

No.

In the Supreme Court of the United States

ILLINOIS TOOL WORKS INC. AND TRIDENT, INC.,
Petitioners,

v.

INDEPENDENT INK, INC.,
Respondent.

**On Petition for a Writ of Certiorari to the
United States Court of Appeals for the Federal Circuit**

PETITION FOR A WRIT OF CERTIORARI

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QUESTION PRESENTED

Whether, in an action under Section 1 of the Sherman Act, 15 U.S.C. § 1, alleging that the defendant engaged in unlawful tying by conditioning a patent license on the licensee's purchase of a non-patented good, the plaintiff must prove as part of its affirmative case that the defendant possessed market power in the relevant market for the tying product, or market power instead is presumed based solely on the existence of the patent on the tying product.

**RULE 29.6 STATEMENT AND PARTIES TO THE
PROCEEDING**

Pursuant to this Court's Rule 29.6, petitioners state that Trident, Inc. was acquired by Illinois Tool Works Inc. on February 17, 1999. Thereafter, Trident, Inc. became a division of ITW, and is no longer a separate corporate entity. Illinois Tool Works Inc. is a publicly held corporation.

The parties to the proceeding in the court of appeals were Illinois Tool Works Inc., Trident, Inc., and Independent Ink, Inc.

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PETITION FOR A WRIT OF CERTIORARI

Illinois Tool Works Inc. (“ITW”) and Trident, Inc. (“Trident”) respectfully petition the Court for a writ of certiorari to review the judgment of the United States Court of Appeals for the Federal Circuit in this case.

OPINIONS BELOW

The opinion of the court of appeals (App., *infra*, 1a-19a) is reported at 396 F.3d 1342. The order of the district court granting petitioners’ motion for summary judgment on the antitrust claims (App., *infra*, 20a-56a) is reported at 210 F. Supp. 2d 1155. The order of the district court entering final judgment (App., *infra*, 57a) is unreported.

JURISDICTION

The judgment of the court of appeals was entered on January 25, 2005. The jurisdiction of this Court rests on 28 U.S.C. § 1254(1).

STATUTORY PROVISION INVOLVED

Section 1 of the Sherman Act (15 U.S.C. § 1) provides in pertinent part: “Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce * * * is declared to be illegal.”

STATEMENT

A plaintiff alleging that a defendant has engaged in tying in violation of Section 1 of the Sherman Act (15 U.S.C. § 1) must prove that the defendant exercised “‘appreciable economic power’ in the tying product market.” *Eastman Kodak Co. v. Image Technical Servs., Inc.*, 504 U.S. 451, 462 (1992) (citation omitted). In *United States v. Loew’s, Inc.*, 371 U.S. 38 (1962), the Court stated that “[t]he requisite economic power is presumed when the tying product is patented or copyrighted.” 371 U.S. at 45-46 (citing *International Salt Co.*

v. *United States*, 332 U.S. 392 (1947), and *United States v. Paramount Pictures, Inc.*, 334 U.S. 131 (1948)).

The question presented in this case is whether the Court should reconsider, and overturn, the presumption announced in *Loew's*. The market power presumption is sharply inconsistent with the economic reasoning underlying the Court's contemporary tying decisions. The federal antitrust enforcement agencies and the overwhelming weight of scholarly opinion have repudiated *Loew's* and *International Salt*.

Indeed, the court below recognized that the presumption "has been subject to heavy criticism," including by Members of this Court, but concluded that "[e]ven 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 own precedents.'" App., *infra*, 13a-14a (citing *State Oil Co. v. Khan*, 522 U.S. 3, 20 (1997)). The Court should grant review to address this important issue that it alone among the federal courts has the power to resolve.

A. Trident's Business

ITW's Trident division designs, manufactures and markets printing systems made up of industrial piezoelectric impulse ink jet printheads and inks. It sells the systems to original equipment manufacturers ("OEMs") that incorporate them into printers for industrial applications — for example, bar coding and other carton labeling. Those printers, in turn, form a small part of the packaging assembly lines that the OEMs sell to their customers.

Trident is the exclusive licensee under a portfolio of patents covering piezoelectric printing technology. Even so, Trident competes with at least two other firms, Markem and Xaar, that also have developed their own printhead systems capable of printing barcodes on packaging material. App., *infra*, 22a. In addition, all three manufacturers face competi-

tion from the older but still viable method of attaching barcodes to packages with pre-printed labels. *Ibid.*

Trident holds the patent involved in this litigation, U.S. Patent No. 5,343,226 (“the ‘226 patent”), and other related patents and patent applications, on the connection between the printhead and the bottle containing the printer ink. Trident licenses its OEM customers under the ‘226 patent and its other related patents to “manufacture, use and sell equipment employing and including ink jet printing devices supplied by Trident when used in combination with ink and ink supply systems supplied by Trident.” *Id.* at 21a. Pursuant to this license requirement, the OEM customers buy the Trident inks, in patented single-use containers, along with the printheads for which they were designed and incorporate them into the units they sell to their end-user customers. The end-users buy ink refills from the OEMs, subject to a single-use license under the ‘226 patent. The single-use license prohibits refilling the containers. *Ibid.*

However, the licenses to the OEMs do not bind end-users, and neither the ‘226 patent nor the single-use license has prevented end-users from obtaining ink and containers from third-party manufacturers. Several firms have sought to capitalize on Trident’s investments in innovation, either by selling ink in their own containers, despite the ‘226 patent, or by refilling the end-users’ Trident containers, despite the single-use license. See *id.* at 21a-22a. One such firm is respondent Independent Ink, Inc. (“Independent”). *Id.* at 21a.

B. The District Court Decision

On December 31, 1997, Trident filed an infringement action against Independent in the United States District Court for the Southern District of Illinois based upon Independent’s refilling of Trident’s patented single-use ink containers with its own ink. The suit, which Trident brought against four defendants in all, was dismissed as to Independent and one other defendant for lack of personal jurisdiction. See *Trident*,

Inc. v. Applied Techs. Group, Inc., No. 3:97-cv-01047-GPM (S.D. Ill. Dec. 15, 1998).

Independent concurrently commenced this action against Trident in the United States District Court for the Central District of California, seeking a declaratory judgment of non-infringement and invalidity. Independent later added several other claims, including federal and state antitrust law claims.¹ In its Fourth Amended Complaint, Independent's federal antitrust claim alleged "monopolization, conspiracy to restrain trade, conspiracy to monopolize and attempted monopolization," evidently in violation of Sections 1 and 2 of the Sherman Act (15 U.S.C. §§ 1 & 2), based on, among other alleged conduct, the tying of the patented printheads and the ink.² Trident and ITW (which had been added as a defendant after it purchased Trident) moved for summary judgment on both the federal and state antitrust claims; Independent moved for summary judgment only as to its Section 1 theory.

Independent contended that Trident and ITW "necessarily ha[d] market power in the market for the tying product as a matter of law solely by virtue of the patent on their printhead system." App., *infra*, at 23a. At the same time, though, Independent acknowledged that "the mere fact of having a patent does not create market power vis-à-vis the products with which the patented product competes." *Ibid.* (quoting Plaintiff's Reply Brief at 4). Independent's summary judgment briefs did not resolve this fundamental incongruity: they "d[id] not discuss the products at issue, their substitutes, or

¹ Independent's non-antitrust claims were state law claims for unfair competition, fraud, and negligent and intentional interference with prospective business advantage. The district court's jurisdiction was based on 28 U.S.C. § 1332(a)(1), 28 U.S.C. § 1337(a), and 28 U.S.C. § 1338(a).

² Independent also included a claim under California state antitrust law. See App., *infra*, 38a n.13.

the relevant markets.” *Id.* at 24a. Indeed, Independent itself stated that its expert “did not perform an antitrust analysis at all.” *Ibid.* (quoting Plaintiff’s Response to Defendants’ Statement of Uncontroverted Facts at ¶ 10).

The district court denied Independent’s summary judgment motion, and granted summary judgment for Trident on both claims. App., *infra*, at 38a, 49a. The court found that Independent had “proffer[ed] no evidence that would establish Defendants’ market power in the as yet undefined market for the tying product.” *Id.* at 49a.

The district court rejected Independent’s contention that Trident’s market power was presumed by virtue of its patent. “The weight of authority,” the court observed, “is to the contrary,” citing recent cases that did not apply the *International Salt-Loew’s* presumption and noting the statement of the Department of Justice and Federal Trade Commission that, in analyzing patent-based tying, they “will not presume that a patent, copyright, or trade secret necessarily confers market power upon its owner.” *Id.* at 30a-33a (quoting United States Department of Justice and Federal Trade Commission, *Antitrust Guidelines for the Licensing of Intellectual Property*, § 5.3 (1995) (other citations omitted)).

The district court distinguished *International Salt and Loew’s*, finding that “[t]he Court’s language [in those cases] concerning presumptions of market power based upon patents arose at a time when genuine proof of power in the market for the tying product was not required”; in contrast, the court reasoned, “in [*Jefferson Parish Hospital District No. 2 v. Hyde*, 466 U.S. 2 (1984)], the Court began demanding real proof of such market power.” App., *infra*, 34a-35a n.10 (citing 10 P. Areeda & H. Hovenkamp, *Antitrust Law* ¶ 1737a (1996)). Concluding that Independent had produced “no evidence from which a reasonable trier of fact could define the relevant product and geographic markets,” and had failed to “proffer any evidence that Defendants possess market power

by virtue of their market share or that the market for the tying product contains barriers to entry,” the court entered summary judgment for ITW and Trident on the Section 1 theory. App., *infra*, 49a.³

The district court also granted summary judgment for ITW and Trident on Independent’s Section 2 theory. The court found that Independent’s “proposed market definition was derived not from economic analysis of cross-elasticity of supply and cross-elasticity of demand, but rather from a report prepared by [Independent’s] vice president in a few hours.” *Id.* at 50a-51a. In fact, the court’s review of the record revealed “numerous actual and potential suppliers of ink for Trident’s system.” *Id.* at 52a. Similarly, Independent had “fail[ed] to proffer evidence or analysis concerning the relevant geographic market.” *Ibid.* Without evidence to support relevant product and geographic markets, Independent could not establish either that petitioners possessed monopoly power in a relevant market, or that there existed a dangerous probability of achieving such monopoly power. *Id.* at 53a, 56a. Finally, the court held that Independent had failed to “proffer any evidence of a conspiracy to monopolize any defined market.” *Id.* at 56a. Accordingly, Independent’s theories of monopolization, attempted monopolization and conspiracy to monopolize all failed.

³ Because the state law antitrust claim was “predicated upon the same facts” as the Sherman Act claim, and Independent did “not address [the state law] claims independently,” the district court disposed of that state law claim together with the Sherman Act theories. App., *infra*, at 38a n.13. The court of appeals did not address the state law antitrust claim.

The parties subsequently settled the non-antitrust claims, and the district court entered final judgment for petitioners on the antitrust claims. App., *infra*, 57a.

C. The Federal Circuit's Decision

The court of appeals reversed the summary judgment in favor of Trident and ITW on the Section 1 theory. Relying on *International Salt* and *Loew's*, the Federal Circuit held that “patent and copyright tying, unlike other tying cases, do not require an affirmative demonstration of market power. Rather, *International Salt* and *Loew's* make clear that the necessary market power to establish a section 1 violation is presumed.” App., *infra*, at 9a. The court of appeals refused petitioners’ invitation to hold that *International Salt* and *Loew's* are no longer good law. The court recognized that the two cases have “been subject to heavy criticism” (*id.* at 13a) and that [t]he time may have come to abandon the doctrine” (*id.* at 14a) but deferred to their “continued validity * * * as binding authority” (*id.* at 9a), noting that “it remains the [Supreme] Court’s prerogative alone to overrule one of its precedents” (*id.* at 14a (quoting *State Oil Co.*, 522 U.S. at 20)).

The court of appeals went on to hold 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.” App., *infra*, 15a. Determining that petitioners’ evidence of competition from the two rival printhead systems and barcode labeling had not overcome the market power presumption, the court reversed summary judgment for petitioners on Independent’s Section 1 theory and remanded the case “to permit [petitioners] an opportunity to supplement the summary judgment record with evidence that may rebut the presumption.” *Id.* at 17a.

With respect to the Section 2 theory, however, the court of appeals affirmed the district court’s grant of summary judgment for ITW and Trident. “In section 2 cases,” the court stated, “the plaintiff bears the burden of defining the market and proving defendant’s power in that market.” *Id.* at 18a. It upheld the district court’s determination that “plaintiff makes

only the conclusory allegation of a geographic market without supporting economic evidence” and held that “[s]uch conclusory statements are not sufficient to define a relevant market.” *Ibid.* Because Independent failed to carry its burden, the district court properly granted summary judgment for petitioners.

REASONS FOR GRANTING THE PETITION

This Court approaches reconsideration of its decisions “with the utmost caution.” *State Oil Co.*, 522 U.S. at 20. In the antitrust context, however, the Court has explained that “there is a competing interest [to *stare decisis*], well represented in th[e] Court’s decisions, in recognizing and adapting to changed circumstances and the lessons of accumulated experience. * * * Accordingly, th[e] Court has reconsidered its decisions construing the Sherman Act when the theoretical underpinnings of those decisions are called into serious question.” *Id.* at 20, 21 (overruling *Albrecht v. Herald Co.*, 390 U.S. 145 (1968)); see also *Copperweld Corp. v. Independence Tube Corp.*, 467 U.S. 752 (1984) (overruling *Kiefer-Stewart Co. v. Joseph E. Seagram & Sons, Inc.*, 340 U.S. 211 (1951)); *Continental T.V., Inc. v. GTE Sylvania Inc.*, 433 U.S. 36 (1977) (overruling *United States v. Arnold, Schwinn & Co.*, 388 U.S. 367 (1967)).

Reconsideration of this Court’s decisions in *Loew’s* and *International Salt* is warranted — indeed, necessary — because the very circumstances that the Court cited as the reasons for reconsidering these other antitrust precedents are present here as well. The market power presumption was transplanted into antitrust law from a line of patent cases on the basis of scant analysis; it is wholly inconsistent with the Court’s modern antitrust jurisprudence; it has been rejected by the federal antitrust enforcement agencies; and it is the subject of unusually unanimous scholarly criticism.

These flaws in *International Salt* and *Loew’s* have been recognized by Members of this Court. See *Jefferson Parish*,

466 U.S. at 37-38 n.7 (O'Connor, J., joined by Burger, C.J., and Powell and Rehnquist, JJ., concurring in the judgment); see also *Data Gen. Corp. v. Digidyne Corp.*, 473 U.S. 908 (1985) (White, J., joined by Blackmun, J.).

Review also is warranted to resolve the disarray among the lower courts with respect to this frequently recurring issue. The foundation on which the presumption rests has been eroded so deeply by this Court's modern antitrust jurisprudence that there is a square conflict among the courts of appeals with respect to the continuing vitality of *International Salt* and *Loew's*. In addition, numerous district courts have declined to follow those decisions.

Finally, the presumption imposes real costs on our economy. It encourages the filing of meritless lawsuits by plaintiffs hoping that the presumption will enable their claims to survive motions to dismiss and for summary judgment and, therefore, exact settlement payments from defendants facing the expense, and treble damages risk, of an antitrust trial. These burdens, in turn, may dissuade firms from investing in the development of intellectual property in the first place, thereby causing substantial harm to our economy in view of the increasingly important role of intellectual property as a driver of economic growth. This Court should intervene to eliminate this unjustified burden on intellectual property creation.

I. THE COURT SHOULD RECONSIDER *INTERNATIONAL SALT* AND *LOEW'S*.

“A tying arrangement is an ‘agreement by a party to sell one product but only on the condition that the buyer also purchases a different (or tied) product, or at least agrees that he will not purchase that product from any other supplier.’” *Eastman Kodak Co.*, 504 U.S. at 461 (quoting *Northern Pac. Ry. Co. v. United States*, 356 U.S. 1, 5-6 (1958)). Tying arrangements violate Section 1 of the Sherman Act (15 U.S.C.

§ 1) “if the seller has ‘appreciable economic power’ in the tying product market and if the arrangement affects a substantial volume of commerce in the tied market.” *Eastman Kodak Co.*, 504 U.S. at 462 (citation omitted).

The Court has explained 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.” *Jefferson Parish*, 466 U.S. at 12. “Accordingly, [the Court has] condemned tying arrangements 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. When ‘forcing’ occurs, [the Court’s] cases have found the tying arrangement to be unlawful.” *Id.* at 13-14 (footnote and citations omitted).

In *Loew’s*, the Court stated that “[t]he requisite economic power is presumed when the tying product is patented or copyrighted.” 371 U.S. at 45-46 (1962) (citing *International Salt* and *Paramount Pictures*). Although the Court has not applied that principle in the more than forty-two years since *Loew’s* was decided, it has repeated it several times in dicta.

This presumption simply makes no sense in the context of the Court’s present-day tying jurisprudence. “Legal presumptions that rest on formalistic distinctions rather than actual market realities are generally disfavored in antitrust law. * * * In determining the existence of market power * * * this Court has examined closely the economic reality of the market at issue.” *Eastman Kodak Co.*, 504 U.S. at 466-467 (footnote omitted). The presumption at issue here is the very embodiment of formalism over economic substance.

The bizarre results that flow from the presumption are well illustrated by this case. The court of appeals upheld summary judgment in petitioners’ favor on the Section 2 the-

ory because Independent made only conclusory allegations with respect to geographic market. App., *infra*, 18a. But the court of appeals rejected the district court's determination that the very same flaws doomed the Section 1 theory, holding that the presumption allowed that theory to survive summary judgment. *Id.* at 17a. The plaintiff was allowed to rely on the presumption to establish what it clearly could not prove — that Trident possessed market power in a relevant market.

Because this Court is the only court that can resolve the question regarding the appropriate legal rule, the Court should grant review to reconsider *International Salt* and *Loew's*.

A. The Market Power Presumption Was Not The Product Of “In-Depth” Antitrust Analysis By This Court.

In *Copperweld*, the Court explained that one reason for reconsidering the intra-enterprise conspiracy doctrine was that the Court had never before considered “the merits of the * * * doctrine in depth”; the doctrine had arisen “from a far narrower rule”; and, although the Court had “expressed approval of the doctrine on a number of occasions,” that statement “was in all but perhaps one instance unnecessary to the result.” 467 U.S. at 760. The presumption at issue here has a similarly undistinguished pedigree.

Most importantly, the presumption is not the product of a determination by this Court that the licensor of a patented or copyrighted product always, or nearly always, possesses market power as that term is generally understood in antitrust analysis — “the potential for genuine adverse effects on competition.” *FTC v. Indiana Fed'n of Dentists*, 476 U.S. 447, 460 (1986).

In *International Salt*, for example, the defendant refused to lease its salt-dispensing machines unless the lessee also

agreed to purchase from the defendant the salt used in the machines. The Court found an unlawful tie without conducting any market power analysis, subsequently explaining that “the defendant in *International Salt* offered to prove that competitive salt machines were readily available which were satisfactory substitutes for its machines (a fact the Government did not controvert), but the Court regarded such proof as irrelevant.” *Northern Pac. Ry. Co.*, 356 U.S. at 10 n.8; see also *Standard Oil Co. of Cal. v. United States*, 337 U.S. 293, 305 (1949) (“[i]t was not established that equivalent machines were unobtainable, it was not indicated what proportion of the business of supplying such machines was controlled by defendant, and it was deemed irrelevant that there was no evidence as to the actual effect of the tying clauses upon competition”).

The roots of the presumption lie in judicial concern about a patent owner’s ability to assert rights in excess of those conveyed by the patent itself. As the *Loew’s* Court explained, the principle “grew out of a long line of patent cases which had eventuated in the doctrine that a patentee who utilized tying arrangements would be denied all relief against infringements of his patent. These cases reflect a hostility to use of the statutorily granted patent monopoly to extend the patentee’s economic control to unpatented products.” 371 U.S. at 46 (citations omitted).

The Court then set forth its rationale for extending these cases into the antitrust context:

Since one of the objectives of the patent laws is to reward uniqueness, the principle of these cases was carried over into antitrust law on the theory that the existence of a valid patent on the tying product, without more, establishes a distinctiveness sufficient to conclude that any tying arrangement involving the patented product would have anticompetitive consequences.

371 U.S. at 46; see also *Paramount Pictures*, 334 U.S. at 158 (block licensing of motion pictures is unlawful under the antitrust laws because it “add[s] to the monopoly of the copyright in violation of the principle of the patent cases involving tying clauses”) (footnote omitted).

Thus, the market power presumption does not reflect a determination about the relationship between intellectual property rights and market power. Rather, it is the product of a judicial judgment about the appropriate limits on intellectual property rights, imported into antitrust law based on the questionable “theory” that the “uniqueness” that patents are meant to reward equates to “distinctiveness sufficient to” create market power. *Loew’s*, 371 U.S. at 46; see also *Jefferson Parish*, 466 U.S. at 37-38 n.7 (O’Connor, J., concurring in the judgment) (explaining that in *Paramount Pictures* “the Court did not analyze the arrangement with the schema of tying cases” but rather “borrowed the patent law principle of ‘patent misuse’”).

Although the Court has repeated the *Loew’s* formulation of the presumption in several subsequent opinions addressing tying claims, none of those cases turned on application of the presumption because they did not involve a tying product that was patented or copyrighted. See *Jefferson Parish*, 466 U.S. at 16; *United States Steel Corp. v. Fortner Enters., Inc.*, 429 U.S. 610, 619 (1977) (“*Fortner II*”); *Fortner Enters., Inc. v. United States Steel Corp.*, 394 U.S. 495, 505 n.2 (1969) (“*Fortner I*”). Thus, as in *Copperweld*, the Court has not had any occasion to “explore[] or analyze[] in detail the justifications for such a rule; the [presumption] has played only a relatively minor role in the Court’s Sherman Act holdings.” 467 U.S. at 766.⁴

⁴ Congress overturned the Court’s judgment about the appropriate limits on intellectual property rights in 1988 when it enacted a statute requiring proof of actual market power to establish a patent misuse defense based on patent tying. Act of Nov. 19, 1988, Pub.

B. The Market Power Presumption Is Wholly Inconsistent With The Court’s Modern Tying Jurisprudence.

If *International Salt* and *Loew’s* had never been decided and the Court were confronted for the first time today with the contention that market power should be presumed when the tying product is copyrighted or patented, it is inconceivable that the Court would adopt that approach. Such a presumption is sharply out of step with the Court’s explanation in more recent decisions that the role of the market power requirement in tying cases is to restrict antitrust liability to those situations in which anticompetitive forcing is likely to occur.

In *Fortner II*, 429 U.S. at 620, the Court described the critical inquiry with respect to market power as “whether the seller has the power, within the market for the tying product, to raise prices or to require purchasers to accept burdensome terms that could not be exacted in a completely competitive market.” See also *id.* at 620 n.13 (“market power in the

L. No. 100-703, § 201, 102 Stat. 4674, 4676 (codified at 35 U.S.C. § 271(d)(5)).

The fact that Congress considered amending the antitrust laws to overturn *International Salt* and *Loew’s* but failed to do so does not indicate congressional endorsement of those decisions. “[I]n the absence of any persuasive circumstances evidencing a clear design that congressional inaction be taken as acceptance of [*International Salt* and *Loew’s*], the mere silence of Congress is not a sufficient reason for refusing to reconsider the decision[s].” *Boys Mks., Inc. v. Retail Clerks Union, Local 770*, 398 U.S. 235, 242 (1970); see also *State Oil Co.*, 522 U.S. at 19 (“[i]n the context of this case, we infer little meaning from the fact that Congress has not reacted legislatively to [the Court’s decisions]”); 134 Cong. Rec. S17,148 (Oct. 21, 1988) (statement of Sen. Leahy) (explaining that “the House did not have time to consider and approve th[e] measure” eliminating the presumption in antitrust tying cases).

sense of power over price must * * * exist. If the price could have been raised but the tie-in was demanded in lieu of the higher price, then — and presumably only then — would the requisite economic power exist”) (quoting K. Dam, *Fortner Enterprises v. United States Steel*: “*Neither a Borrower Nor a Lender Be*,” 1969 Sup. Ct. Rev. 16, 25-26).

Jefferson Parish, decided seven years later, stated that the defendant’s market power must be “significant,” and that the mere fact that “prices can be raised above the levels that would be charged in a competitive market” is not sufficient to establish “the kind of market power that justifies condemnation of tying.” 466 U.S. at 26, 27 & n.46; see also *Grapone, Inc. v. Subaru of New England, Inc.*, 858 F.2d 792, 796 (1st Cir. 1988) (Breyer, J.) (*Jefferson Parish* “makes clear that by its requirement of ‘market power’ it means *significant* market power — more than the mere ability to raise price only slightly, or only on occasion, or only to a few of a seller’s many customers”) (emphasis in original).

Most recently, in *Eastman Kodak Co.*, the Court referred to the requirement of “appreciable economic power in the tying market,” and defined “market power” as “‘the ability of a single seller to raise price and restrict output.’ The existence of such power ordinarily is inferred from the seller’s possession of a predominant share of the market.” 504 U.S. at 464 (citation omitted).

The Court has thus applied a stringent market power standard in its modern tying cases. 10 P. Areeda et al., *Antitrust Law*, ¶ 1733a, at 13 (2d ed. 2004) (the market power requirement “was not taken seriously until the late 1970s. Beginning with *Fortner II* and continuing in *Jefferson Parish* and *Kodak*, the Supreme Court has insisted that the plaintiff prove such power”) (footnotes omitted). As we have explained, however (see pages 11-13, *supra*), the market power presumption was developed in earlier cases in which the

Court held that it was *unnecessary* to evaluate the seller's actual ability to affect price in the tying market.

The market power presumption is for that reason completely inconsistent with the Court's present-day market power requirement. Accord *Jefferson Parish*, 466 U.S. at 37 n.7 (O'Connor, J., joined by Burger, C.J., and Powell and Rehnquist, JJ., concurring in the judgment) (“[a] common misconception has been that a patent or copyright * * * suffices to demonstrate market power”; while this factor might “help to give market power to a seller, it is also possible that a seller [in this situation] will have no market power: for example, a patent holder has no market power in any relevant sense if there are close substitutes for the patented product”); 10 *Areeda et al.*, *supra*, ¶ 1737a, at 79 (“there is no economic basis for inferring any amount of market power from the mere fact that the defendant holds a valid patent, copyright, trademark, or other intellectual property right”) (footnote omitted).⁵

The presumption also is inconsistent with the Court's analysis in cases not involving intellectual property tying. As long ago as *Northern Pacific*, this Court noted that “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.” 356 U.S. at 10 n.8; see also *Walker Process Equip., Inc. v. Food Mach. & Chem. Corp.*, 382 U.S. 172, 177-78 (1965) (noting in the context of an attempted monopolization

⁵ See also S. Vermont, “The Economics of Patent Litigation,” in *From Ideas to Assets: Investing Wisely in Intellectual Property* 327, 332 (B. Berman, ed. 2002) (“[A]t any given time, over about 95 percent of patents are unlicensed and over about 97 percent are generating no royalties”); W. Landes & R. Posner, *The Economic Structure of Intellectual Property Law* 320 n.52 (2003) (quoting Vermont's analysis).

case that “[i]t may be that the device [that was the subject of the patent claim] * * * does not comprise a relevant market. There may be effective substitutes for the device which do not infringe the patent”).

There is no rational justification for an exception to this rule for tying cases. Nothing about tying changes the degree of power that inheres in an intellectual property right: if a patent owner lacks market power when it engages in exclusive dealing, there is no reason to conclude that market power has sprung up when it ties. “With the views underlying [*International Salt* and *Loew’s*] eroded by this Court’s precedent, there is not much of [those decisions] to salvage.” *State Oil Co.*, 522 U.S. at 21.

C. The Federal Antitrust Enforcement Agencies Have Rejected The Market Power Presumption.

In determining whether it is appropriate to reconsider an antitrust precedent, the Court also has assessed the role played by that precedent in the federal government’s enforcement activities. *Copperweld*, 467 U.S. at 777. This factor, too, weighs heavily in favor of reconsideration.

The federal antitrust enforcement agencies “will not presume that a patent, copyright, or trade secret necessarily confers market power upon its owner,” even in tying cases. United States Department of Justice and the Federal Trade Commission, *Antitrust Guidelines for the Licensing of Intellectual Property* §§ 2.2 & 5.3 (1995). “Although the intellectual property right confers the power to exclude with respect to the *specific* product, process, or work in question, there will often be sufficient actual or potential close substitutes for such product, process, or work to prevent the exercise of market power.” *Id.* § 2.2 (emphasis in original).⁶

⁶ Commentators have observed that the agencies’ position “effectively repudiate[s] the old approach” reflected in *International Salt* and *Loew’s*. W. Tom & J. Newberg, *Antitrust and Intellectual*

The leadership of the Antitrust Division has reiterated this same point more recently in public speeches. Assistant Attorney General Pate stated that “[b]ecause patents do not necessarily confer market power, there is no presumption that tying arrangements involving patented products necessarily are illegal.” R. H. Pate, “Antitrust and Intellectual Property,” at 10 (Jan. 24, 2003) (citation omitted), *available at* <http://www.usdoj.gov/atr/public/speeches/200701.pdf>. As he explained, “without a showing that the patent actually conveys market power, antitrust concerns do not arise.” *Id.* at 7.

Deputy Assistant Attorney General Delrahim further explained the Antitrust Division’s view:

While an intellectual property right does confer the right to exclude others with respect to the work or invention within the scope of that right, it does not immediately confer upon the holder the ability to seek a monopoly rent. Close substitutes in the marketplace may foreclose the new product or technology from realizing any meaningful return, let alone gaining a monopoly position. In this respect, intellectual property assets are comparable to other kinds of property, and therefore, the Department applies the same general antitrust principles when assessing the market power held by an intellectual property owner as it would if the asset at issue were any other form of tangible or intangible property.

Property: From Separate Spheres to Unified Field, 66 Antitrust L.J. 167, 173-74 (1997); see also T. Hayslett III, *1995 Antitrust Guidelines for the Licensing of Intellectual Property: Harmonizing the Commercial Use of Legal Monopolies with the Prohibitions of Antitrust Law*, 3 J. Intell. Prop. L. 375, 395 (1996) (“[t]he Guidelines retreat from the historic common law position and specifically embrace the scholars’ arguments”).

M. Delrahim, “Contemporary Issues at the Intersection of Intellectual Property and Antitrust,” at 5-6 (Nov. 10, 2004) (citing *IP Guidelines*; footnote omitted), available at <http://www.usdoj.gov/atr/public/speeches/206607.pdf>.

D. The “Great Weight” Of Scholarly Opinion Is Sharply Critical Of The Market Power Presumption.

The Court also has pointed to the “‘great weight’ of scholarly criticism” as another factor relevant in determining whether to reconsider a prior decision. *State Oil Co.*, 522 U.S. at 21 (quoting *GTE Sylvania Inc.*, 433 U.S. at 47-48).

There is an overwhelming scholarly consensus that the market power presumption should be abandoned. See, e.g., H. Hovenkamp, M. Janis & M. Lemley, *IP and Antitrust*, § 4.2e6 (2005 Supp.) (“a poorly grounded presumption”); 10 Areeda et al., *supra*, ¶ 1737c, at 82 (“[i]f [*International Salt*] really required power and inferred it from any patent, it erred”); R. Posner, *Antitrust Law* 197-98 (2d ed. 2001) (“[M]ost patents confer too little monopoly power to be a proper object of antitrust concern. Some patents confer no monopoly power at all.”); D. Turner, *The Durability, Relevance, and Future of American Antitrust Policy*, 75 Cal. L. Rev. 797, 805 (1987) (“courts mistakenly assume the ‘market power’ predicate to be met where the tying product is patented or copyrighted or is distinctive from products offered by competitors”); J. Bauer, *A Simplified Approach to Tying Arrangements: A Legal and Economic Analysis*, 33 Vand. L. Rev. 283, 333 n. 179 (1980) (“The harsh mechanical treatment of tie-ins involving patented tying products is difficult to explain except perhaps on historical grounds.”); see also K. Dam, *The Economic Underpinnings of Patent Law*, 23 J. Legal Stud. 247, 249-50 (1994) (“[I]t is readily apparent that the right to exclude another from [the grant of a patent] may give no significant market power, even when the patent covers a product that is sold in the market. Indeed, without the

benefit of empirical research, it is entirely plausible to conclude that in the great bulk of instances no significant market power is granted.”⁷

We are not aware of any significant authority on antitrust or intellectual property law who has defended the presumption of market power in patent and copyright tying cases in the last decade. This factor accordingly weighs in favor of review in the present case.

II. SEVERAL MEMBERS OF THIS COURT HAVE QUESTIONED THE MARKET POWER PRESUMPTION.

The substantial flaws in the foundation on which the presumption rests have not gone unnoticed by Members of this Court. To the contrary, on two separate occasions Justices

⁷ See also, *e.g.*, Comments of F. M. Scherer, *The Value of Patents and Other Legally Protected Commercial Rights*, 53 Antitrust L.J. 535, 547 (1985) (discussing how even a rebuttable presumption of market power from a patent or copyright is unwise because “[s]tatistical studies suggest that the vast majority of patents confer very little monopoly power — at least, they are not very profitable”) (panel discussion). See generally R. Feldman, *The Insufficiency of Antitrust Analysis for Patent Misuse*, 55 Hastings L.J. 399, 437 (2003) (“eighty percent to ninety percent of patents never create any monetary return for the patent holder”); J. D. Brinson, *Proof of Economic Power in a Sherman Act Tying Arrangement Case: Should Economic Power Be Presumed When the Tying Product is Patented or Copyrighted?*, 48 La. L. Rev. 29, 66 (1987) (“A copyrighted or patented tying product should not be presumed to give its seller power over price.”); R. Pearson, *Tying Arrangements and Antitrust Policy*, 60 Nw. U. L. Rev. 626, 644 (1965) (“If the teaching of *Loew’s* is that the requisite market power is to be presumed from this kind of uniqueness or desirability, then there exists, indeed, a slender fulcrum to support the kind of lever we are led to believe is used in tying arrangements. This kind of desirability or uniqueness confers very little market power, or none at all.”).

have questioned the *International Salt-Loew's* standard. These views provide strong support for a grant of review to reconsider the presumption in this case.

In *Jefferson Parish*, four Members of the Court pointed to the “common misconception” that a patent or copyright was sufficient to demonstrate market power, explaining that “a patent holder has no market power in any relevant sense if there are close substitutes for the patented product.” *Jefferson Parish*, 466 U.S. at 37-38 n.7 (O’Connor, J., joined by Burger, C.J., and Powell and Rehnquist, JJ., concurring in the judgment). They observed that the contrary view stemmed not from the Court’s antitrust jurisprudence but rather from “the patent law principle of ‘patent misuse.’” *Ibid.*

One year later, two Justices who were in the *Jefferson Parish* majority dissented from the denial of certiorari in a tying case involving, among other issues, “what effect should be given to the existence of a copyright or other legal monopoly in determining market power.” *Data Gen. Corp.*, 473 U.S. at 909 (White, J., joined by Blackmun, J.). Labeling the court of appeals’ decision “suspect on several grounds” — including its view that “the copyright on the [computer] operating system * * * creat[ed] a presumption of market power” — the Justices stated that review was appropriate because “[t]he reach of the decision in this case is potentially enormous.” *Id.* at 908, 909.

III. THE DISARRAY AMONG THE LOWER COURTS WITH RESPECT TO THIS FREQUENTLY RECURRING ISSUE CONFIRMS THE NEED FOR INTERVENTION BY THIS COURT.

When a certiorari petition seeks reconsideration by this Court of one of its prior decisions, the petitioner usually cannot point to a conflict among the lower courts, because “it is th[e] Court’s prerogative alone to overrule one of its precedents.” *State Oil Co.*, 522 U.S. at 20. The substantial disarray

among the lower courts with respect to the continuing validity of the presumption of market power in patent and copyright tying cases confirms the extent to which *International Salt* and *Loew's* have been eroded by this Court's modern antitrust jurisprudence. Cf. *GTE Sylvania Inc.*, 433 U.S. at 48 n.14 (“many courts ‘have struggled to distinguish or limit *Schwinn* in ways that are a tribute to judicial ingenuity’”).

As the Federal Circuit recognized (App., *infra*, 13a), there is a conflict among the courts of appeals with respect to the issue. The Ninth and Eleventh Circuits, like the Federal Circuit in the present case, have applied the *International Salt-Loew's* presumption. *MCA Television Ltd. v. Public Interest Corp.*, 171 F.3d 1265, 1278-1279 (11th Cir. 1999); *Digidyne Corp. v. Data Gen. Corp.*, 734 F.2d 1336, 1345 (9th Cir. 1984), *cert. denied*, 473 U.S. 908 (1985). Three other circuits have taken the same view, albeit in dictum. See *Southern Pines Chrysler-Plymouth, Inc. v. Chrysler Corp.*, 826 F.2d 1360, 1363 (4th Cir. 1987); *Rosebrough Monument Co. v. Memorial Park Cemetery Ass'n*, 666 F.2d 1130, 1142 (8th Cir. 1981), *cert. denied*, 457 U.S. 1111 (1982); *Spartan Grain & Mill Co. v. Ayers*, 581 F.2d 419, 426 (5th Cir. 1978) (citation omitted), *cert. denied*, 444 U.S. 831 (1979).

The Sixth Circuit reached the opposite conclusion in *A.I. Root Co. v. Computer/Dynamics, Inc.*, 806 F.2d 673 (6th Cir. 1986), concluding that — in light of the concurring opinion in *Jefferson Parish* — this Court's statement in *Loew's* was “overbroad and inapposite to the instant case.” 806 F.2d at 676. The Seventh Circuit has suggested in dictum that proof of market power is required even as to tying products covered by intellectual property rights, noting that “rivals may create similar items for similar costs.” *Will v. Comprehensive Accounting Corp.*, 776 F.2d 665, 673 n.4 (7th Cir. 1985) (Easterbrook, J.), *cert. denied*, 475 U.S. 1129 (1986).

The disarray among the courts of appeals is mirrored in the district courts. A significant number of district courts

have refused to apply the market power presumption, generally concluding that this Court's decisions had been undermined by more recent precedent.⁸

⁸ See, e.g., *Little Caesar Enters., Inc. v. Smith*, 34 F. Supp. 2d 459, 466 n.10 (E.D. Mich. 1998) (granting partial summary judgment on tying claim because, notwithstanding defendant's copyrights, plaintiff had not set forth any evidence that defendant had "significant market power"); *Rockbit Indus. U.S.A., Inc. v. Baker Hughes, Inc.*, 802 F. Supp. 1544, 1549 n.3 (S.D. Tex. 1991) ("recent case law has rejected the presumption of market power from the possession of patents or unique products") (citations omitted); *Allen-Myland, Inc. v. International Bus. Machs. Corp.*, 693 F. Supp. 262, 281 & n.42 (E.D. Pa. 1988) (rejecting argument that patents establish sufficient economic power as a matter of law; following *A.I. Root* and Justice O'Connor's concurrence in *Jefferson Parish*), *rev'd on other grounds*, 33 F.3d 194 (3d Cir. 1994), *cert. denied*, 513 U.S. 1066 (1994); *Telerate Sys., Inc. v. Caro*, 689 F. Supp. 221, 236 (S.D.N.Y. 1988) (holding that software developer failed to establish likelihood of success on tying claim due to inability to show market power (and other reasons), despite existence of copyright and trade secrets; expressly refusing to follow *Digidyne*); *Nobel Scientific Indus., Inc. v. Beckman Instruments, Inc.*, 670 F. Supp. 1313, 1329 (D. Md. 1986) (granting summary judgment against tying claim because, notwithstanding defendants' patents, "there are readily available substitutes, available from many people"), *aff'd*, 831 F.2d 537 (4th Cir. 1987), *cert. denied*, 487 U.S. 1226 (1988); *3 P.M., Inc. v. Basic Four Corp.*, 591 F. Supp. 1350, 1359 (E.D. Mich. 1984) ("the fact that some of B/4's software is copyrighted does not establish that defendants possessed economic power"); *R & G Affiliates, Inc. v. Knoll Int'l, Inc.*, 587 F. Supp. 1395, 1404 (S.D.N.Y. 1984) ("it is not clear that the furniture that is patented actually is sufficiently distinctive to confer the required market power"); see also *Universal Bus. Computing Co. v. Comprehensive Accounting Corp.*, No. 82-C-3028, 1985 WL 1955, at *6 (N.D. Ill. June 25, 1985) (rejecting argument that copyright establishes sufficient market power as a matter of law).

Even among those courts that have applied the market power presumption, moreover, there is — as the Federal Circuit recognized (App., *infra*, 15a) — a disagreement about whether the presumption is rebuttable. The Federal Circuit stated that “[t]he 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 16a. The Ninth Circuit placed an even more stringent burden on sellers, holding that proof of “comparable” or “functionally equivalent” substitutes — or even proof that “the defendant’s prices * * * were fully competitive” — was insufficient to rebut the presumption (*Digidyne Corp.*, 734 F.2d at 1346).

On the other hand, the Eleventh Circuit appears to assume that the market power presumption is not rebuttable at all. *MCA Television Ltd.*, 171 F.3d at 1276-1279; see also *Grid Sys. Corp. v. Texas Instruments Inc.*, 771 F. Supp. 1033, 1037 n.2 (N.D. Cal. 1991); *Outlet Communications, Inc. v. King World Prods., Inc.*, 685 F. Supp. 1570, 1577 (M.D. Fla. 1988); *Duplan Corp. v. Deering Milliken, Inc.*, 444 F. Supp. 648, 673 (D.S.C. 1977), *aff’d in part, rev’d in part*, 594 F.2d 979 (4th Cir. 1979).

It is not surprising, then, that the Justice Department and the Federal Trade Commission have pronounced the case law “unclear” with respect to the market power issue. *Antitrust Guidelines* § 2.2, at 4 n.10. This Court should grant review to resolve the confusion.

IV. THE CONTINUING VITALITY OF THE MARKET POWER PRESUMPTION IS AN ISSUE OF SUBSTANTIAL PRACTICAL IMPORTANCE.

The decisions of the lower courts just discussed demonstrate the considerable frequency with which this issue recurs. Given the increasing rates at which intellectual property

is being created, courts are likely to confront the issue in an even greater number of cases in the years ahead.⁹

In those cases that are launched by a patent infringement claim or, like this one, a declaratory judgment action regarding patent infringement or validity, the Federal Circuit will have exclusive appellate jurisdiction under 28 U.S.C. §1295(a)(1). See *Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc.*, 535 U.S. 826, 829 (2002). Because the Federal Circuit has indicated that it will look to its own precedent as to whether patent tying violates the antitrust laws, (see App., *infra*, 4a (citing *Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059, 1067-68 (Fed. Cir. 1998) (en banc in relevant part), *cert. denied*, 525 U.S. 876 (1998))), its decision in this case will control all antitrust patent tying counterclaims filed in response to patent infringement suits. Thus, this decision, if not reversed, will produce numerous applications of an erroneous legal standard.

The market power presumption also has substantial practical consequences. “[I]ntellectual property-based exports — whether copyrighted music, movies or software, or patent-protected goods such as pharmaceuticals or electronic products — have become this country’s number one export. As such, their creation and protection is critical to maintaining a vibrant economy.” M. Delrahim, “International Antitrust and Intellectual Property: Challenges on the Road to Convergence,” at 1 (May 21, 2004), *available at* <http://www.usdoj.gov/atr/public/speeches/205629.pdf>.

International Salt and *Loew’s* single out intellectual property for a unique, and weighty, burden. To the extent the

⁹ In 2000, for example, the United States Patent and Trademark Office issued over 175,000 patents, compared to only about 66,000 patents twenty years ago. T. Muris, “Competition and Intellectual Property Policy: The Way Ahead” (Nov. 15, 2001), *available at* <http://www.ftc.gov/speeches/muris/intellectual.htm>.

presumption is irrebuttable (see page 24, *supra*), intellectual property owners may be subject to treble damages liability even though, as a factual matter, they lack the market power necessary to produce the anticompetitive harm that the prohibition against tying is designed to prevent — forcing licensees to purchase an unwanted tied product.

Even if the market power presumption is rebuttable, overcoming it requires a considerable investment by the intellectual property owner, not in further creativity or innovation, but in litigation. According to the Federal Circuit, evidence of competing substitutes for the patent or patented product is not sufficient. App., *infra*, 16a (citation omitted). Rather, “[t]he 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.” *Ibid.*

In other words, to counter even the sketchiest allegation of tying, a defendant must pay for a full-blown antitrust market-definition analysis. Such an analysis, which inevitably entails collection and analysis of massive amounts of data by highly paid economic consultants, is an enormous burden to impose on intellectual property owners who wish to protect their investments in innovation.

Under the court of appeals’ analysis, moreover, a defendant is given little guidance as to how to rebut the presumption successfully. Proving a negative is difficult in general, and especially difficult in the complex world of economic analysis.

Finally, the presumption allows, and even encourages, plaintiffs to file meritless lawsuits. By transferring to defendants the plaintiffs’ initial burden as to a fundamental element of a tying claim, the presumption increases the chances that deficient claims will survive motions to dismiss and for summary judgment. That in turn improves the prospect of extracting settlement payments from defendants confronted

by the expense, and treble damages risk, of an antitrust trial. In effect, then, the presumption unjustifiably increases the costs of owning, disseminating and enforcing intellectual property. These increased costs ultimately could discourage firms from investing in the development of intellectual property in the first place. Given intellectual property's increasingly important role in our economy, such a disincentive would likely cause substantial long-run harm to our economy, to innovators, manufacturers and consumers alike.

Indeed, as this Court has previously recognized, the "effect" of allowing implausible inferences to require a jury trial "is often to deter procompetitive conduct" (*Matsushita Elec. Indus. Co. v. Zenith Radio Corp.*, 475 U.S. 574, 593 (1986) (citation omitted)), because even the potential of "treble damages liability" is enough "to inhibit management's exercise of its independent business judgment" (*Monsanto Co. v. Spray-Rite Serv. Corp.*, 465 U.S. 752, 764 (1984) (internal quotation marks and citation omitted)). Implausible presumptions present equivalent concerns.

* * * * *

In sum, there are powerful reasons for reconsideration of the market power presumption: it is sharply inconsistent with the Court's more recent approach to proof of market power in tying cases; it has been rejected by the federal antitrust agencies and heavily criticized by scholars and Members of this Court; and it singles out intellectual property for a burden that does not extend to any other type of product. This case cleanly presents the question of the presumption's continuing validity; indeed, the Federal Circuit ruled as it did because it felt bound by this Court's decisions. Because it is "[t]he Court's prerogative alone to overrule one of its own precedents" (*State Oil Co.*, 522 U.S. at 20), the Court should grant the petition to resolve this important question.

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted.

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