Tying the Sale of a Patented Product to the Purchase of an Unpatented One: New Opportunities or Risks?

By Kenneth D. Morris, Esq.

Suppose you are the head of marketing for a manufacturer having a wide range of products throughout the United States, most of which are unpatented. One or two of your products or active ingredients are patented (and yield higher profit margins from their sale), but for the most part your product line is not covered under any patent and is generally accompanied by lower profit margins. For the past several years you have also faced a growing threat: as your products lose their patents, generic manufacturers enter your markets and chip away at your market share. Particularly if your market share is minimal (for example, 20% of the relevant market), what are your options?

If you traveled in time back to 1984, you would have been faced with the U.S. Supreme Court's ruling in *Jefferson Parish HospitalDist. No. 2 v. Hyde,* 466 U.S. 2 (1984) which held 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." That holding supported the then existing patent misuse doctrine since it led to the conclusion that when a seller conditions the sale of a patented product on the purchase of a second product (which is not patented), one was using the patent for anticompetitive purposes when one created the tying combination. A tie was illegal because of the seller's ability to exploit its control over the patented product by forcing the buyer to also purchase an unpatented product that the purchaser perhaps did not want or need, or might have preferred to buy from another vendor. But what if there was no such presumption and the availability of a patented product was conditioned on the purchase of an unpatented one? Is such a "tie" still anticompetitive behavior and, thus, necessarily violative of the antitrust laws? In *Illinois Tool Works Inc. et al.v Independent Ink, Inc.* (No.04-1329) decided March 1, 2006, the United States Supreme Court answered that question in the negative in the absence of an actual showing of market power.

In *Illinois Tool Works* the petitioners (Trident, Inc. and its parent company, Illinois Tool Works, Inc.) manufactured and marketed patented ink jet printheads and patented ink containers with unpatented ink. Independent Ink, Inc. sells ink having the same chemical composition as the ink sold by Illinois Tool Works. Illinois Tool Works licenses and sells its patented products to original equipment manufacturers, which also purchase Illinois Tool Works' ink. Independent Ink, Inc. wanted the Court to conclude that merely having patents on the printhead and ink containers bestowed market power on Illinois Tool Works and thus made any tie with the unpatented ink anticompetive and a violation of the antitrust laws (specifically, violations of the Sherman, Clayton, and Federal Trade Commission Acts). In this case there was no evidence submitted to demonstrate Illinois Tool Works, in fact, had any market power in the relevant market.

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In its decision the Supreme Court rejected the presumption that a patent necessarily confers market power and ruled that in all cases involving a tying claim, plaintiff must prove the defendant has market power before liability for violating the antitrust laws will arise. Thus, manufacturers lacking market power in the relevant market now have additional defenses to argue that conditioning the purchase of one of their patented products on the additional sale of an unpatented one is neither anticompetitive, nor a violation of the antitrust laws.

The decision breathes new life in a marketing tool you may now find useful if you lack market power and want to sustain sales of “loss leader”, yet unpatented, products at the same time as you sell your popular patented product. You also should have a discussion with your research and development department since there is now greater incentive to innovate and obtain possibly new patented products with which to leverage your sales of unpatented products in your market sector. In the case of Independent Ink, Inc. because the case was reversed and remanded it will need to go through the time and considerable expense at the U.S. District Court level demonstrate through expert testimony and other evidence that Illinois Tool Works actually has market power in its printheads and ink containers before it can collect treble damages for any antitrust violation.

See the full decision for more information. http://www.law.cornell.edu/supct/html/04-1329.ZS.html

Kenneth D. Morris, Esq. L.L.C. Law Offices*
1320 Vale Dr.
West Chester, PA 19382
Office: 484-607-8203
Cell: 484-678-3954
Fax: 610-793-4245
E Mail: kdm@kenmorrislaw.com
Also admitted NJ and DC