

CLIENT ALERT

Supreme Court Loosens Patent Licensing and Sales Rules

March 3, 2006

Summary

The United States Supreme Court yesterday handed down a unanimous decision that allows most patent owners more flexibility in commercial transactions to market patented technology. More specifically, it reversed long-standing Supreme Court precedent that the owner of a patent was presumed to possess “market power” in the market for the patented product.

The effect of such a presumption was that, if the patent owner insisted that a purchaser of its patented products also purchase *unpatented* products (e.g., supplies), the patent owner’s conduct was presumed to violate the antitrust laws (specifically, the Sherman Antitrust Act). That is, it was presumptively an unlawful “tying” requirement. Any contract containing such a requirement was presumed unenforceable and subjected the patent owner to liability.

The Decision—*Illinois Tool Works Inc. v. Independent Ink, Inc.*

By contrast, under yesterday’s decision, there is no such presumption. If a contract or business deal by the patent owner contains such a requirement, the party alleging an illegal tying violation must now prove the patent owner actually has market power (effectively, control) in the market for the patented product. In lay terms, that means the customer or competitor has to prove it could not participate in the market without being forced, by the patent owner’s dominant market position, to accept the tying requirement, like it or not.

As the Court stated, many patents confer no market power at all, there being ready alternatives, for example. Consequently, removing the presumption will make it difficult, if not impossible, for many customers and competitors to succeed in proving an illegal tying arrangement when a patent owner bundles a sale or license under the patent with the sale of unpatented products.

Background of the Case

In the case before the Supreme Court, *Illinois Tool Works Inc. v. Independent Ink, Inc.*, Illinois Tool manufactured and marketed printing systems that included a patented printhead and ink container and unpatented ink. Purchasers of the system were required to agree to purchase ink

exclusively from Illinois Tool. Independent Ink developed ink having the same chemical composition and sued under the antitrust laws, alleging that Illinois Tool was engaged in illegal tying. Although Independent Ink did not submit any affirmative evidence defining the relevant market or establishing Illinois Tool's power within it, the United States Court of Appeals for the Federal Circuit, based upon prior United States Supreme Court cases, held the case could go forward.

In reversing the Federal Circuit, the Supreme Court took note of extensive scholarly comment criticizing the presumption and a change in position by federal administrative agencies on the issue. The Court also noted statutory amendments restricting the presumption in other contexts.

What Should You Do?

The decision does not make all tying arrangements legal. A customer or competitor may still allege, and recover antitrust damages for, an illegal tying arrangement.

There is no longer, however, any rule that tying arrangements involving patented products automatically are deemed unlawful. A plaintiff must now support its contention by, among other things, proof that the patent owner exercised sufficient power in the relevant market. A patent owner with a small market share may thus have considerably more freedom of contract available than in the past.

Patent owners should review their licensing and marketing plans with counsel to see whether their business strategies might benefit from this development.

© 2006 Wolf, Greenfield & Sacks, P.C.