No. 04-1329

In The Supreme Court of the United States

ILLINOIS TOOL WORKS, INC. and TRIDENT, INC.,

Petitioners,

v.

INDEPENDENT INK, INC.,

Respondent.

On Writ Of Certiorari To The United States Court Of Appeals For The Federal Circuit

BRIEF *AMICUS CURIAE* OF THE INTELLECTUAL PROPERTY LAW ASSOCIATION OF CHICAGO IN SUPPORT OF PETITIONERS

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STATEMENT OF INTEREST

The Intellectual Property Law Association of Chicago ("IPLAC") submits this brief as *amicus curiae* in support of Illinois Tool Works, Inc. ("ITW").[1] IPLAC has the permission of the parties to submit this brief.

Founded in 1884, IPLAC is the oldest intellectual property law association in the nation. Its nearly 1,000 members include law firm attorneys, sole practitioners, corporate attorneys, law school professors, and law students. IPLAC is centered in Chicago, a principal forum for patent litigation in this country. IPLAC itself has no interest in any party to this litigation or stake in the outcome of this case.[2]

IPLAC is a not-for-profit organization dedicated to maintaining a high standard of professional ethics in the practice of patent, trademark, copyright, trade secret, and associated fields of law. A principal aim is to aid in the development and administration of these laws and the manner by which they are applied by the courts and by the United States Patent and Trademark Office. IPLAC is further dedicated to providing a medium for the exchange of views on intellectual property law between those practicing in the field and to educating the public at large.

[1] Pursuant to Rule 37.6, IPLAC states that: (1) no counsel to a party authored this brief, in whole or in part; and (2) no person or entity other than IPLAC and its counsel made a monetary contribution to the preparation or submission of the brief.

[2] IPLAC notes that petitioner ITW is headquartered in the Chicago area and that at least its General Patent Counsel is a member of IPLAC. However, no employee of ITW sits on the board of managers of IPLAC nor chairs any of the committees involved in writing or reviewing this brief.

SUMMARY OF FACTS AND CASE

ITW sells a print head for the application of bar codes to packages and cartons on an assembly line. One or more ITW patents apply to the print head. ITW's license to use the patented print head technology requires the licensee to buy ink from ITW only.

Independent Ink sells ink and charged that ITW's license agreement violates Sections 1 and 2 of the Sherman Act. Finding that Independent submitted no affirmative evidence defining a relevant market nor proving Trident's (ITW's) market power in it, the district court granted summary judgment in favor of ITW and Trident on both claims, stating that for tying to violate the antitrust laws, the plaintiff must affirmatively prove market power. *Independent Ink, Inc. v. Trident, Inc.*, 210 F. Supp. 2d 1155, 1162, 1173-77 (C.D. Cal. 2002).

The Federal Circuit reversed and remanded the case as to the Section 1 claim, declaring that precedents of this Court in tying cases confer on Independent a presumption of market power that arises from patents owned or controlled by Trident or ITW over the tying product. *Independent Ink, Inc. v. Illinois Tool Works, Inc.*, 396 F.3d 1342, 1344 (Fed. Cir. 2005). It affirmed the district court's summary judgment as to the Section 2 claim. The court of appeals also ruled:

> The presumption can only be rebutted by expert testimony or other credible economic evidence of the cross-elasticity of demand, the area of effective competition, or other evidence of lack of market power.

Id. at 1352.

SUMMARY OF ARGUMENT

Modern jurisprudence of this Court calls for a detailed economic analysis of the markets for the tying product and the tied product. The presumption wrongly eliminates the need for such analysis and is not consistent with current jurisprudence.

Further, while this Court has sometimes mentioned patents as conferring market power, in other cases it has denied the proposition. It is easy to demonstrate that simply having a patent on some aspect of the tying product or service does not establish market power. The presumption makes little sense.

Finally, raising a presumption that a tie-in is illegal merely because a patent somehow covers the tying product or service is a disincentive to innovation and/or patenting and unfairly penalizes inventors. The potential benefits of the presumption are speculative and do not outweigh this disincentive.

An antitrust complainant raising a tying arrangement should be required to show the requisite economic factors without the benefit of a presumption, and the judgment of the court of appeals to the contrary (believing itself required to apply the presumption) should be reversed.

ARGUMENT

I. THE *PER SE* RULE DOES NOT AUTOMATICALLY APPLY

In 1958, this Court instructed that certain agreements or practices were unlawful *per se*, stating that:

> . . . their pernicious effect on competition and lack of any redeeming virtue are conclusively presumed to be unreasonable and therefore illegal without elaborate inquiry as to the precise harm they have caused or the business excuse for their use.

Northern Pacific Rwy. Co. et al. v. U.S., 356 U.S. 1, 5, 78 S.Ct. 514, 518 (1958).

The railway had argued that the tying product (real estate) was not patented, wherefore the rule of *International Salt Co., Inc. v. U.S.*, 332 U.S. 392 (1947), which involved patents, was inapplicable. Rejecting this contention, this Court stated that it had placed no reliance on whether a patent was involved. "Nor have subsequent cases confined the rule of *per se* unreasonableness laid down in *International Salt* to situations involving patents." *Id.*, 356 U.S. at 9, 78 S.Ct. at 520. The test, rather, is whether there is "sufficient economic power to impose an appreciable restraint on free competition in the tied product." *Id.*, 356 U.S. at 11, 78 S.Ct. at 521.

Four years later, this Court declared that requisite economic power is presumed when the tying product is patented or copyrighted, citing a hostility to the use of the patent "monopoly" to extend the patentee's economic control to unpatented products. *United States v. Loew's Inc. et al.*, 371 U.S. 38, 45-46, 83 S.Ct. 97, 102 (1962).

In a case involving patents three years later, however, this Court was "reluctant to extend [the area of *per se* illegality] on the bare pleadings and absent examination of market effect and economic consequences." *Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp.*, 382 U.S. 172, 178, 86 S.Ct. 347, 351 (1965).

This Court presented a more refined analysis of the factors needed to establish unlawful tying in *Jefferson Parish Hospital District No. 2 et al. v. Hyde*, 466 U.S. 2, 104 S.Ct. 1551 (1984). The hospital had restricted its anesthesiology hiring to one outside source and refused to grant privileges to other anesthesiologists. Dr. Hyde challenged this as an unlawful tie-in, with hospital surgical services as the tying "product" and the anesthesiology services as the tied "product." The district court found that the impact on commerce resulting from the contract was minimal, but the court of appeals found that the contract was a tie-in involving a not insubstantial amount of interstate commerce and declared the arrangement illegal *per se*. 466 U.S. at 7-8, 104 S.Ct. at 1555-56. This Court reversed, characterizing "condemned tying" arrangements as "when the seller has some special ability – usually called 'market power' – to force a purchaser to do something that he would not do in a competitive market." 466 U.S. at 13-14, 104 S.Ct. at 1559.

The Court specified that a *per se* condemnation "without inquiry into actual market conditions . . . is only appropriate if the existence of forcing is probable." 466 U.S. at 15-16, 104 S.Ct. at 1560. A proper analysis of the tying issue had to focus on the sale of the involved services rather than the contractual arrangements with providers. 466 U.S. at 18, 104 S.Ct. at 1561. The legality of the hospital's conduct "depends on its competitive consequences, not on whether it can be labeled 'tying.'" 466 U.S. at 22 n.34, 104 S.Ct. at 1563. Further, "the fact that petitioner's patients are required to purchase two separate items is *only the beginning* of the appropriate inquiry." 466 U.S. at 24, 104 S.Ct. at 1565 [emphasis added].

Thus, not all tying arrangements are unlawful. Rather, they are condemned only where they restrain competition *on the merits by forcing purchases that would not otherwise be made.* 466 U.S. at 27, 104 S.Ct. at 1566. Surgical patients required anesthesiology services in addition to surgical services, and the *Jefferson Parish* record contained no evidence that the hospital forced anesthesiology services on unwilling patients.

The *Jefferson Parish* Court thus explained that all the record showed was that the choice of anesthesiologists had been limited. But,

> without a showing of actual adverse effect on competition, respondent cannot make out a case under the antitrust laws, and no such showing has been made.

466 U.S. at 30, 104 S.Ct. at 1568. The relevant inquiry was whether the contract at issue . . .

> foreclosed so much of the market from penetration by Roux's competitors as to unreasonably restrain competition in the affected market, the market for anesthesiological services.

Id. The record, however, was scant as to the market for anesthesiology services.

IPLAC sees important parallels between the reasoning of the *Jefferson Parish* majority opinion and the case at bar. First, the question is not whether a tying agreement exists but rather whether a relevant market for ink has been impacted adversely by ITW's license agreements for print head technology. Just as the hospital in *Jefferson Parish* did not force surgical patients to purchase services (anesthesiology) they did not want, ITW cannot be presumed to have forced users of ink print heads to have purchased goods (ink) they did not want. Ink purchases would have been made regardless of the terms of the ITW license agreements, as all users of the ITW print head would require ink for the print head to deliver. Thus, ITW did not coerce the sale of an unwanted product (ink) on print head users.

Second, just as the *Jefferson Parish* record showed that the choice of provider of the tied services was restricted, the choice is likewise restricted here.

Third, just as the record in *Jefferson Parish* failed to show the effect of the tying arrangement on competition in a relevant market for the tied services, the record here fails to show the effect of the license agreements on competition in a market for the tied product. Considering just these facts, the outcome should be the same.

Moreover, Justice O'Connor's concurring opinion, joined by the Chief Justice, Justice Powell, and Justice Rehnquist, remarked that the Court had never been willing to declare *all* tying arrangements illegal, without proof of market power or anticompetitive effect; further, the *per se* doctrine in tying cases always called for an elaborate inquiry into the economic effects of the tying arrangement. 466 U.S. at 34, 104 S.Ct. at 1570 (concurring opinion). Market power might be acquired via a patent or via unlawful monopolization.[3] Tying may be economically

[3] In dicta, the majority opinion of the Court said that if "the Government has granted the seller a patent or similar monopoly over a product, it is fair to presume that the inability to buy the product elsewhere gives the seller market power." 466 U.S. at 16, 104 S.Ct. at 1560.

harmful when power in the tying product is used to create additional market power in the market for the tied product.

Justice O'Connor set forth three threshold criteria: (1) market power in the tying product, (2) a substantial threat of market power in the tied product, and (3) a coherent economic basis for treating the products as distinct. 466 U.S. at 37-41, 104 S.Ct. at 1571-73. Even when these are met, the tie-in may be acceptable, for it may yield economic benefits as well as harms. All this must be balanced in a rule of reason analysis. "It may, for example, be entirely innocuous that the seller exploits its control over the tying product to 'force' the buyer to purchase the tied product." 466 U.S. at 41, 104 S.Ct. at 1574 (concurring opinion).

The reasoning of the concurring opinion is a further basis why the presumption should not apply. There has been no analysis of the effects of the tie-in in the market for the tied product. Accordingly, the decision of the court of appeals reversing the district court as to the Sherman Act Section 1 claim should be reversed.

II. THE ISSUANCE OF A PATENT SHOULD NOT RAISE A PRESUMPTION OF MARKET POWER IN THE TYING PRODUCT

What distinguishes the case at bar from *Jefferson Parish* is that the tying product is a patented product, unlike in *Jefferson Parish*. Hence the issue is whether the fact that some patent applies to the tying product is enough, by itself, to justify a presumption of market power and relieve the complainant of having to prove the requisite economic elements.

IPLAC considers it illogical to presume the existence of sufficient market power simply because *some aspect* of a product in that market is protected by a patent.

A. The Patent May Be Directed to a Narrow Improvement

An article of manufacture, machine, or composition of matter may embody hundreds or conceivably thousands of patented inventions. In any complex machine or commercial article, it is generally not the case that one patent or even a handful of patents confers market power on the patentee. This Court has recognized as "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." *Northern Pacific Rwy.*, 356 U.S. at 10, n.8, 78 S.Ct. at 520. Whether a patent confers market power in a relevant field of commerce is a question that is not answered by the mere existence of a patent. Examination of the patent and the market is required.

B. The Technology May Have Cross-Licensed Patents, Diminishing the Importance of Any Single Patent

Further, in most areas of developed technology, many competitors hold patents. It is common for competing parties to cross-license their patents. This further militates against a presumption that merely having one or more patents covering some aspect of a product always conveys market power. In the automotive field, for example, there are several competitors, each having a great number of extant patents which cover hundreds or thousands of aspects of the automobile. One patent or one portfolio of patents by one competitor should not establish without further examination that the patent owner has market power in a defined market.

C. The Patent May Be Superannuated

Just as patents have varying scope defined by their respective claims, the market power of a patent can also be related to the relationship of the patent to technology extant in the marketplace. Consider, for example, the technology for a 3.5-inch floppy diskette for portable data storage for computers. While patents generally endure 20 years from the earliest filing date, this product today has essentially been superseded by other memory technologies. Many laptop computers are sold without a floppy diskette reader. Instead, such computers now favor readable or writable optical disks, and they almost uniformly permit the use of portable semiconductor memory connectable via a USB port on the computer. Hence, the existence of unexpired patents today covering floppy diskettes does not, standing alone, indicate that the patent owner has market power in the removable data storage device field. It is not reasonable to presume that the existence of *any* patent creates market power.

Hence, there are many occasions when a patent does not imply market power. Inferring market power is illogical.

III. RAISING A PRESUMPTION WHEN A TYING PRODUCT IS PATENTED DISCOURAGES PATENTING

IPLAC supports the patent system, which serves absolutely vital interests in the economy. IPLAC suggests that relieving an antitrust complainant of having to muster evidence of an antitrust violation, merely because the tying product happens to be covered in some way by one or more patents, penalizes all patent owners. Essentially, the presumption of market power means that patent owners which use their patents commercially are disadvantaged. If a patentee requires the purchase of an unpatented product in order to obtain the patented one, and a complainant proves that a not insubstantial amount of business is involved, the patentee is in a completely defensive posture. Now it must devote very substantial resources to defend a complex antitrust case. The patent owner must develop expert testimony on arcane topics.

Meanwhile, the patent owner's non-patenting competitor does not face the perils of the presumption. The non-patenting competitor can use tying arrangements, secure in the knowledge that if anyone in the marketplace complains about his tying, that complainant will not benefit from a presumption of market power. That is, any antitrust complainant injured by the non-patentee's tying would have to establish *all* elements of tying with evidence showing liability under a rule of reason test. This clearly is uneven treatment.

Hence, the antitrust presumption against patent owners who commercialize their inventions is effectively a penalty or disincentive to innovate or patent an innovation.

IV. THE BENEFITS OF THE PRESUMPTION DO NOT OUTWEIGH ITS HARM

This Court should consider whether the harms caused by the presumption are outweighed by the benefits, if any, of the presumption. While some competitors may eschew patenting and others will avoid tying to patented goods or services, still others will both patent *and* tie the sale of non-patented goods to patented ones, notwithstanding the presumption. The presumption increases the exposure of patentees to antitrust litigation, as competitors will take advantage of the presumption (as Independent Ink seeks to do here). Not only do patentees who tie face a heightened likelihood of litigation, but also their expenses of litigation (due to the difficulty of rebutting the presumption) and their risk of an unfavorable outcome are heightened. In light of the rationale of this Court's *Jefferson Parish* decision calling for an incisive analysis of the effects on the proper market, it is highly dubious in IPLAC's view that the mere ownership of a patent covering some aspect of the tying goods or services justifies these shifts in cost and risk. Thus, IPLAC submits that the benefits of the presumption are essentially speculative in this context.

The analysis would be incomplete, however, without also considering the potential harm in eliminating the presumption. Query whether the presumption is truly needed to dissuade patentees from tying the sale of non-patented goods or services to patented ones. Is the presumption necessary to dissuade an automobile manufacturer owning patents on automobiles from contractually requiring the use of genuine, new replacement parts from itself and no other source during repair or reconstruction, or to dissuade a printer manufacturer owning patents on printers from contractually banning the refilling of empty ink or toner cartridges, or to dissuade a manufacturer of medical equipment owning patents on the equipment from specifying the source of consumables used with the equipment? Can this Court conclude that it is *probable* that without the presumption, tying agreements will become rampant *and that competition will be harmed with no counter-balancing social benefit*?

IPLAC submits that such a conclusion is speculative. IPLAC believes that the market will address most of these concerns. IPLAC believes that the illustrative tie-ins will not be embraced by the marketplace, and consumers will purchase automobiles, printers, or medical equipment from other sources who do not impose such requirements.

Moreover, if competition is indeed harmed by such tying activity, aggrieved parties would still have recourse under the Sherman Act even without the presumption. Their burden would be just the same as others. The existence of the patent would be one factor to consider, along with all other relevant factors. If the economic effect of tying be sufficient, they can obtain relief under the antitrust laws. IPLAC sees no reason why the existence of a patent should justify special relief for competitors via the presumption.

CONCLUSION

IPLAC respectfully urges the Court to declare that no presumption arises that a patent confers market power for tying purposes and that the rule of reason applies in determining whether a tying arrangement is lawful under Section 1 of the Sherman Act.

Respectfully submitted,

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