



March 2006

BRIEFING

U.S. Supreme Court limits antitrust suits against IP owners

Summary

A recent Supreme Court holding makes it easier for companies to defend themselves against allegations of unlawful tying arrangements involving intellectual property (IP). The Court last week in *Illinois Tool* unanimously overturned the presumption that a seller has market power in the context of a tying arrangement solely because a tying product is protected by an IP right, thereby requiring plaintiffs to prove that a defendant possesses market power in the tying product as an element of their claim in all antitrust tying cases.

As widely predicted, the United States Supreme Court last week unanimously overturned the presumption that a seller has market power in the context of a tying arrangement solely because a tying product is protected by an intellectual property (IP) right. The Supreme Court's holding in *Illinois Tool Works, Inc. v. Independent Ink, Inc.*, 547 U.S. ___ (Mar. 1, 2006) makes it easier for companies to defend themselves against allegations of unlawful tying arrangements involving IP because it requires plaintiffs to prove that a defendant possesses market power in the tying product as an element of their claim in all antitrust tying cases.

Background

Illinois Tool Works (Illinois Tool) manufactures patented printheads, patented printer cartridges, and nonpatented ink for use with its printheads and printer cartridges. At least two other companies manufacture competing printheads and cartridges. As a condition of licensing its patented printheads and cartridges to original equipment manufacturers (OEMs), Illinois Tool requires that OEMs also purchase their ink exclusively from Illinois Tool.

Independent Ink does not manufacture printheads or cartridges, but it does manufacture and sell ink in competition with Illinois Tool. Independent Ink's ink is suitable for use with Illinois Tool's patented printheads and cartridges, but Illinois Tool's agreements with OEMs preclude them from purchasing ink from third-party suppliers, such as Independent Ink, for use with Illinois Tool's printheads and cartridges.

In 1998, Independent Ink filed suit against Illinois Tool alleging that Illinois Tool was illegally tying the sale of its patented printheads and cartridges to its non-patented ink. In most circumstances, a plaintiff alleging an illegal tying arrangement is required to show that: (1) there are two distinct products being tied together by the defendant; (2) the defendant has market power in the tying product; and (3) the defendant will sell the tying product to customers only on the condition that they also purchase the tied product from the defendant. In this case, however, instead of demonstrating that Illinois Tool possessed market power for printhead and cartridge products, Independent Ink relied on the Supreme Court's holdings in *International Salt Co. v. United States* and *United States v. Loew's Inc.* that a patent creates a rebuttable presumption of market power in the tying product, and relieves a plaintiff of the burden of offering any further evidence to establish the defendant's requisite market power in the tying product.

The District Court decision

Relying on numerous lower court decisions and academic commentary critical of the market power presumption, the U.S. District Court for the Central District of California disregarded the Supreme Court precedent and rejected Independent Ink's argument that Illinois Tool should be presumed to possess market power in printheads and cartridges because of its patents. Independent Ink appealed the lower court's decision to the Federal Circuit Court of Appeals.

The Federal Circuit decision

The Federal Circuit reversed the District Court and upheld the rebuttable presumption that a patent creates the requisite market power in an unlawful tying arrangement. In so doing, the Federal Circuit explained that “the fundamental error in all of defendants’ arguments is that they ignore the fact that it is the duty of a court of appeals to follow the precedents of the Supreme Court until the Court itself chooses expressly to overrule them.” The Federal Circuit added that it is obligated to follow the Supreme Court even where a precedent “contains many infirmities and rests upon wobbly moth-eaten foundations.” The Federal Circuit then invited *Illinois Tool* to appeal its reversal of the District Court decision when it observed that “[t]he time may have come to abandon the doctrine, but it is up to the Congress or Supreme Court to make this judgment.”

The Supreme Court decision

In last week’s decision, the Supreme Court accepted the Federal Circuit’s invitation to abandon the doctrine and held that “a patent does not necessarily confer market power upon the patentee” and that “in all cases involving a tying arrangement, the plaintiff must prove that the defendant has market power in the tying product.”

In its decision, the Supreme Court reviewed the history of the market power presumption and observed that the presumption migrated into antitrust jurisprudence from the doctrine of patent misuse. The Court stated that its early skepticism of tying arrangements has faded over the years and that Congress statutorily amended the original basis of the presumption – the patent laws – in 1988 to eliminate the presumption of market power in the context of patent misuse. The Court also noted that the Department of Justice and the Federal Trade Commission’s antitrust enforcement guidelines state that the agencies “will not presume that a patent, copyright, or trade secret necessarily confers market power upon its owner.” Citing these developments and the “vast majority of the academic literature on the subject”, the Supreme Court in *Illinois Tool* abandoned the market power presumption and brought the treatment of tying arrangements involving IP into line with tying arrangements generally.

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