this case was the conditioning of the sale or license of one or more feature films upon the acceptance by the television stations (purchasers) of a package or block containing one or more unwanted or inferior films. *Id.* at 40.

[112] *See generally* AREEDA & HOVENKAMP, *supra* note 25, § 1721b.

[113] *Indep. Ink I*, 210 F. Supp. 2d 1155, 1163 n.7 (C.D. Cal. 2002).

[114] *See* Eastman Kodak Co. v. Image Tech. Servs., 504 U.S. 451, 486–87 (Scalia, J., dissenting).

> *Per se* rules of antitrust illegality are reserved for those situations where logic and experience show that the risk of injury to competition from the defendant's behavior is so pronounced that it is needless and wasteful to conduct the usual judicial inquiry into the balance between the behavior's pro-competitive benefits and its anticompetitive costs.

Id.

[115] Montgomery, *supra* note 48, at 1140.

[116] AREEDA & HOVENKAMP, *supra* note 25, § 1720a.

[117] *Id.*; *see* N. Pac. Ry. Co. v. United States, 356 U.S. 1, 9 (1958) ("[I]t was deemed irrelevant that there was no evidence as to the actual effect of the tying clauses upon competition.").

[118] *See N. Pac. Ry. Co.*, 356 U.S. at 9; *see also Eastman Kodak*, 514 U.S. at 478–79 (stating that competition is enhanced when a firm is able to offer various marketing options, including bundling of support and maintenance service with the sale of equipment, and that these actions are acceptable under the antitrust laws); Jefferson Parish Hosp. Dist. No. 2 v. Hyde, 466 U.S. 2, 12–13 (1984) (stating that buyers often find package sales attractive and that a seller's decision to offer such packages can merely be an attempt to compete effectively—conduct entirely consistent with the Sherman Act); Leslie, *supra* note 9, at 1774 ("Correctly characterizing the substance of each tying

agreements enable a producer to exert quality control over his product by ensuring use of only the highest quality parts, to control free-riding (in the franchise context), and to obtain a profit via joint economies of scale and lower production costs.[119] Such tying agreements do not fall within the category of restraints that ordinarily define the boundaries of the per se standard.[120] As the Court in *Jefferson Parish* noted, tying may be permissible when necessary to enable a new business (such as Sports Fan's) to break into the market.[121] Antitrust law does not prohibit tying agreements, it prohibits restraints of trade.[122]

B. Rule of Reason Analysis

The essential first step in a rule of reason inquiry is the identification of the relevant product and geographic markets in which the tying product competes.[123] This includes identifying the particular industry as well as the groups of products and services with which the product competes.[124] In the case of patent tying, this inquiry becomes crucial.

Returning to Sports Fan and the glasses-holding apparatus, if a competitor were to allege an illegal tying agreement and bring an antitrust action, this competitor must first define the relevant geographic and product markets in which he alleges that the patented apparatus competes.[125] The geographic market will be defined by the scope of advertising or by the location of potential consumers. Whether or not there are similar devices or substitute products available and what markets they operate in will also be taken into account.[126]

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arrangement will restore doctrinal consistency to antitrust law and insure that anticompetitive tie-ins are condemned, while protecting beneficial or benign tying arrangements.").

[119] AREEDA & HOVENKAMP, *supra* note 25, § 1728f2.

[120] *Id.*

[121] Jefferson Parish Hosp. Dist. No. 2 v. Hyde, 466 U.S. 2, 23 n.39 (1984).

[122] *Id.* at 22 n.34.

[123] HOLMES, *supra* note 49, § 2:10, at 256; *see Jefferson Parish*, 466 U.S. at 7 ("The exclusive contract had an impact on two different segments of the economy: consumers of medical services, and providers of anesthesiological services.").

[124] HOLMES, *supra* note 49, § 2:10, at 256; *see Indep. Ink I*, 210 F. Supp. 2d 1155, 1168 (C.D. Cal. 2002).

> In order to define a product market, a party must determine the cross-elasticity of demand, or which products are reasonably interchangeable with the product at issue from the perspective of consumers. Defining a product market also entails consideration of potential competitors who may enter the market, *viz.*, cross-elasticity of supply.

Id. Independent Ink argued that market definition is irrelevant in a patent tying case. *Id.* However, the district court rejected that argument, stating that without a proper market definition, the plaintiff cannot establish that the relevant product market contains barriers to entry. *Id.* at 1172.

[125] *See Jefferson Parish*, 466 U.S. at 29–30 (stating that there was insufficient evidence in the record to provide a basis for finding that the contract at issue unreasonably restrained competition as it operates in the market because the relevant market had not been defined, and this was fatal to plaintiff's claim).

[126] *Id.* at 7–8. The District Court in *Jefferson Parish* found the entire New Orleans metropolitan area as the relevant geographic market in which hospitals compete. This led it to conclude that East Jefferson Hospital did not possess any significant market power, whereas the

Sports Fan will initially be the only supplier of his unique patented apparatus. This factor weighs towards finding market power for the tying product and against Sports Fan in an antitrust action. Under a rule of reason analysis, however, this is only one of many considerations that are taken into account.

The patent system operates to produce different effects depending on the industry.[127] In the chemistry and pharmaceutical industries, a patent covers a single product, in effect dominating the entire market for that product.[128] However, this "one-to-one correspondence" is less common in most industries.[129] In the semiconductor and automotive industries, for example, new products are so complex that they can incorporate hundreds and even thousands of different inventions. Each supporting invention is covered by a separate patent, and the patents are often held by different companies.[130] In this more common situation, there is less possibility that existence of a single patented product will confer market power in the overall product market.

After identification of the relevant markets, a "market power filter" is applied.[131] If a plaintiff cannot provide evidence of anticompetitive effects that result from the tying agreement, he must show that the defendant possesses a sufficient amount of market power to actually threaten competition.[132] This filter is applied to distinguish the situations that actually threaten competition and therefore warrant further analysis.[133]

The next steps in the rule of reason analysis include inquiry into the nature of the challenged restraint and the restraint's likely competitive effect.[134] The factors that aid in these determinations are given particular emphasis by the courts.[135] A small company engaging in a tying agreement may be held to be reasonable, but the same agreement might be held unreasonable when engaged in by a large company

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Court of Appeals found the relevant geographic market to be the East Bank of Jefferson Parish, and consequently found that East Jefferson Hospital did possess market power. *Id.* However, while the District Court discussed the impact of the contract on both the patients and the anesthesiologists, the Court of Appeals only discussed the impact of the contract on patients. *Id.* This underscores the importance of the definition of relevant markets.

[127] Hovenkamp et al., *supra* note 29, at 1738.

[128] *Id.*

[129] *Id.*

[130] *Id.*

[131] HOLMES, *supra* note 49, § 2:10, at 260; *see also* SCFC ILC, Inc. v. Visa, U.S.A., Inc., 36 F.3d 958, 965 (10th Cir. 1994) ("Proof of market power . . . for many courts is a critical first step, or 'screen,' or 'filter,' which is often dispositive . . . . If market power is found, the court may then proceed under the rule of reason analysis to assess the procompetitive justifications of the alleged anticompetitive conduct.").

[132] HOLMES, *supra* note 49, § 2:10, at 260 (anticompetitive effects might include evidence of reduced output or extra-competitive prices); *see Fortner I*, 394 U.S. 495, 503 (1969) (stating that market power is "the ability of a single seller to raise price and restrict output, for reduced output is the almost inevitable result of higher prices.").

[133] HOLMES, *supra* note 49, § 2:10, at 260.

[134] *Id.* at 262; *see also* Cal. Dental Ass'n v. FTC, 526 U.S. 756, 781–82 (1999) (Breyer, J., dissenting) (identifying the following "four classical, subsidiary antitrust questions" that are part of a "traditional rule of reason" analysis: "(1) What is the specific restraint at issue? (2) What are its likely anticompetitve effects? (3) Are there offsetting pro-competitive justifications? (4) Do the parties have sufficient market power to make a difference?").

[135] HOLMES, *supra* note 49, § 2:10, at 262.

because of its market power.[136] Furthermore, courts have often considered the intended purpose of a tying agreement as an indication of whether the agreement is reasonable.[137] If the agreement was meant to further a legitimate business purpose, such as facilitating entry into an established market or promoting competition, this factor will weigh in favor of the agreement being be upheld. If the agreement's intended effect is to suppress competition, it is more likely to be invalidated.[138]

For example, a court will inquire into (or the plaintiff would be required to prove) the intent and purpose behind Sports Fan's agreement and the overall competitive effect on the corresponding markets. Under the rule of reason, all purposes and potential effects of the challenged restriction will be evaluated. Sports Fan's justifications will include increasing the marketability of his product (package deals are more attractive to consumers) and using the increased sales volume as leverage to gain entry into the market.

In sum, although courts may seek to shorten their inquiry by applying the per se standard and shifting the burden of proof to the defendant to overcome the presumption of market power in a patent tying case, this approach will result in increased claims brought against patent holders. This is an unacceptable effect. Therefore, patent tying agreements should be made subject to the rule of reason analysis rather than the per se standard, and the presumption of market power should not be upheld.

III. PROPOSAL

Section III of this paper proposes that tying agreements involving a patent should be treated no differently than tying agreements without a patent, and that proof of market power in the relevant market should be required to hold a patent tying agreement illegal.

A. The Antitrust Inquiry into Tying Agreements Should Be the Same for All Products.

The fact that a tying agreement involves a patented product should not matter for purposes of an antitrust inquiry.[139] The Court should reconsider the earliest cases which tended to favor patentees.[140] As discussed in Sections I and II, market

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[136] *Id.* at 266–67.

[137] *Id.* at 269.

[138] *Id.* at 269–70 (stating that good intentions will not necessarily save a restraint that has unreasonable anticompetitive effects, but will simply assist the factfinder in judging the probable effects of the restraint); Nat'l Soc'y of Prof'l Eng'rs v. United States, 435 U.S. 679, 692 (1978) (relevant factors include "the facts particular to the business, the history of the restraint, and the reasons why it was imposed").

[139] Hovenkamp et al., *supra* note 29, at 1725.

[140] *See generally* Bement v. Nat'l Harrow Co., 186 U.S. 70, 91 (1902) (stating the general rule to be that a patentee could impose any and all restrictions on the license or use of his or her patented invention); Henry v. Dick Co., 224 U.S. 1, 32 (1911) (recognizing that by preventing a patentee from conditioning the license of his patented invention, the patentee may choose to not

power in the relevant market for the patented product does not automatically follow from the fact that the product is patented.[141] Therefore, the presumption of market power in patent tying cases should be eliminated.

The CAFC's decision in *Independent Ink* is reminiscent of an earlier time in judicial history when it was generally understood that presumptions were legal constructs developed to take the place of evidence that was otherwise, at no fault of the offering party, unavailable.[142] When both parties are able to present evidence, as was the case in *Independent Ink*, the need for the presumption ceases, and therefore so should the presumption.[143] Applying a presumption unfairly eliminates the need for such evidence and subverts the detailed economic analysis that is necessary in other antitrust inquiries.[144]

As Justice Blackmun stated in *Eastman Kodak*,

> Legal presumptions that rest on formalistic distinctions rather than actual market realities are generally disfavored in antitrust law. This Court has preferred to resolve antitrust claims on a case-by-case basis, focusing on the "particular facts disclosed by the record." In determining the existence of market power, and specifically the "responsiveness of the sales of one product to price changes of the other," this Court has examined closely the economic reality of the market at issue.[145]

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license his or her product at all, and that the patentee may only be choosing to make his or her profit by the sale of additional articles rather than charging higher prices for the licenses).

[141] *See* Int'l Salt Co. v. United States, 332 U.S. 392, 395–402 (1947) (holding that the challenged tying agreements were unlawful *despite* the fact that the tying item was patented, not because of it). "In arriving at its decision, the Court placed no reliance on the fact that a patent was involved nor did it give the slightest intimation that the outcome would have been any different if that had not been the case." Hornick, *supra* note 41, at 714.

[142] Sheppard Mullin, *Of Bats and Sunshine: Presumption of Market Power in Patent Tying Case Alive but Rebuttable,* Antitrust Law Blog, *at* http://www.antitrustlawblog.com/article-76-of-bats-abd-sunshine-presumption-of-market-power-in-patent-tying-case-alive-but-rebuttable (last visited Mar. 8, 2005) (whereas in cases such as *Independent Ink*, information such as "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" is readily available).

[143] *Id.* "Thus, as in *Independent Ink*, if there need be a presumption at all, it is surely a rebuttable presumption, and one that should be litigated by the parties to the action in the good old fashioned way: by the presentation of evidence." *Id.*

[144] Brief for Intellectual Property Law Association of Chicago as Amicus Curiae Supporting Defendants-Petitioners, Illinois Tool Works, Inc. and Trident, Inc. v. Independent Ink, Inc., 396 F.3d 1342 (Fed. Cir. 2005) (No. 04-1196).

[145] Eastman Kodak Co. v. Image Technical Servs., Inc., 504 U.S. 451, 466–67 (1992); *see also* Maple Flooring Mfrs. Ass'n v. United States, 268 U.S. 563, 579 (1925).

> [I]t should be remembered that this Court has often announced that each case arising under the Sherman Act must be determined upon the particular facts disclosed by the record, and that the opinions in those cases must be read in the light of their facts and of a clear recognition of the essential differences in the facts of those cases, and in the facts of any new case to which the rule of earlier decisions is to be applied.

Id.

Antitrust enforcement in 2005 and beyond presents especially difficult questions of fact due to the technical complexity of today's products and services.[146] The dicta relied on by the CAFC in *Independent Ink* was taken from cases decided during a period of time when products and markets were not as technologically advanced. *International Salt*, the last patent tying case before the Supreme Court, was decided in 1947, almost sixty years ago.[147] Specifically, the line of cases and precedent relied on in *International Salt* were decided in a time which had simpler products and less complex markets, suggesting a different outcome when re-evaluated today.[148] A patent is a grant of a privilege—an exclusionary right, but it is not a grant of market power. When a patent fails to confer market power, the Court should refrain from fashioning a rule presuming that it does.[149]

For purposes of market definition, there are a range of markets varying in scope that may be chosen for use in an antitrust case.[150] A broad market definition describes one in which the market for distant substitutes for the product are part of the calculation. A narrow market definition describes a market where only close substitutes are included.[151] How the plaintiff chooses to define the relevant market in which the defendant's tying agreements compete will have a significant impact on the outcome of the case.[152]

Application of the per se standard and presumption of market power for patented products eliminates the need to define a relevant market. This foregoes the inquires into market power and whether the alleged tie in effect produces any pro-competitive benefits. This rule will strike down many tying agreements that would actually benefit competition.

As Justice O'Connor stated in her concurring opinion of the *Jefferson Parish* decision, there are many benefits to tying agreements.[153]

> [Tie-ins] may facilitate new entry into fields where established sellers have wedded their customers to them by ties of habit and custom. . . . They may permit clandestine price cutting in products which otherwise would have no price competition at all because of fear of retaliation from the few other producers dealing in the market. They may protect the reputation of the tying product if failure to use the tied product in conjunction with it may cause it to misfunction. . . . And, if the tied and tying products are functionally related, they may reduce costs through economies of joint

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[146] Posner, *supra* note 105. For example, the computer software manufacturing industry, internet-based businesses, and the communications services and equipment designed to support the first two markets. *Id.*

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

[148] *See* Posner, *supra* note 105 (stating that the courts and enforcement agencies do not the resources to effectively regulate a very complex business sector that changes very rapidly).

[149] *See* Jefferson Parish Hosp. Dist. No. 2 v. Hyde, 466 U.S. 2, 38 n.7 (1984) (plurality opinion) ("A common misconception has been that a patent . . . suffices to demonstrate market power.").

[150] Landes & Posner, *supra* note 11, at 978.

[151] *Id.*

[152] *See* Jefferson Parish Hosp. Dist. No. 2 v. Hyde, 466 U.S. 2, 7–8 (1984) (discussing that different market definitions between the District Court and Court of Appeals led to different outcomes).

[153] *Id.* at 41 (O'Connor, J., concurring opinion); *see also supra* note 34.

> production and distribution. . . . A tie-in should be condemned only when its anticompetitive impact outweighs its contribution to efficiency.[154]

As a result, the Court should require proof of market power in a patent tying agreement. The Court should evaluate this proof, and balance the anti-competitive consequences against the pro-competitive effects. This will ensure protection of the patent privilege granted by the government to reward creativity and ingenuity.

B. Antitrust Law Must Give Clear Guidelines.

Antitrust law must be used consistently in order to give patentees clear rules and guidance. Historically, antitrust law has been applied inconsistently, rendering inherently discriminatory results.[155] Companies being sued for alleged violations of antitrust law are required to change their practice if the Court rules against them. In many of these situations, however, the company's competitors are not prevented from engaging in the same type of practices.[156] For example, Microsoft was accused of illegal tying in its exclusive dealing agreements with computer manufacturers.[157] When Microsoft was forced to change its practices, its competitors were free to continue engaging the same practices explicitly forbidden to be engaged in by Microsoft.[158]

Another reason that the application of antitrust law has led to unfair results is because of the legal subjectivity involved: The Court has failed to set clear rules for companies to follow.[159] Corporations may not know whether they are engaging in prohibited practices due to the lack of clear standards and the confusing and antiquated case law in this area.[160]

If the purpose of antitrust law is to encourage competition and maximize consumer welfare, then a corollary purpose should be to encourage efficiency.[161] Returning to the glasses-holding apparatus, Sports Fan may wish to produce the baseball hats himself because he believes that another company could not produce

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[154] *Jefferson Parish*, 466 U.S. at 41.

[155] Armentano, *supra* note 4.

[156] *Id.*

[157] United States v. Microsoft Corp., 253 F.3d 34, 84 (D.C. Cir. 2002). The plaintiffs' claim alleged that Microsoft's combination of Windows and Internet Explorer by contractual and technological means constituted per se unlawful tying to the extent that those actions forced Microsoft's customers to take Internet Explorer as a condition of obtaining Windows. *Id.*

[158] Armentano, *supra* note 4.

> If you think that this is unfair (as you should), remember that this is antitrust. As the judge in the 1953 *United Shoe Machinery* case put it: it was morally acceptable for the court to impose discriminatory requirements on the defendant, United Shoe Machinery Corporation, and not on its competitors since United's unique efficiency *already* put it in a class by itself.

Id.

[159] *Id.* Nor has Congress clarified any of the "rules" laid out by the Court in terms of how exactly to define market share or what a "not insubstantial" amount of commerce would consist of. *See supra* Section II A(4).

[160] *Id.* As a result, many companies accused of antitrust violations wind up settling. *Id.*

[161] *See* POSNER, *supra* note 9, at 39 (stating that only when courts are sufficiently confident that a practice is *socially inefficient* will courts strike the practice down as unreasonable).

hats that would enable his invention to work as well. Furthermore, he may feel that selling a hat and his invention together will benefit the consumer via lower cost or less time spent researching and obtaining their purchase. Any exclusionary effect that might occur in this case results from the superior efficiency of the tied sale, not restraint of trade. These package sales work to promote customer satisfaction,[162] and tying agreements which benefit consumers should not be held per se illegal.

There is no clear rule as to what degree of protection a patent warrants in the marketplace for purposes of antitrust law. The grant of a patent is awarded in order to

> stimulate [] creativity; affording protection also reflects notions of fairness, by not allowing others to enjoy the benefit of those inventions or works without making appropriate compensation to their creators. However, these values are secondary to the primary goals of the patent and copyright laws—the production of more and better intellectual property, for the benefit of the public, and with the greatest degree of public access consistent with those other goals.[163]

The Supreme Court should take this opportunity to re-examine the precedent which *Independent Ink* bases its holding on. The rule the Court establishes must be more consistent with the purpose of patent law: to promote invention. Furthermore, this new rule must give patentees clear and consistent guidelines as to exactly how much protection a patent in fact warrants.

IV. Conclusion

The CAFC's decision in *Independent Ink* has significant implications for patent holders. This landmark decision will undoubtedly encourage more antitrust litigation unless its ruling is re-written by the Supreme Court. As it stands, this ruling puts owners of a patented product at a disadvantage, when the purpose of patent law is to extend an advantage in the form of a limited legal monopoly. Patentees should be encouraged rather than discouraged from selling or leasing their products, and this new rule will have the opposite effect.

However, there is no reason to apply per se illegality and a presumption of market power to patent tying agreements when it has been established that not every patent confers market power. The per se standard will work to discourage patent holders from engaging in legitimately pro-competitive behavior which stimulates growth and new technology. This pro-competitive behavior helps society

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[162] *Id.* at 201 (justifying the use of a tying agreement in terms of efficiency). "To hold that the tie-in unlawfully restricted competition is tantamount to saying that any time a monopolist decides to handle a step in the production process internally rather than invite competitive bids, he is guilty of monopolizing because he is unnecessarily restricting competition." *Id.* at 201–02; *see* Int'l. Bus. Mach. Corp. v. United States, 298 U.S. 131, 138–140 (1936); *see also* Jefferson Parish Hosp. Dist. No. 2 v. Hyde, 466 U.S. 2, 25 n.42 (1984) (arguing that the Court has rejected similar "goodwill" defenses for tying agreements, finding that the use of contractual quality specifications are generally sufficient to protect quality without the use of a tying agreement).

[163] Joseph P. Bauer, *Refusals to Deal with Competitors by Owners of Patents and Copyrights: Reflections on the* Image Technical *and* Xerox *Decisions* (forthcoming 2005) (6/8/05 Draft p.13).

as a whole, and individual consumers as well. Applying antitrust law in this way results in discouraging pro-competitive behavior. In this area, new means must be chosen in order to further the intended goal of antitrust law: to promote fair competition.

In order to promote the creative processes that patent law is intended to protect, patent tying agreements should be treated the same way under antitrust law as all other tying agreements. Because a patent may not confer market power, the fact that a patent covers the tying product should not presumptively invalidate the tying agreement. There should be a market power inquiry similar to the inquiry for any other tying agreement challenged under antitrust law. This will ensure fair treatment to tying agreements involving a patent, and allow lone inventors such as Sports Fan to be able to reap the intended effects of both patent and antitrust law: encouraging both innovation and pro-competitive behavior.