

## STILL TIED UP: *ILLINOIS TOOL WORKS V. INDEPENDENT INK*

By Puneet V. Kakkar

“Congress, the antitrust enforcement agencies, and most economists have all reached the conclusion that a patent does not necessarily confer market power upon the patentee. Today, we reach the same conclusion.”<sup>1</sup>

With his opinion in *Illinois Tool Works v. Independent Ink*, Justice Stevens, writing on behalf of a unanimous Court, intended to harmonize a century of antitrust and intellectual property jurisprudence.<sup>2</sup> On one hand, Justice Stevens succeeded by unequivocally removing the long-standing presumption that a patent confers market power sufficient for antitrust liability. On the other hand, Justice Stevens left unanswered the question of whether courts would employ a rule of reason or a *per se* analysis in future patent-tying arrangements, a question that fundamentally shapes the course of every case in antitrust litigation.

The presumption of market power of a patent and the application of the *per se* standard to patent-tying arrangements originated from an intermingling of the patent-misuse doctrine and antitrust law.<sup>3</sup> In *Morton Salt v. G.S. Suppiger Co.*, the Supreme Court held that under the patent-misuse doctrine, a patentee lost her rights if she attempted to restrain competition by selling her patented product on the condition of the purchase of an unpatented product (a “patent-tying arrangement”).<sup>4</sup> Five years later, the Court imported into antitrust law the belief that a patent-tying arrangement represented a “[monopolistic] tendency”<sup>5</sup> and therefore pronounced that patent-tying arrangements were illegal *per se* under Sherman Act § 1.<sup>6</sup> Eventually, the Court’s distrust of a patent-tying arrangement, which was never supported by an economic evaluation of the role of a patent in the market, led the Court not only to find patent-tying arrangements illegal *per se* but also to hold that “sufficiency of economic power [of a patent] is presumed.”<sup>7</sup>

---

© 2007 Puneet V. Kakkar

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

2. *Id.*

3. *See id.* at 1285-86.

4. *See Morton Salt v. G.S. Suppiger Co.*, 314 U.S. 488, 490 (1942).

5. *Int’l Salt Co. v. United States*, 332 U.S. 392, 396 (1947).

6. *See United States v. Columbia Steel Co.*, 334 U.S. 495, 522-23 (1948).

7. *United States v. Loew’s Inc.*, 371 U.S. 38, 45 n.4 (1962).

During the latter half of the twentieth century, the assumptions underlying the Court's presumption of market power of a patent and applicability of the *per se* standard to patent-tying arrangements began to disintegrate. First, the Court recognized potential procompetitive effects of tying arrangements (which shed doubt upon the applicability of the *per se* standard); and second, doctrinal shifts in patent law began to illustrate the tenuous foundation of the presumption that a patent categorically equates to market power. In light of these developments, *Illinois Tool* provided the Court an opportunity to re-evaluate its patent-tying arrangement jurisprudence.

Part I of this Note briefly reviews the practice of tying, its procompetitive and anticompetitive potential, and the *per se* and rule of reason standards under antitrust law. Part II describes the facts, procedural history, and ruling of *Illinois Tool*. Part III analyzes two aspects of the holding of *Illinois Tool*: first, the Court unequivocally removed the presumption that a patent confers market power and second, arguably removed the applicability of the *per se* analysis for patent-tying arrangements. Part III concludes that even if the Court's holding in *Illinois Tool* is unclear as to applicability of the *per se* standard, as a normative matter, the rule of reason should govern future cases challenging patent-tying arrangements.

## I. TYING ARRANGEMENTS

This Part provides an overview of tying arrangements and discusses the seminal case on tying, *Jefferson Parish Hospital District No. 2 v. Hyde*.<sup>8</sup>

### A. What is Tying?

Tying arrangements are subject to liability under Sherman Act § 1.<sup>9</sup> A tying arrangement may include the conditioning of the sale of one product (the "tying product") on the sale of another (the "tied product"). Further, a tying arrangement may impose restrictions on the tied product, such as requiring the buyer to purchase the tied product exclusively from the seller

---

8. *Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2 (1984).

9. See 15 U.S.C. § 1 (2000) ("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."); *Illinois Tool*, 126 S. Ct. at 1286. Other causes of action against tying arrangements include the patent-misuse doctrine, Clayton Act § 3, and unfair methods of competition under the Federal Trade Commission Act. Each has similar standards to the Sherman Act § 1, which is the predominantly used standard.

(“exclusive dealing”). Although these tying arrangements manifest themselves in distinct forms, they are analyzed similarly.<sup>10</sup>

Tying arrangements can achieve procompetitive goals. For instance, tying arrangements that allow consumers to buy goods and services in one package, such as coats with buttons, a left shoe with a right shoe, or operating systems with computer processors, may be efficient and beneficial.<sup>11</sup> Specifically, patent-tying arrangements (arrangements in which the tying product is patented) may allow an emerging business to boost its competitive stature through line forcing, which occurs when a manufacturer requires her licensee or franchisee to sell the full line of her products.<sup>12</sup> Patent-tying arrangements may also help sellers achieve economies of joint production or scale,<sup>13</sup> or facilitate the introduction of a new product into the market that has potential for economies of scale.<sup>14</sup> Additionally, a patentee may efficiently price discriminate (within legal parameters) by using the tied product to gauge the use of the tying product and charging for the specific use of the tying product.<sup>15</sup> This form of price discrimination may allow patentees who lease durable items to recover depreciation costs from selling the tied item at a higher price.<sup>16</sup>

Tying arrangements can also be anticompetitive and detrimental to social welfare. By conditioning the sale of the original product (the tying product) upon purchase of another item (the tied product), tying arrangements may force a buyer to purchase another item that “the buyer either did not want at all, or might have preferred to purchase elsewhere on different terms.”<sup>17</sup> Additionally, tying arrangements may raise barriers to entry for sellers in the tied product market.<sup>18</sup> If the only opportunity of competing in the tied-product market is to sell it in a tying arrangement, the potential entrant would then also need to develop the tying product to be a

---

10. HERBERT HOVENKAMP, FEDERAL ANTITRUST POLICY: THE LAW OF COMPETITION AND ITS PRACTICE § 10.9c (West 2005).

11. *See id.*, § 10.2.

12. *See* David Pester, *Antitrust Law: Removing the Confusion in Tying Arrangement Jurisprudence*, 1990 ANN. SURV. AM. L. 699, 738 (1992).

13. Ward S. Bowman, *Tying Arrangements and the Leverage Problem*, 67 YALE L. J. 19, 29 (1957).

14. HERBERT HOVENKAMP, MARK D. JANIS & MARK LEMLEY, IP AND ANTITRUST § 21.2f (2006) [hereinafter HOVENKAMP, JANIS & LEMLEY].

15. Bowman, *supra* note 13, at 23.

16. *Id.* at 24.

17. *Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2, 13 (1984).

18. *See* Louis Kaplow, *Extension of Monopoly Power Through Leverage*, 85 COLUM. L. REV. 515 (1985) (providing various challenges to the argument that patent-tying arrangements are procompetitive and are merely legal exercises of owning a patent).

viable competitor, and consequently would face higher initial capital investments.<sup>19</sup> Particularly in the patent-tying context, when the tying item is patented, a seller in the tied market would face the additional hurdle of obtaining a similar patent in order to compete with the arrangement and enter the market.<sup>20</sup>

## B. Legal Standards for Analyzing Tying Arrangements

Plaintiffs bring antitrust suits against tying arrangements primarily under the Sherman Act. Courts employ one of two standards to determine whether a tying arrangement is illegal: *per se* or rule of reason.<sup>21</sup>

Under the *per se* standard, a plaintiff establishes that a tying arrangement is a *prima facie* violation of antitrust law by proving three elements: (1) the tying and tied items exist in separate markets; (2) the defendant has economic power in the tying market sufficient to restrain competition in the tied-item market; and (3) a “not insubstantial” amount of commerce in the tied-item market has been affected by the tying arrangement.<sup>22</sup> Then, judges may at their discretion allow defendants to argue “business defenses” to justify their tying arrangements. For instance, a court may allow a defendant to continue practicing her tying arrangement if she can show that the tie facilitates the introduction of new products, enables economies of scale, or assures proper functioning of a product for consumer satisfaction.<sup>23</sup> Because the allowance of “business defenses” are solely within a

---

19. Richard N. Pearson, *Tying Arrangements and Antitrust Policy*, 60 NW. U. L. REV. 626, 638 (1966).

20. See HOVENKAMP, *supra* note 10, § 10.3c.

21. See Nat'l Soc'y of Prof'l Eng'rs v. United States, 435 U.S. 679, 686, 692 (1978); Sarah Knight, Note, *Patents & Antitrust: Does a Patent Confer Market Power? A Look at the Upcoming Supreme Court Case: Illinois Tool Works v. Independent Ink*, 11 J. TECH. L. & POL'Y 123, 124-25 (2006) (providing the history of the Sherman and Clayton Acts).

22. See Arthur I. Cantor, *Tying, Exclusive Dealing, and Franchising Issues*, in ANTI-TRUST LAW INSTITUTE (47TH ANNUAL) 399, 407 (PLI Corporate Law and Practice Course Handbook Series No. 8736, 2006) (providing substantial case references that demonstrate that the *per se* standard is the predominant mechanism for finding illegal tying arrangements). A *per se* standard is not officially a three-element analysis; however, those are the factors that best encapsulate the limited requirements (as compared to a rule of reason analysis). They are assumed to be the prevalent factors for the *per se* standard for purposes of this Note. See *Jefferson Parish*, 466 U.S. at 16-18 (establishing that to invalidate a tying arrangement, the seller must affect a substantial volume of commerce, have market power, and sell “two separate products that may be tied together”).

23. See Cantor, *supra* note 22.

court's discretion and may vary, tying arrangements under the *per se* rule are subject to inconsistent and unpredictable rules in a court.<sup>24</sup>

A rule of reason analysis in an antitrust case, on the other hand, focuses on a tying arrangement's overall effects on the market. A rule of reason analysis is more comprehensive than the *per se* standard and places a higher burden on the plaintiff because it requires the plaintiff to demonstrate both that the seller has market power in the tying product and that the arrangement is anticompetitive. The defendant is permitted to introduce procompetitive arguments about the tying arrangement. The court, in turn, will balance the anticompetitive harms with the procompetitive benefits and determine whether the tying arrangement should prevail in the market.<sup>25</sup>

### C. Tying Jurisprudence: *Jefferson Parish Hospital v. Hyde*

In *Jefferson Parish Hospital v. Hyde*, the Supreme Court reversed the Federal Circuit, which had applied the *per se* standard to an agreement between a hospital and an independent firm offering anesthesiological services.<sup>26</sup> The plaintiff challenged a hospital's exclusive contract with a firm of anesthesiologists pertaining to all of the hospital's anesthesiological needs.<sup>27</sup> The plaintiff alleged that patients were forced to purchase anesthesiological services as part of their hospital care and that such an arrangement was anticompetitive.<sup>28</sup>

The Court held that the type of tying arrangement at issue was not proper for a *per se* analysis.<sup>29</sup> Justice Stevens, writing for the majority, noted that a *per se* standard would be "appropriate [only] if the existence of forcing is probable."<sup>30</sup> In the arrangement at issue, the Court found that the hospital was not truly forcing its choice of anesthesiological services on patients because the hospital did not have a dominant market position and thus patients could have gone to competing hospitals in the area.<sup>31</sup> The

---

24. See Jill Dickey Protos, Comment, *Kodak v. Image Technical Services: A Setback for the Chicago School of Antitrust Analysis*, 43 CASE W. RES. L. REV. 1199, 1207 (1993).

25. See, e.g., *Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2, 42 (1984) (O'Connor, J., concurring).

26. *Id.* at 4-5.

27. *Id.* at 5-6.

28. *Id.*

29. *Id.* at 31-32.

30. *Id.* at 15.

31. *Id.* at 28.

Court acknowledged that not all tying arrangements were anticompetitive and did not warrant a strict *per se* analysis.<sup>32</sup>

The Court, in dicta, distinguished the arrangement at issue in *Jefferson Parish* from other tying arrangements that were likely to be anticompetitive, such as patent-tying arrangements.<sup>33</sup> The Court noted that “[it] is far too late in the history of our antitrust jurisprudence to question the proposition that certain tying arrangements [such as patent-tying arrangements] pose an unacceptable risk of stifling competition and therefore are unreasonable ‘*per se*.’”<sup>34</sup> Therefore, at least in 1984, the Court acknowledged that the presumption of market power of a patent and the *per se* analysis toward patent-tying arrangements were still necessary because the seller would likely use the tying product in an anticompetitive manner to sell more tied products.<sup>35</sup>

Justice O’Connor, in a concurring opinion, wrote separately to disagree with the continued viability of the *per se* standard and the presumption that patents, on their own, conferred market power upon the patentee.<sup>36</sup> Justice O’Connor wrote that “[t]he time has therefore come to abandon the ‘*per se*’ label and refocus the inquiry on the adverse economic effects, and the potential economic benefits, that the tie may have.”<sup>37</sup> Justice O’Connor urged the adoption of the rule of reason analysis because of the dynamic “economic circumstances of [a] tie.”<sup>38</sup>

The rule of reason, as elaborated in Justice O’Connor’s concurring opinion in *Jefferson Parish*, examines, at a minimum, the market power in the tying product, the threat of market power in the tied product, and the economic basis for treating the products as distinct.<sup>39</sup> Those factors are not exhaustive: “[t]he ultimate decision whether a tie-in is illegal . . . should depend on the demonstrated economic effects of the challenged agreement. . . . A tie-in should be condemned only when its anticompetitive impact outweighs its contribution to efficiency.”<sup>40</sup>

---

32. *Id.* at 27-28.

33. *Id.* at 16.

34. *Id.*

35. *See id.*

36. *Id.* at 34-35, 37 n.7 (O’Connor, J., concurring).

37. *Id.* at 35.

38. *Id.* Justice O’Connor provided the example that “[a] seller with a monopoly on flour, for example, cannot increase the profit it can extract from flour consumers simply by forcing them to buy sugar along with their flour.” *Id.* at 36.

39. *Id.* at 41.

40. *Id.* at 41-42.

After *Jefferson Parish*, tying jurisprudence split into two camps. In the *per se* camp, patent-tying arrangements were subject to a *per se* standard, and courts presumed market power if the tying product was patented. In the rule of reason camp, ordinary tying arrangements not involving a patent were illegal only if they were found to unreasonably restrain competition under a comprehensive rule of reason analysis.

Almost twenty years after *Jefferson Parish*, *Illinois Tool* provided the Court the opportunity to reconcile these camps. Part II will show that the *Illinois Tool* Court overruled the dicta in *Jefferson Parish* by removing the presumption that patents confer market power in a tying-arrangement case, but failed to address adequately the proper standard by which to analyze patent-tying arrangements.

## II. ILLINOIS TOOL WORKS V. INDEPENDENT INK

### A. Facts and Procedural History

Illinois Tool Works Inc. and its subsidiary, Trident Inc. (collectively “Illinois Tool”), manufactured, marketed, and sold printing systems that included patented ink-jet printheads and specially engineered (but unpatented) ink.<sup>41</sup> Illinois Tool licensed these printing systems to original equipment manufacturers, who used them for barcode production.<sup>42</sup> As part of the licensing agreement, Illinois Tool required its licensees to purchase unpatented ink exclusively from Illinois Tool.<sup>43</sup>

Independent Ink, Inc. (“Independent”) manufactured ink compatible with Illinois Tool’s printers.<sup>44</sup> Independent filed for a declaratory judgment of non-infringement and invalidity of Illinois Tool’s patents in the United States District Court for the Central District of California.<sup>45</sup> Independent later amended its complaint to allege that Illinois Tool violated Sherman Act § 1 by tying their patented items (printheads) to unpatented goods (ink) through licensing arrangements.<sup>46</sup> Independent also alleged that Illinois Tool violated Sherman Act § 2 for illegal monopolization.<sup>47</sup> Independent did not submit any affirmative evidence defining the relevant market or establishing Illinois Tool’s market power because at the time,

---

41. Ill. Tool Works, Inc. v. Indep. Ink, Inc. (*Illinois Tool*), 126 S. Ct. 1281, 1284 (2006).

42. *Id.* at 1285.

43. *Id.*

44. *Id.*

45. *Id.*

46. *Id.*

47. *Id.*

controlling Supreme Court precedent held that market power for a patent was presumed in Sherman Act § 1 cases.<sup>48</sup> Nevertheless, the district court granted Illinois Tool's motion for summary judgment on both antitrust claims, holding that because Independent did not prove that Illinois Tool had market power in the tying market (the printheads), the tying arrangement was not illegal.<sup>49</sup>

Independent appealed the rulings on both claims to the United States Court of Appeals for the Federal Circuit.<sup>50</sup> The Federal Circuit affirmed summary judgment for the § 2 claim, holding that Independent did not provide sufficient evidence for its monopolization claims.<sup>51</sup> With respect to Independent's § 1 tying claim, the Federal Circuit acknowledged voluminous criticism of the presumption that patents confer market power in tying-arrangement cases.<sup>52</sup> Nonetheless, the Federal Circuit upheld the market-power presumption because of its "duty . . . to follow the precedents of the Supreme Court until the Court itself chooses to expressly overrule them."<sup>53</sup> Accordingly, the Federal Circuit reversed and found in favor of Independent on the § 1 claim, holding that market power was presumed for a patent in a patent-tying arrangement and remanded the case.<sup>54</sup>

The Federal Circuit emphasized the tension underlying this doctrine, imploring that "[t]he time may have come to abandon the doctrine, but it is up to the Congress or the Supreme Court to make this judgment."<sup>55</sup> Illinois Tool petitioned the tying claim to the Supreme Court, which granted certiorari to "undertake a fresh examination of the history of both the judicial and legislative appraisals of tying arrangements."<sup>56</sup>

## **B. The Supreme Court's Holding and Rationale in *Illinois Tool***

In removing the presumption that a patent confers market power, the Supreme Court vacated the Federal Circuit's judgment in favor of Independent and remanded for further proceedings.<sup>57</sup>

The question before the Court was "whether the presumption of market power in a patented product should survive as a matter of antitrust law

---

48. *See id.*

49. *Indep. Ink, Inc. v. Trident, Inc.*, 210 F. Supp. 2d 1155, 1177 (C.D. Cal. 2002).

50. *Illinois Tool*, 126 S. Ct. at 1285.

51. *Indep. Ink, Inc. v. Ill. Tool Works, Inc.*, 396 F.3d 1342, 1350 (Fed. Cir. 2005).

52. *Id.*

53. *Id.* at 1351.

54. *Id.* at 1351, 1353.

55. *Id.* at 1351.

56. *Illinois Tool*, 126 S. Ct. at 1285.

57. *Id.* at 1293.

despite its demise in patent law.”<sup>58</sup> The Supreme Court recognized that it historically exercised a general distrust toward patent-tying arrangements as the extensions of the “monopoly” of a patent.<sup>59</sup> However, the Court noted that throughout the twentieth century, their disapproval of tying arrangements “substantially diminished” as they recognized the procompetitive possibilities of tying, and in cases beginning with *Jefferson Parish*, started to require proof of power in the tying-product market.<sup>60</sup>

Justice Stevens specifically referred to Justice O’Connor’s concurrence in *Jefferson Parish*, in which she proffered two arguments: first, that no tying arrangement should be a *per se* violation of the Sherman Act; and second, that the presumption that a patent categorically confers market power on the patentee should no longer be valid.<sup>61</sup> The Court in *Illinois Tool* articulated that “[i]t is [the] presumption [that a patent confers market power] . . . that we squarely address today.”<sup>62</sup> The Court was silent with respect to the second issue—the future applicability of the *per se* rule.

The Court admitted that the presumption of market power emerged from a general skepticism of tying arrangements.<sup>63</sup> The presumption originated from the patent-misuse doctrine, in which courts invalidated tying arrangements because they were perceived to be restraints on competition.<sup>64</sup> The Court applied that perception to antitrust law in *International Salt Co. v. United States*, holding, without an analysis of the market power of the patent at issue, that a patent-tying arrangement violated antitrust law.<sup>65</sup>

In light of the historical presumption that a patent confers market power, the *Illinois Tool* Court identified two “subsequent events . . . [that] ultimately led to [the] reexamination of the presumption of *per se* illegality of a tying arrangement.”<sup>66</sup> First, the 1988 amendments to the Patent Act

---

58. *Id.* at 1284.

59. *Id.* at 1286.

60. *See id.*

61. *Id.* at 1288.

62. *See id.* at 1288.

63. *See id.* (“Without any analysis of actual market conditions, these patent misuse decisions assumed that, by tying the purchase of unpatented goods to the sale of the patented good, the patentee was ‘restraining competition.’” (quoting *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488, 490 (1942))).

64. *Id.* (referring to *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502 (1917)).

65. *Id.* at 1289 (referring to *Int’l Salt Co. v. United States*, 332 U.S. 392 (1947)).

66. *Id.* at 1289-90. Even though Justice Stevens mentioned that the Court addressed only one of Justice O’Connor’s arguments—that a patent does not categorically confer market power—this language makes it unclear whether the Court also sought to address

required that any patent-misuse claims based on a tying arrangement must also include proof of “market power in the relevant [patent] market.”<sup>67</sup> This requirement persuaded the Court that patents do not necessarily confer market power and, therefore, a presumption of market power for patents should no longer exist in antitrust law.<sup>68</sup> If patent law required market power in order to establish patent misuse, the same logic should apply to antitrust law, especially when considering the significant penalties of antitrust violations.<sup>69</sup>

The Court also mentioned that “the vast majority of academic literature on the subject” recommended a re-examination of the market-power presumption.<sup>70</sup> The Court, however, merely footnoted this concern, and did not primarily rely upon the reasoning of those academics and scholars calling upon courts to abandon the presumption that a patent confers market power.<sup>71</sup>

Given these two events, the Court summarily held that “tying arrangements involving patented products should be evaluated under the standards applied in cases like . . . *Jefferson Parish* rather than under the *per se* rule.”<sup>72</sup>

### III. CONSEQUENCES AND UNANSWERED QUESTIONS OF *ILLINOIS TOOL*

This Part analyzes the holding in *Illinois Tool*. Section III.A argues that removing the market-power presumption of a patent accords with legal scholarship and makes future trials more complex but more precise. Section III.B contends that a fair interpretation of *Illinois Tool* supports the conclusion that the Court sought to eliminate the application of the *per se* analysis to patent-tying arrangements. Even if such a holding is uncertain, Section III.B.3 asserts that for normative reasons, the rule of reason should govern future cases challenging patent-tying arrangements.

---

the applicability of the *per se* standard to patent-tying arrangements under the Sherman Act. *See id.*

67. *Id.* at 1290.

68. *Id.*

69. *Id.* at 1291.

70. *Id.* at 1291 n.4.

71. The Court’s only reference to economic theory and academic scholarship is in the context of dismissing *Illinois Tool*’s suggestion that the Court adopt a rebuttable presumption that patents confer market power. Tying arrangements, the Court declared, are “fully consistent” with the free market. *Id.* at 1292.

72. *Id.* at 1291.

### A. Patents as Property Rights, Not “True” Monopolies

Eliminating the presumption of market power of a patent in tying-arrangement cases signals the Court’s understanding that a patent is simply an intellectual property right, a view that the weight of legal scholarship supports. Although a patent is often referred to as a “statutorily granted monopoly,”<sup>73</sup> the Court recognized in *Illinois Tool* that the patent does not categorically grant market power sufficient to restrain competition. Leading treatises on intellectual property and antitrust law argue that the presence of a patent, like all intellectual property rights, does not have an “economic basis” that equates to market power of the product.<sup>74</sup> Landes and Posner reason that “[o]ne does not say that the owner of a parcel of land has a monopoly because he has the right to exclude others from using the land” because “[exclusion] does not have antitrust significance.”<sup>75</sup> Obtaining a patent, therefore, is functionally distinct from, and does not guarantee, the capture of market power.

To obtain a patent, a patent holder must prove that her invention fits within statutory patentable subject matter, is useful, novel, non-obvious based on prior inventions, and described sufficiently in detail for adequate public disclosure.<sup>76</sup> A patentee who has overcome these hurdles has not automatically achieved market power. Market power is defined by first identifying the “relevant market” for a product, which includes the relevant product market, a relevant geographic market, and the product owner’s percentage of output in the relevant market.<sup>77</sup> Then, market power is determined by the degree to which a seller can raise prices above the levels in the relevant market that would be charged in competitive conditions.<sup>78</sup> The analysis of a “relevant market” and market power is also guided by the availability of substitutes, ease of entry into the market, and barriers to new firms.<sup>79</sup> Having a patent does not guarantee market success or consumer desirability of the patented product.<sup>80</sup> For instance, low demand for patented items can lead to low output in a relevant market. In

---

73. See *United States v. Loew’s Inc.*, 371 U.S. 38, 46 (1962).

74. See 10 PHILIP AREEDA, EINER ELHAUGE & HERBERT HOVENKAMP, ANTITRUST LAW ¶¶ 1737a, c (2d ed. 2004); HOVENKAMP, JANIS & LEMLEY, *supra* note 14, § 4.2a; WILLIAM LANDES & RICHARD POSNER, THE ECONOMIC STRUCTURE OF INTELLECTUAL PROPERTY LAW 374 (2003).

75. LANDES & POSNER, *supra* note 74, at 374.

76. See 35 U.S.C. §§ 101-103, 112 (2000).

77. HOVENKAMP, *supra* note 10, § 3.1d.

78. *Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2, 27 n.46 (1984).

79. HOVENKAMP, JANIS & LEMLEY, *supra* note 14, § 4.1b.

80. See *id.*, § 4.2a.

addition, a patented product may have a number of readily available substitutes. For example, competing vendors in the printer industry have patents for their products, but indeed, a patent for one printer alone does not guarantee market power. In this case, the patent holder may not have the power to raise prices above a competitive level.

Additionally, the removal of the market-power presumption alters future antitrust litigation. Future plaintiffs challenging tying arrangements involving a patented product will need to proceed through a more complex trial to prove market power. Lawsuits challenging patent-tying arrangements will undoubtedly be more costly and burdensome because of the inherent complexity in defining the “relevant market,” its geographic scope, market share, and power over other substitutes. This inquiry will necessarily lead to a battle of experts over defining markets and exploring whether competition has been suppressed.<sup>81</sup>

More unique to the patent context, a plaintiff’s burden after *Illinois Tool* will be more onerous because proving market power of a patent must accommodate economic and legal considerations.<sup>82</sup> A patent’s market power encompasses not only the commercial terrain (whether there is a lack of economic substitutes), but also the legal terrain as defined by the doctrine of equivalents. Under the doctrine of equivalents, a patentee’s rights extend beyond the literal elements of its claims to inventions that (1) perform substantially the same function in substantially the same way to obtain the same result;<sup>83</sup> or (2) have elements identical or equivalent to each claimed element of the patented invention.<sup>84</sup> These examinations, in turn, are determined in the context of the patent, prior art, and circumstances of every case. Therefore, a “legal” substitute is a product that competes with a patented item and does not infringe upon the patent under the doctrine of equivalents. An analysis of market power for a patent would therefore have to accommodate for legal substitutes, which necessitates an inquiry into the scope of the doctrine of equivalents, and consequently the scope of the patent, in the market. The Federal Circuit has developed an “appropriate rule” for determining such legal substitutes for the purposes

---

81. See Vincent Zhou, *Product Tying Involving Intellectual Property: Recent Developments*, 2004 UCLA J.L. & TECH. NOTES 16, [http://www.lawtechjournal.com/notes/2004/16\\_040809\\_zhou.php](http://www.lawtechjournal.com/notes/2004/16_040809_zhou.php) (“Defining the market and proving the ‘market power’ possessed by a company utilizing a tying arrangement could be difficult.”).

82. Kenneth J. Burchfiel, *Patent Misuse and Antitrust Reform: ‘Blessed Be The Tie?’*, 4 HARV. J.L. & TECH. 1, 92-100 (1991).

83. *Graver Tank & Mfg. Co. v. Linde Air Prods. Co.*, 339 U.S. 605, 608 (1950).

84. *Warner-Jenkinson v. Hilton Davis Chem. Co.*, 520 U.S. 17 (1997).

of lost-profit damages, but it is unclear whether this rule would apply to antitrust suits.<sup>85</sup>

## B. *Per Se* or Rule of Reason?

Although the sole question before the Court in *Illinois Tool* was whether “the presumption of market power in a patented product should survive as a matter of antitrust law,” a fair reading of the Court’s ruling also implicates another issue: the standard that a court will use toward future patent-tying arrangements. The Court arguably eliminated the applicability of the *per se* test in future patent-tying arrangement cases.<sup>86</sup> Immediately after the holding of *Illinois Tool*, commentators were confused about whether the Court had completely abolished the rule.<sup>87</sup> This Section (1) details the consequences of no longer applying a *per se* analysis on litigation involving tying arrangements; (2) establishes that a reasonable interpretation of *Illinois Tool* is that the *per se* analysis is no longer applicable; and (3) recommends that as a normative matter, courts should use the rule of reason toward future tying arrangements.

### 1. *Consequences of Eliminating the Per Se Standard*

Eliminating the *per se* standard will shape future litigation in the courts.<sup>88</sup> As explained in Part II above, a plaintiff has a lower burden of establishing that an arrangement is illegal under a *per se* analysis than under a rule of reason analysis. A *per se* analysis for tying arrangements, as articulated in *Jefferson Parish*, requires proof of at least three elements: (1) the tying and tied products are separate items; (2) the seller has power in the tying product market; and has (3) a “not insubstantial” involvement in the interstate commerce of the tied product market.<sup>89</sup> The opportunity to discuss the procompetitive effects of the tying arrangement only enters as an affirmative defense, which is not guaranteed a full, thorough evaluation in every case.<sup>90</sup>

---

85. See Burchfiel, *supra* note 82, at 100.

86. See *Ill. Tool Works, Inc. v. Indep. Ink, Inc. (Illinois Tool)*, 126 S. Ct. 1281, 1284 (2006).

87. See Aliza Reicher, Comment, *Off With Their Printheads! An End to the Per Se Presumption of Illegality for Patent Ties in Illinois Tool Works v. Independent Ink*, 24 CARDOZO ARTS & ENT. L.J. 297, 320, nn.175-77 (2006) (citing to web-log postings following *Illinois Tool* questioning whether the *per se* rule was still in effect).

88. See Protos, *supra* note 24, at 1203 (“[T]he initial characterization decision of which standard to apply is critical and perhaps outcome determinative.”).

89. See *supra* note 22.

90. See discussion *supra* Section II.B.

The rule of reason inquiry, however, examines the purpose and effect of the tying arrangement, relevant market conditions, and whether a tying arrangement promotes or suppresses competition. Under the rule of reason, a plaintiff would have to show not only the elements of a *per se* rule, but also demonstrate that “anticompetitive impact [of a tying arrangement] outweighs its contribution to efficiency.”<sup>91</sup>

## 2. Illinois Tool *Eliminated the Per Se Analysis*

Thus far, judges on one circuit have disagreed about whether *Illinois Tool* suggests a *per se* or rule of reason approach. Three months after *Illinois Tool*, the Seventh Circuit employed the rule of reason analysis toward a tying arrangement.<sup>92</sup> Even though the case did not involve a patented product, the court noted in dicta that “the Supreme Court recently adopted Justice O’Connor’s reasoning in [*Jefferson Parish*] and held that tying arrangements involving patents should be evaluated based upon their market power ‘rather than under the *per se* rule.’”<sup>93</sup> That dictum struck sensitive nerves on the bench. Judge Diane Wood issued a concurring opinion, not to criticize that the circuit unnecessarily wrote about patent-tying arrangements, but rather to highlight that the majority misinterpreted *Illinois Tool*; she wrote that “despite the opportunity it had as recently as March 2006 to [jettison the *per se* rule in tying cases], the Court has refused to do so.”<sup>94</sup>

One interpretation of *Illinois Tool* is that the Court held only that there is no presumption of market power from a patent involved in a tying arrangement. Because the Court stated that “in all cases involving a tying arrangement, the plaintiff must prove that the defendant has market power in the tying product,” it could be assumed that the Court intended to preserve the *per se* doctrine, as preserved in *Jefferson Parish*, for future patent-tying arrangement cases.<sup>95</sup> In addition, Justice Stevens championed his rationale in *Jefferson Parish*, a case in which the *per se* analysis was upheld, though not applied to the facts of that case.<sup>96</sup> Finally, the Court mentioned Justice O’Connor’s condemnation of both the *per se* analysis and patent-equals-market-power presumption in her concurring opinion of *Jefferson Parish* and adopted her view on the presumption of patents, but

---

91. *Jefferson Parish*, 466 U.S. at 41-42 (O’Connor, J., concurring); see also HOVENKAMP, *supra* note 10, § 10.1.

92. *Reifert v. So. Cent. Wisc. MLS Corp.*, 450 F.3d 312, 316-17 (7th Cir. 2006).

93. *Id.* at 317 n.2.

94. *Id.* at 322-23 (Wood, J., concurring).

95. See *Ill. Tool Works, Inc. v. Indep. Ink, Inc. (Illinois Tool)*, 126 S. Ct. 1281, 1293 (2006).

96. See *id.* at 1288.

did not explicitly address the viability of the *per se* rule.<sup>97</sup> If the Court intended to remove the *per se* analysis from patent-tying arrangements, it had an opportunity to do so and declined.

The more reasonable interpretation, however, is that the Court in *Illinois Tool* sought to eliminate the *per se* standard and subject all patent-tying arrangements to a rule of reason analysis. First, as a textual matter, the Court held that future tying arrangements should be evaluated under the “standards applied in cases like *Fortner II* and *Jefferson Parish* rather than under the *per se* rule” and referred to Justice O’Connor’s concurring opinion of *Jefferson Parish*, which advocated eliminating the *per se* rule entirely in favor of the rule of reason.<sup>98</sup> By mentioning “standards” and comparing them against the *per se* rule of illegality, it is reasonable to infer that Justice Stevens was referring to the multiple standards of defining relevant markets under the rule of reason. In addition, Justice Stevens wrote that tying arrangements should be evaluated under standards “rather than under the *per se* rule.”<sup>99</sup>

Second, citing support from “the vast majority of academic literature,” the Court also mentioned that “[i]t is no doubt the virtual consensus among economists that has persuaded the enforcement agencies to reject the position that the Government took when it supported the *per se* rule that the Court adopted in the 1940s.”<sup>100</sup>

Finally, the underlying rationale behind a *per se* rule against tying arrangements is to enjoin arrangements when “the existence of forcing is probable.”<sup>101</sup> The Court in *Illinois Tool* acknowledged that “[m]any tying arrangements, even those involving patents and requirements ties, are fully consistent with a free, competitive market,” which negates the Court’s own rationale for use a *per se* rule when forcing is probable.<sup>102</sup> It is only through the rule of reason, which examines the entirety of effects on the market, that a tying arrangement is guaranteed an examination for pro-competitive effects.<sup>103</sup>

Therefore, at a minimum, the Court in *Illinois Tool* left an unclear and unarticulated standard for future tying cases involving patented items. In cases after *Illinois Tool*, plaintiffs challenging tying arrangements have

---

97. *See id.*

98. *See id.* at 1288, 1291.

99. *See id.* at 1288 (emphasis added).

100. *See id.* at 1292.

101. *See id.* at 1287.

102. *See id.* at 1292.

103. *See Reicher, supra* note 87, at 322 n.35.

pleaded under both the *per se* and rule of reason standards, making litigation inefficient, duplicative, and unpredictable.<sup>104</sup>

### 3. Normative Justifications for Rule of Reason in Patent-Tying Cases

This Part has thus far established that a reasonable interpretation of *Illinois Tool* supports the conclusion that *per se* rulings are no longer relevant for patent-tying arrangements. As a normative matter, this Section encourages courts to adopt the rule of reason approach for tying arrangements involving patented products.

#### a) Efficiency and Equity

Although the analysis under the rule of reason is more expensive and complex for proving the anticompetitive effects (and to some extent, disproving the possibility of procompetitive effects) on the market, it is the more appropriate standard because “the efficiency of a legal regime must be measured not by administrative costs alone, but by its net effect on the efficiency of the economy as a whole.”<sup>105</sup> As it stands, proving market power in tying arrangement cases—even in the *per se* situations elaborated by *Jefferson Parish*—entails an examination of a defendant’s market share, pricing structure, and the market.<sup>106</sup> Consequently, as Justice O’Connor indicated in her concurring opinion in *Jefferson Parish*, “[the *per se* rule] incurs the costs of a rule of reason approach without achieving its benefits: the doctrine calls for the extensive and time-consuming economic analysis characteristic of the rule of reason, but then may be interpreted to prohibit arrangements that economic analysis would show to be beneficial.”<sup>107</sup>

Application of the *per se* standard would be over-inclusive by rewarding antitrust damages to plaintiffs in courts that do not choose to balance or evaluate the procompetitive effects of a tying arrangement. The rule of reason standard may save procompetitive tying arrangements from anti-

---

104. See *Monsanto Co. v. Scruggs*, 459 F.3d 1328, 1339 (Fed. Cir. 2006); *Mediacom Commc’ns Corp. v. Sinclair Broad. Group, Inc.*, 2006 U.S. Dist. LEXIS 81577, \*24 n.9 (S.D. Iowa Oct. 24, 2006) (“[I]n light of the recent Supreme Court decision, [*Illinois Tool Works*], the application of the *per se* doctrine . . . should be approached with caution.”); *Storage Tech. Corp. v. Custom Hardware Eng’g & Consulting, Ltd.*, 2006 U.S. Dist. LEXIS 43690, \*64, 72 (D. Mass. June 28, 2006).

105. Willard K. Tom & Joshua A. Newberg, *Antitrust and Intellectual Property: From Separate Spheres to Unified Field*, 66 ANTITRUST L.J. 167, 196-97 (1997).

106. HOVENKAMP, JANIS & LEMLEY, *supra* note 14, § 21.5.

107. *Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2, 32 (1984) (O’Connor, J., concurring).

trust liability. Members of the Court have acknowledged the possibility of procompetitive benefits in tying cases.<sup>108</sup> The *per se* standard, however, “dispenses with [proving] anticompetitive effects,” and does not guarantee that evidence regarding anticompetitive or procompetitive effects of a tying arrangements will be heard during trial.<sup>109</sup>

Furthermore, a rule of reason analysis may be more effective in identifying anticompetitive tying arrangements because a tying arrangement may be illegitimate and anticompetitive despite an *absence* of power in the tying product market.<sup>110</sup> The benefit of applying the rule of reason far outweighs the marginal costs of the case-by-case factual examination, because the judicial system and economy would benefit by protecting efficient tying arrangements and invalidating anticompetitive tying arrangements with greater accuracy.

In addition, in the patent-tying context, the rule of reason analysis would be more efficient and effective at reaching the correct outcome. The D.C. Circuit struggled over the difficulty of applying the *per se* test to an intellectual property tie in *United States v. Microsoft Corp.*<sup>111</sup> The U.S. government claimed that Microsoft illegally tied its Windows operating system (the tying product) to its web browser (the tied product).<sup>112</sup> The D.C. Circuit held that generally, the rule of reason “should govern the legality of tying arrangements involving platform software products.”<sup>113</sup> The D.C. Circuit was reluctant to apply the *per se* standard primarily because it was difficult to adapt to the technology at issue.<sup>114</sup> Additionally, the court noted that ties in the technological industry also provide “efficiencies that courts have not previously encountered and thus the Supreme Court had not factored into the *per se* rule as originally conceived.”<sup>115</sup> Nevertheless, the court indicated that it was bound by precedent and could not apply a rule of reason analysis simply because the court “identifie[d] an efficiency

---

108. *See Eastman Kodak Co. v. Image Tech. Servs., Inc.*, 504 U.S. 451, 488-89 (1992) (Scalia, J., dissenting) (“[W]e have recognized that bundling arrangements not coerced by the heavy hand of market power can serve the procompetitive functions of facilitating new entry into certain markets . . . assuring quality control . . . and ‘reducing costs through economies of joint production and distribution.’”).

109. *See Monument Builders v. Mich. Cemetery Assoc.*, 2006 U.S. Dist. LEXIS 78458, \*15 n.3 (E.D. Mich. Oct. 27, 2006).

110. *See, e.g., Eastman Kodak*, 504 U.S. at 486 (1992).

111. *United States v. Microsoft Corp.*, 253 F.3d 34 (D.C. Cir. 2001).

112. *Id.* at 84.

113. *Id.* (“[S]implistic application of *per se* tying rules carries a serious risk of harm.”).

114. *Id.* at 85.

115. *Id.* at 93.

justification for a tying arrangement.”<sup>116</sup> An interpretation that *Illinois Tool* subjects future cases to the rule of reason would all efficient and welfare-enhancing tying in the computer software context and other technological industries viable, if not welcome.<sup>117</sup>

b) Consistent Jurisprudence

Requiring a plaintiff to prove the anticompetitive effects of a tying arrangement comports with antitrust jurisprudence.<sup>118</sup> Consequences of antitrust litigation are grave—an antitrust plaintiff may win treble damages, attorney’s fees, and an injunction against the defendant’s practices. The Court noted in *Illinois Tool* that patent-tying arrangements may lead to federal criminal charges and up to ten years in prison.<sup>119</sup> It is only fair to require a plaintiff seeking to challenge a tying arrangement to have the burden to show why the tying arrangement is anticompetitive.

As a doctrinal matter, eliminating the *per se* rule would also maintain consistent jurisprudence. A *per se* analysis—which entails a more narrow inquiry into the market—is intended for situations in which arrangements are almost always harmful.<sup>120</sup> The Supreme Court initially justified its usage of the *per se* rule because tying arrangements were perceived to “serve hardly any purpose beyond the suppression of competition.”<sup>121</sup> The Court’s ruling in *Illinois Tool*, however, acknowledged that tying arrangements—particularly patent-tying arrangements—are consistent with competitive markets and that tying arrangements are procompetitive in certain market conditions.<sup>122</sup> Had the Court indicated some skepticism that

---

116. *Id.* at 95.

117. See HOVENKAMP, JANIS & LEMLEY, *supra* note 14, § 21.8.

118. See *Associated Gen. Contractors, Inc. v. Cal. State Council of Carpenters*, 459 U.S. 519, 537-45 (1983).

119. See *Illinois Tool*, 126 S. Ct. at 1291.

120. See HOVENKAMP, *supra* note 10, § 10.3.

121. *Standard Oil Co. v. United States*, 337 U.S. 293, 305 (1949); see also *Cont’l T.V., Inc. v. GTE Sylvania, Inc.*, 433 U.S. 36, 50 n.16 (1977) (finding that an economic arrangement should be illegal *per se* when “the probability that anticompetitive consequences will result from a practice and the severity of those consequences [is] balanced against its procompetitive consequences. Cases that do not fit the generalization may arise, but a *per se* rule reflects the judgment that such cases are not sufficiently common or important to justify the time and expense necessary to identify them.”).

122. On December 7, 2006, the Supreme Court granted certiorari in *Leegin Creative Leather Prods. v. PSKS, Inc.* (No. 06-480), a case which challenges applying the *per se* rule to vertical minimum resale price violations under Sherman Act § 1. Because the *per se* rule in this context is nearly 100 years old, it is likely that the Court will also seek to reject the *per se* rule in favor of the rule of reason approach “consistent with the Court’s recent jurisprudence, [such as] *Illinois Tool*.” Darren Tucker & Adam Coates, *U.S. Supreme Court Accepts Two More Antitrust Cases*, O’Melveny & Myers LLP Anti-

patent-tying arrangements were anticompetitive, a *per se* analysis would have been more justified. Yet given this wisdom, applying a *per se* rule with a lighter market inquiry would defy the thrust of *Illinois Tool* and perpetuate an unfair presumption against patent-tying arrangements.

#### IV. CONCLUSION

Confronting a half-century of jurisprudence that conflated patent misuse with antitrust liability, the Supreme Court in *Illinois Tool* successfully removed the presumption that a patent confers sufficient market power in tying-arrangement cases under the Sherman Act. Nevertheless, the Court failed to clearly address which standard should be applied prospectively. Although there is ample language to suggest that the Court in *Illinois Tool* eliminated the *per se* analysis for cases involving patent-tying arrangements, lower courts are still in disagreement. Regardless of the ambiguities in *Illinois Tool*, this Note recommends adopting the rule of reason analysis in future cases. Employing the rule of reason embraces the full extent of the Court's recognition of the procompetitive possibilities of patent-tying arrangements. Until the Court decides to explicitly recognize this approach, the legal environment on tying arrangements will remain still tied up.

