

Copyright (c) 1999 PTC Research Foundation of Franklin Pierce
Law Center

IDEA: The Journal of Law and Technology

1999

39 J.L. & TECH. 225

ANTITRUST COUNTERCLAIMS IN PATENT INFRINGEMENT LITIGATION: CLARIFYING THE SUPREME COURT'S ENIGMATIC MERCROID DECISION

TEAGUE I. DONAHEY *

* Mr. Donahey is an associate with Skjerven, Morrill, MacPherson, Franklin & Friel LLP, in its San Jose, California office. Mr. Donahey practices in the areas of intellectual property, antitrust, and general business litigation. The opinions expressed herein are solely those of the author.

I. Introduction

In patent infringement litigation, it is common practice for the defendant to assert antitrust counterclaims against the plaintiff. But must such claims be raised as compulsory counterclaims, or may they be asserted subsequently, in separate litigation?

When the Supreme Court recently denied certiorari in *Insultherm, Inc. v. Tank Insulation International, Inc.*,ⁿ¹ to a case arising out of the Fifth Circuit,ⁿ² it left open this increasingly nagging question: whether and to what extent antitrust counterclaims in patent infringement litigation are to be deemed compulsory for the purposes of Rule 13(a) of the Federal Rules of Civil Procedure ("FRCP").ⁿ³ Two recent Federal Circuit cases noted but did not decide the issue.ⁿ⁴ In another recent district court

[*226] case, Longwood Manufacturing Corp. v. Wheelabrator Clean Water Systems, Inc., n5 the Maine federal district court was sufficiently puzzled by the counterclaim issue to certify an interlocutory appeal to the First Circuit. n6 However, the case settled before the matter could be addressed. Finally, the Ninth Circuit also struggled with the issue in the recent case of Hydranautics v. FilmTec Corp. n7 Given the growing clamor arising in the aftermath of Tank Insulation, Longwood, Hydranautics, and other related cases, n8 it is only a matter of time before the Supreme Court is forced to craft a resolution.

This article examines the origin of this developing controversy - an obscure 1944 Supreme Court decision, *Mercoide Corp. v. Mid-Continent Investment Co.* n9 - in an attempt to add clarity to an issue that is of importance to litigators practicing at the intersection of law and high technology, where intellectual property is a paramount concern. As will be seen, *Mercoide's* cryptic holding has been cited as setting out an exception to Rule 13(a) for antitrust counterclaims in patent infringement suits. n10 I argue, however, that in actuality such counterclaims are subject to the standard "logical relationship" test that has been developed to determine whether a given counterclaim is compulsory or permissive. On the other hand, *Mercoide* does represent an early recognition of the fact that patent infringement claims are substantially different from antitrust claims, so much so that related patent and antitrust claims are

[*227] routinely severed and tried separately on order of the court. n11 Accordingly, though there may seem on the surface to be an obvious logical relationship between related patent and antitrust claims, such that an antitrust counterclaim would be considered compulsory under Rule 13(a), a logical relationship is in fact often lacking. Thus, *Mercoid* should serve as a warning beacon for courts and litigants alike: antitrust counterclaims in patent infringement litigation frequently fall into the "permissive" category of Rule 13(b) and thus may be tried separately if and when strategic considerations warrant.

II. The Practical Setting

In patent infringement litigation, it is common practice for the alleged infringer to assert antitrust counterclaims n12 based on patent misuse, n13 fraudulent patent procurement, n14 the maintenance of bad faith n15 or sham n16 patent enforcement litigation, or other antitrust theories. Ordinarily, these counterclaims will be made promptly and vigorously, n17 as such counterclaims are often considered compulsory; a defendant's failure to assert the claims would risk these claims being barred in the current and future litigation. n18 In addition, an alleged infringer will want to take the opportunity, if possible, to cast a dark shadow over the plaintiff's own activities. n19

[*228]

Yet, in some situations, a defendant may inadvertently fail to raise an antitrust counterclaim. In other circumstances, though a defendant may wish to file an antitrust counterclaim, that party may have difficulty uncovering the necessary evidence through discovery. n20 Walker Process claims, n21 for instance, are grounded on a showing of fraudulent patent procurement. A defendant in a patent infringement action - particularly one battling an unprincipled plaintiff who has engaged in fraud - may not be able to discover facts showing that a patent was obtained fraudulently. n22 Meanwhile, Rule 11 of the FRCP looms in the background, threatening those who consider filing their counterclaims without proper evidentiary support. n23

Moreover, due to tactical considerations, a defendant may wish to reserve an antitrust claim for separate litigation in order to have that claim tried in a more hospitable or convenient jurisdiction. n24 Additionally, if the patent infringement case will be a bench trial, as is often the case, a defendant may prefer to have an antitrust claim tried before a jury - in a separate courtroom where the infringement allegations will be out of the jury's earshot. n25 A defendant may also wish to avoid the eviden-

[*229] tiary difficulties sometimes encountered when patent and antitrust claims are tried together. For example, an antitrust counterclaimant attempting to prove market power would seek to show dominance by the patent holder; yet, such a showing would indicate a lack of non-infringing substitutes, a factor that would weigh strongly in favor of the patent holder when attempting to establish lost profits at the close of the infringement suit. n26 Finally, from a more cynical standpoint, a financially secure defendant may perceive that separate trials would be disadvantageous to its weaker counterpart. n27

In all of these situations, *Mercoid*, *Tank Insulation*, and other similar cases assume paramount importance. If a claimant is successful in characterizing an antitrust claim as permissive for the purposes of Rule 13, the claimant will be able to file in a separate action, notwithstanding the failure to raise the antitrust claim as a counterclaim in prior litigation. n28

III. Compulsory Counterclaims Under Rule 13(A)

A. Text, History, and Purpose

Counterclaims in federal civil actions are governed by Rule 13 of the Federal Rules of Civil Procedure, which reads in pertinent part:

(a) Compulsory Counterclaims. A pleading shall state as a counterclaim any claim which at the time of serving the pleading the pleader has against any opposing party, if it arises out of the transaction or occurrence that is the subject matter of the opposing party's claim n29

[*230]

Adopted in 1937 as part of the new scheme of federal rules, Rule 13(a) was intended to extend former Equity Rule 30 to proceedings at law. n30

Under the common law, pleading requirements were relatively strict; a plaintiff was not permitted to join multiple claims in one action. n31 Correspondingly, the application of the principle of res judicata was relatively permissive, and a party that had the opportunity to litigate a claim was not necessarily barred from later bringing a second action, even if based on the same operative facts. n32

The modern FRCP, however, inverted the common law scheme, significantly liberalizing the pleading process and allowing parties great latitude in the joinder of claims and persons. n33 Although the FRCP provide increased freedom with regard to initial pleadings, they are also more vigorous in restricting the opportunities for relitigation. n34 As a whole, the pleading provisions of the FRCP reflect an overarching desire to achieve finality in litigation while fostering judicial economy. n35 Rule 13(a) is one key example of this modern emphasis.

Moreover, it is critical to distinguish common law principles of res judicata and estoppel from the compulsory counterclaim provision of Rule 13(a). In the past, n36 and certainly at the time of the Supreme Court's 1944 *Mercoid* decision, the term "res judicata" was used generally to mean both n37 claim preclusion n38 and issue preclusion (or collateral estoppel). n39 Together, claim preclusion and issue preclusion ensure that

[*231] claims and issues which were previously litigated, or which might have been litigated, are not relitigated in repetitious suits, wasting judicial resources and destroying adjudicative finality. n40 The compulsory counterclaim requirement of Rule 13(a) is comparable to claim preclusion.

However, because the FRCP expressly supersedes any conflicting laws, n41 Rule 13(a) must be understood to override any common law res judicata principles which might conflict with the provision. n42 Or, put another way, Rule 13(a) and other related provisions are the fundamental guidelines giving shape and form to general res judicata principles in the modern age. n43 Accordingly, while common law res judicata principles are still used in state courts and as gap fillers in the federal system, n44 the scheme and structure of the Federal Rules, including Rule 13(a), largely determine the nature of res judicata in federal courts today.

Finally, it must be emphasized that compulsory counterclaims are just that - compulsory - and the failure to plead such counterclaims operates as a bar to future litigation of any unpleaded claim. n45

B. "Arising Out of the Same Transaction or Occurrence"

The compulsory counterclaims of Rule 13(a) and the merely permissive counterclaims designated in Rule 13(b) are differentiated using a deceptively simple test: a counterclaim will be compulsory "if it arises

[*232] out of the transaction or occurrence that is the subject matter of the opposing party's claim" n46

In *Moore v. New York Cotton Exchange*, n47 a 1926 Supreme Court ruling concerning the former Equity Rule 30 from which Rule 13(a) is derived, the Court attempted to explain the "transaction or occurrence" test:

"Transaction" is a word of flexible meaning. It may comprehend a series of many occurrences, depending not so much upon the immediateness of their connection as upon their logical relationship [The basis for the plaintiff's claim] is an important part of the transaction constituting the subject-matter of the counterclaim. It is the one circumstance without which neither party would have found it necessary to seek relief. Essential facts alleged by [the plaintiff] enter into and constitute in part the cause of action set forth in the counterclaim. n48

By identifying a number of factors it had used for guidance, the Court indicated that a flexible approach should be used. n49 Indeed, a majority of subsequent courts have liberally construed the transaction requirement, drawing principally upon the language in *Moore* in holding that a counterclaim is compulsory if it bears a "logical relationship" to the opposing party's claim. n50

In the end, however, amorphous phrases such as "transaction or occurrence" and "logical relationship" have most often given way to a policy-oriented analysis such as that described by the Third Circuit in *Great Lakes Rubber Corp. v. Herbert Cooper Co.*: n51

The phrase "logical relationship" is given meaning by the purpose of the rule which it was designed to implement. Thus, a counterclaim is logically related to the opposing party's claim where separate trials on each of their respective claims would involve a substantial duplication of effort and time by the parties and the courts. n52

[*233]

In consequence, Mercoïd and its progeny must be evaluated with an eye toward such broad policy considerations.

IV. Origins of the Confusion: The Mercoïd Case

A. History and Posture

At issue in Mercoïd, among other things, was the question whether Mercoïd's failure to raise its antitrust counterclaim in prior proceedings barred its counterclaim. n53 Thus, to fully understand the Mercoïd outcome, it is necessary first to review the factual and legal history leading up to the Supreme Court's decision.

1. Prior Proceedings

In 1930, U.S. patent number 1,758,146 (the "'146 patent") was issued to Walter Cross for a domestic heating system, including a furnace and a separate thermostatic control. n54 After securing the rights to the '146 patent in 1932, the Mid-Continent Investment Company ("Mid-Continent") filed suit against one E.O. Smith in 1935, alleging that Smith had infringed the '146 patent by installing in his home a furnace utilizing a similar thermostatic control. n55 Mercoïd, the manufacturer of the thermostatic control device used by Smith in his home, assumed responsibility for Smith's defense, though it never became a formal party. n56 At trial, the district court for the Western District of Missouri found the

[*234] '146 patent to be valid and infringed. n57 The decision was affirmed on appeal by the Eighth Circuit. n58

Following its victory in Smith, Mid-Continent wrote to Mercoid in 1939 requesting that Mercoid engage in settlement negotiations for having installed its thermostatic controls in other homes over the years - installations which were allegedly infringements, as in Smith. n59 Mid-Continent also submitted a license agreement to Mercoid, which would have required Mercoid to pay Mid-Continent a license fee for each sale of Mercoid's thermostatic controls. n60 After Mercoid refused to cooperate, Mid-Continent filed suit in the Northern District of Illinois. n61

2. The District Court Proceedings

In the Northern District of Illinois, Mercoid responded to Mid-Continent's patent infringement suit with an antitrust counterclaim. n62 While the court acknowledged that the '146 patent was valid under Smith, it emphasized that the patent covered a heating system and on that basis, held that the patent was not infringed by Mercoid's thermostatic control device. n63

In addition, the court found that Mid-Continent's efforts to license Mercoid constituted an illegal effort to extend its monopoly beyond the scope of the '146 patent, and that such patent misuse would preclude relief. n64 Finally, the court held that Mid-Continent's efforts to restrain trade in the market for thermostatic control devices constituted a violation of sections 1 and 2 of the Sherman Act. n65 However, while not expressly stating so in its opinion, the district court apparently declined to award Mercoid damages based on its counterclaim. n66

[*235]

3. Before the Seventh Circuit

On appeal, the Seventh Circuit reversed. n67 It held that, because the Mercoid device could not be used for any purpose other than as an element of the heating system covered by the '146 patent, Mercoid was guilty of contributory infringement. n68 The court further held that Mid-Continent's licensing efforts did not constitute misuse because the proposed license would have applied only to the sale of Mercoid devices to be used in connection with the system underlying the '146 patent. n69 With regard to Mercoid's antitrust counterclaim, the Seventh Circuit held that since Mercoid had defended in Smith and had failed to raise the counterclaim, the Smith decision was res judicata on the issue and the counterclaim must be dismissed. n70

B. The Case Before the Supreme Court

1. Arguments of the Parties

In its brief before the Supreme Court, Mercoid argued that the district court had been correct, that it was not a contributory infringer, and that in any event, patent misuse precluded Mid-Continent from bringing an infringement suit. n71 Moreover, Mercoid cited *Cromwell v. County of Sac* n72 for the proposition that "[a] prior judgment is res judicata in a second suit upon a different cause of action only as to issues actually tried and determined in the prior suit, and not as to issues which might have, but which were not, tried." n73 Accordingly, Mercoid argued, its antitrust counterclaim was not barred.

Mid-Continent, in its brief, responded that Mercoid was a contributory infringer. n74 As to Mercoid's counterclaim, Mid-Continent

[*236] contended that "[t]he doctrine of res judicata applies where a party other than the defendant of record defends and controls the litigation and applies not only as to all issues which were actually litigated, but also as to all issues which could . . . have been raised," and thus that the Seventh Circuit had been correct in rejecting Mercoid's antitrust counterclaim. n75

2. Douglas for the Majority

Justice Douglas, writing for a 5-4 majority, agreed with the district court that the '146 patent was a combination patent, with a scope limited to the heating system and not extending to any of the individual elements of the system. n76 In turn, the Court held that the sale of an unpatented part of a combination patent could not constitute contributory infringement. n77 Similarly, the Court ruled that Mid-Continent's attempts to extend its monopoly into unpatented wares constituted patent misuse n78 and an antitrust violation. n79

The Court next addressed whether Smith was res judicata as to the patent misuse claim and whether the antitrust counterclaim was precluded under Rule 13 of the FRCP. n80 After assuming as true Mid-Continent's contention that Mercoid had provided the representation in Smith and that, as a result, Mercoid's patent misuse defense would ordinarily be barred by res judicata, n81 the Court noted that an infringement suit is a suit in equity, and that courts of equity have the power to "withhold aid from a patentee . . . where the patent was being misused." n82 Thus, apparently using an "unclean hands" rationale, the Court refused to apply the res judicata doctrine to the patent misuse defense.

Having circumvented the arguments surrounding the application of res judicata to Mercoid's patent misuse defense, the Court then turned to the counterclaim issue:

What we have just said does not, of course, dispose of Mercoid's counter-claim for damages. . . . Though Mercoid were barred in the present case from asserting any defense which might have been interposed in the earlier litigation,

[*237] it would not follow that its counterclaim for damages would likewise be barred. That claim for damages is more than a defense; it is a separate statutory cause of action. The fact that it might have been asserted as a counterclaim in the prior suit by reason of Rule 13(b) . . . does not mean that the failure to do so renders the prior judgment res judicata as respects it. n83

The Court then remanded the antitrust counterclaim for a trial on damages, without explaining precisely why Mercoïd's counterclaim fell under the rubric of Rule 13(b), as opposed to 13(a).

3. The Dissents

Three separate dissents were filed in Mercoïd by Justices Roberts (joined by Justice Reed), Frankfurter, and Jackson. n84 None of these dissents seems to contest the Court's conclusion that Mercoïd had not been a contributory infringer. n85 Nevertheless, all the dissenters thought that the Seventh Circuit should have been affirmed on res judicata grounds. In particular, Justice Roberts was baffled:

We are now told that a misconstruction of the patent law by a licensor is so violent and flagrant a flouting of the public interest that a court of equity must hold its hand for the benefit of a defendant . . . though he has failed to make the defense in an earlier litigation

. . . I cannot see why the principle should not apply to every suit or action based upon, or arising out of statutory provisions, and to every defense bottomed on public policy n86

Justice Roberts' puzzlement presaged the confusion experienced by later courts.

V. Possible Explanations for the Mercoïd Holding

In the wake of the mysterious Mercoïd holding, courts have strained to create a plausible rationale for the decision. A number of explanations have been offered, which are set out below.

[*238]

A. The Issue of Whether the Counterclaim Was Permissive or Compulsory Was Not Before the Court, and the Court Merely Assumed That the Counterclaim Was Permissive

In *Borden Co. v. Sylk*,ⁿ⁸⁷ an action for recovery upon a series of promissory notes, a third party filed a cross-claim against the plaintiff for antitrust violations. The plaintiff countered that the third-party defendants may only assert cross-claims arising out of the same transaction or occurrence,ⁿ⁸⁸ and that *Mercoid* mandated - by analogy - that the antitrust cross-claim be deemed not within the same transaction or occurrence.ⁿ⁸⁹ The District Court for the Eastern District of Pennsylvania held that *Mercoid* was not controlling because the *Mercoid* Court had not formally addressed the issue:

There is no indication that the applicability of F.R.Civ.P. 13(a) or 13(b) was argued before, or considered by, the District Court or the Court of Appeals . . . An examination of the briefs filed in the Supreme Court . . . does not disclose that any reference was made by any counsel to the applicability of any part of F.R.Civ.P. 13 to the controversy as submitted to the Supreme Court.ⁿ⁹⁰

While it is true, technically, that Rule 13 is mentioned only once in any of the *Mercoid* decisions,ⁿ⁹¹ it seems equally clear from the Court's opinion that - at a minimum - the Court was addressing the issue *sua sponte*. Counsel for Mid-Continent argued that the counterclaim was barred by *res judicata*.ⁿ⁹² Moreover, the Federal Rules of Civil Procedure, which had been in operation since 1937, governed the application of *res judicata* issues in the context of counterclaims.ⁿ⁹³ Thus, even if not specifically raised by counsel, the Court would have been remiss in not considering the ramifications of Rule 13. And indeed it did raise the issue explicitly, implying that the counterclaim fell into the category of Rule 13(b).ⁿ⁹⁴

As the Fifth Circuit recently confirmed in *Tank Insulation*, the Court almost certainly confronted the Rule 13 issue.ⁿ⁹⁵ The question,

[*239] then, seems to be not whether the Court had occasion to formally address the matter, but whether the Court formulated any articulable and rational legal rule.

B. The Supreme Court Simply Misread the Law

At least one lower court has intimated that *Mercoid* was decided wrongly, noting gingerly that a "consideration of the nature of a compulsory counterclaim would appear to indicate certain inherent weaknesses in the rationale of the *Mercoid* decision." n96 Nevertheless, while the district court complained that *Mercoid*'s reference to Rule 13 "appears almost too casually interjected," it declared itself bound by the decision. n97 That the Court made a careless error has also been suggested by the authors of the Restatement (Second) of Judgments, among others. n98

A strong case can be made that the Supreme Court simply misread the law. For example, in support of its conclusion that *Mercoid*'s counterclaim was not barred by its failure to raise the claim in the *Smith* case, the Court cited section 58 of the Restatement (First) of Judgments, n99 which reads: "Where the defendant does not interpose a counterclaim although he is entitled to do so, he is not precluded thereby from subsequently maintaining an action against the plaintiff on the cause of action which could have been set up as a counterclaim." n100

However, the first Restatement was drafted only four years after the FRCP were enacted and, as the drafters of the second Restatement later noted, the first Restatement was actually based on case law predating

[*240] the Federal Rules. n101 Indeed, one of the revisions made in the second Restatement was to correct former section 58, bringing it in line with Rule 13(a) and other compulsory counterclaim statutes. n102 Thus, by the time *Mercoid* was decided in 1944, the FRCP had superseded common law pleading rules, and section 58 of the first Restatement had been rendered obsolete; the Court's citation thus seems to have been in error.

In the same vein, the Court excerpted a long passage from *Cromwell v. County of Sac*, n103 an 1876 case, for authority on the counterclaim issue. n104 *Cromwell* held that a prior judgment on a different claim was only *res judicata* as to issues actually litigated, not as to issues that might have been raised but were not actually litigated. n105 Having antedated the 1937 Federal Rules by over sixty years, and having been firmly rooted in common law *res judicata* jurisprudence, *Cromwell* was clearly undermined by Rule 13(a) and was not valid authority on the counterclaim issue. n106

For these reasons, it may well be that the Court was simply mistaken and - like the drafters of the Restatement (First) of Judgments - did not fully comprehend the scope of the then-recently-drafted FRCP. If so, the Supreme Court would not have been alone; the drafters of the second Restatement observed that, despite the enactment of the Federal Rules, courts continued for many years to abide by "anachronistic" common law *res judicata* principles and case law. n107

Nevertheless, this answer seems unsatisfactory. Other commentators have suggested that the Court purposefully and strategically swept past the procedural issue in order to further a strong antitrust policy. n108

Justice Douglas, of course, was instrumental in developing the *per se* rule

[*241] in antitrust law during the 1940s; n109 perhaps he viewed Mercoïd as an ideal opportunity to expand the patent misuse doctrine and brushed aside Rule 13(a) in order to pursue his quarry. n110 If this is the case, it is incumbent upon the Supreme Court to clarify the issue. Until then, it is more appropriate to search for other answers.

C. Mercoïd Was Not a Party to the Prior Litigation and Therefore Was Not Bound by the Prior Decision

In other attempts to explain the Mercoïd decision, several courts have distinguished Mercoïd on the ground that Mercoïd's holding was limited to instances in which the counterclaimant had not been a party to the earlier action. n111 In *Lewis Manufacturing Co. v. Chisholm-Ryder Co.*, n112 for instance, the district court for the Western District of Pennsylvania opined that "Mercoïd, providing only a defense for a third party, could not be required to plead an antitrust counterclaim which belonged only to the third party." n113 At least one prominent legal commentator shares this position. n114

In this regard, a practical consideration suggested in *Bros, Inc. v. W.E. Grace Manufacturing Co.* n115 and bearing directly on the facts of Mercoïd is that patent holders often choose to sue dealers, retailers, and

[*242] distributors for patent infringement, rather than the manufacturer. n116

This is because such plaintiffs often have strategic litigation considerations in mind - which, prior to recent statutory amendments, were often related to choice of venue. n117 As the manufacturer of the allegedly infringing product would obviously be disadvantaged if infringement were found, it is often forced to provide a defense even though not a named, served party under the in personam jurisdiction of the court. It may be that forcing a manufacturer in such a position to file any and all compulsory counterclaims would be unfair.

The Supreme Court may have indirectly lent some support to this proposition in *Zenith Radio Corp. v. Hazeltine Research, Inc.* n118 In *Hazeltine*, *Hazeltine Research, Inc.* ("HRI"), a subsidiary of *Hazeltine Corporation* ("Hazeltine"), sued *Zenith* for patent infringement, and *Zenith* alleged patent misuse and counterclaimed for treble damages under the Sherman Act. n119 After *Zenith* was successful on its counterclaim at trial, the trial court entered judgment against both HRI and *Hazeltine*. The Supreme Court affirmed the appellate court's reversal of the judgment against *Hazeltine* for lack of personal jurisdiction because HRI, not *Hazeltine*, had been the named party in the action. n120 The Court did so despite the fact that the parties had stipulated at trial that HRI and *Hazeltine* would be considered one and the same company for the purposes of the litigation. n121

Even so, the Court in *Hazeltine* went on to suggest that if *Hazeltine* were shown to have controlled the litigation for HRI, and if personal jurisdiction over *Hazeltine* was established, then the judgment against HRI might be *res judicata* against *Hazeltine*. n122 Other courts have reached similar conclusions, focusing on whether the non-party con-

[*243] trolled the litigation. n123 For example, in *Bros*, a patent holder filed an infringement suit against Grace. The plaintiff then moved for summary judgment on the basis of a favorable holding in a previous infringement suit filed against Grace's distributor, in which Grace had controlled and directed the distributor's defense. n124 The Fifth Circuit affirmed the district court's grant of summary judgment, writing that:

[where] the non-party actively and avowedly conducts the defense, manages and directs the progress of the trial at its expense and under its supervision, the outcome, which if favorable would have redounded to his benefit, if adverse becomes *saucе* for goose and gander alike, and binding under principles of *res judicata*. n125

Such cases, however, have not specifically addressed the preclusive effect of a non-party's failure to assert compulsory counterclaims.

In any event, the Supreme Court in *Mercoid* explicitly referenced Mid-Continent's argument that *Mercoid* was bound due to its having provided the defense in *Smith*. n126 After assuming as true Mid-Continent's factual claims, n127 it brushed aside the contention, stating that "[even if] *Mercoid* were barred in the present case from asserting any defense which might have been interposed in the earlier litigation, it would not follow that its counterclaim for damages would likewise be barred." n128 Rather, for the Court, the key factor seemed to be that the counterclaim fell under Rule 13(b) and thus was not precluded. n129 The question it left open, however, was how it had determined that 13(b), rather than 13(a), was applicable.

[*244]

D. All Statutory Counterclaims Are Permissive

In *Canned Foods, Inc. v. United States*, ⁿ¹³⁰ the Court of Claims held that the government's counterclaim, based on the False Claims Act, was not a compulsory counterclaim under *Mercoid*. ⁿ¹³¹ The court, quoting *Mercoid*, reasoned that a counterclaim is merely permissive if based upon a "separate statutory cause of action." ⁿ¹³² However, it is difficult to believe that the Court in *Mercoid* exempted all causes of action based on federal statute from the compulsory counterclaim provision of Rule 13(a). Such an interpretation would almost single-handedly obliterate the underlying policy of 13(a): to foster judicial economy through the consolidation of lawsuits. The exception would swallow the rule. Even under a substantially more limited interpretation, *Mercoid* has been severely criticized for undercutting 13(a); ⁿ¹³³ the broad interpretation given in *Canned Foods* cannot be taken seriously.

E. All Antitrust Counterclaims Are Permissive

For the same reasons, any interpretation which broadens *Mercoid* such that all antitrust counterclaims are construed as permissive is untenable. Yet, in *Reagan v. Commonwealth Theatres of Puerto Rico*, ⁿ¹³⁴ one court did reach that conclusion. ⁿ¹³⁵ *Reagan*, like *Canned Foods*, must be discarded as an aberration.

F. Antitrust Counterclaims Based on the Unlawful Use of Patent Infringement Litigation Are Permissive

Hydranautics and Tank Insulation elaborated a more defensible explanation of *Mercoid*: that a counterclaim challenging the patent infringement litigation itself is merely a permissive counterclaim and may be brought in a separate, subsequent action.

After *Hydranautics* was successful in fending off a patent infringement claim brought by *FilmTec*, it filed a separate antitrust suit

[*245] against FilmTec alleging "predatory patent litigation." n136 The district court granted FilmTec's motion to dismiss on the grounds that the antitrust claim should have been raised in the prior litigation, but the Ninth Circuit reversed. n137 Citing *Mercoid* for authority, the Ninth Circuit concluded that "[a] claim that patent infringement litigation violated an antitrust statute is a permissive, not a mandatory, counterclaim in a patent infringement case." n138 In doing so, the court compared such an antitrust claim to a civil claim for malicious prosecution, n139 noting that a malicious prosecution claim does not mature until after the conclusion of the original suit. n140

Shortly thereafter, the Fifth Circuit in *Tank Insulation* adopted the *Hydranautics* approach. In *Tank Insulation*, plaintiffs alleged that the defendants had violated the antitrust laws by bringing a patent infringement action with regard to an allegedly invalid patent. n141 After a lengthy analysis of *Mercoid*, the Fifth Circuit ruled that, under *Mercoid*, the antitrust claim was merely permissive and therefore could be brought separately:

The counterclaim that *Mercoid* was asserting against *Mid-Continent*, which had been also available in the earlier suit, was based upon the contention that *Mid-Continent* was using the litigation process to extend the scope of its patent to unpatented devices and . . . thereby . . . violating the antitrust laws

Thus, . . . in the context of the full litigation in *Mercoid*, the Court indeed created an exception to rule 13(a) for antitrust counterclaims in which the

[*246] gravamen is the patent infringement lawsuit initiated by the counterclaim defendant. n142

A closer analysis of *Mercoid*, however, shows that the emphasis in *Hydranautics* and *Tank Insulation* is misplaced. *Mercoid* was not meant to address predatory patent litigation per se, but rather to prevent Mid-Continent's broad course of conduct. In particular, the Court placed great emphasis on Mid-Continent's licensing practices, stating "[t]he controversy centers around the license agreement between Mid-Continent and Minneapolis-Honeywell." n143 That the Court was primarily concerned with licensing is reinforced by its repeated reliance upon *Carbice* n144 and *Morton Salt* n145 for authority, as both involved licensing provisions that conditioned the granting of a license upon the exclusive purchase of non-patented products; n146 in neither case was the patent infringement litigation itself at issue.

For all of these reasons, while a given *Handgards* claim may be found to be permissive, it would be inappropriate to fashion a uniform exception to Rule 13 based on bad faith or sham litigation. Rather, the *Mercoid* decision must be understood to be based on broader policy considerations related to patent misuse, and its holding that Mid-Continent's counterclaim was permissive must fit within this wider framework.

G. Antitrust Counterclaims Alleging Patent Misuse, But Not Involving Patent Validity, Are Permissive

A final line of cases, taking into account the considerations outlined above, has developed the most plausible reading of the *Mercoid* holding: that antitrust counterclaims in patent infringement suits are permissive, provided that they involve patent misuse, and provided that patent validity is not involved and thus that judicial economy is not

[*247] impeded. n147 In Longwood, the district court described the rationale for this interpretation:

It is hard to identify any logical support for the Mercoïd pronouncement [S]ome courts have attempted to limit Mercoïd to a particular category of antitrust/patent claims Specifically, these courts distinguish antitrust claims that challenge patent validity because of fraudulent procurement . . . from those that claim patent misuse The argument goes that in the latter category the patent itself may be valid while its use is improper and that the counterclaim therefore can be treated as permissive in such cases When the validity of the patent itself is in dispute, the argument continues, the counterclaim must be compulsory. n148

Under this reasoning, Mercoïd would treat as permissive antitrust counterclaims which are based on patent misuse and which do not challenge patent validity.

In Rohm & Haas Co. v. Brotech Corp., n149 for example, Rohm and Haas Co. ("R&H") brought a patent infringement suit in Delaware against Brotech. n150 One year later, Brotech brought a separate suit in Pennsylvania against R&H alleging antitrust violations arising out of the alleged fraudulent procurement and enforcement of patents, four of which were at issue in the R&H infringement action. n151 R&H thereafter moved the Delaware court to order Brotech to dismiss the Pennsylvania action on the grounds that its antitrust claims were compulsory counterclaims in the Delaware action. n152 Brotech's opposition cited Mercoïd for the proposition that such counterclaims were only permissive and therefore could be brought separately in Pennsylvania. n153 The Delaware district court distinguished Mercoïd, observing that, unlike patent misuse claims, fraudulent procurement claims directly implicate patent law and validity issues, and thus are intertwined with patent infringement claims. n154 In turn, the underlying policy of Rule 13(a) - the promotion of judicial

[*248] economy - would be furthered by treating such fraud claims as compulsory counterclaims. n155

Other courts have noted the substantial dichotomy between patent validity issues and patent misuse actions not challenging validity.

The point is perhaps best understood if the Mercoid scenario is flipped on its head and transformed into a case where a patent infringement counterclaim is filed in an antitrust action. Such were the circumstances in *Xerox Corp. v. SCM Corp.* n156 In *Xerox*, while SCM's antitrust action was pending in Connecticut, Xerox filed a separate action for patent infringement against SCM in New Jersey. n157 SCM filed a motion to dismiss, arguing that the claim should have been raised as a compulsory counterclaim in Connecticut. n158 The court disagreed, holding that the patent and antitrust claims did not arise out of the same transaction or occurrence because: 1) SCM's antitrust claims were similar to patent misuse and did not concern patent validity; n159 2) separate litigation would not "substantially duplicate the time and effort spent;" n160 and 3) the factual proof of validity and infringement is dramatically different from proof of an antitrust violation or patent misuse. n161

The Ninth Circuit in *Hydranautics* elaborated on this rationale:

In many cases even if the antitrust counterclaim were asserted by counterclaim [sic], the court would sever the issues and resolve the infringement issue first. The evidence for patent infringement and antitrust damages may differ considerably, depending on the particulars of the case. n162

The Ninth Circuit also added that patent appeals are now sent to the Federal Circuit, while antitrust appeals go to the regular circuit courts, suggesting that Congress is cognizant of the dichotomy between patent and antitrust law. n163

[*249]

As the Ninth Circuit suggested, patent claims and antitrust claims based on patent misuse are often bifurcated under Rule 42(b) of the FRCP, n164 which presents a final consideration. In *In re Innotron Diagnostics*, n165 the Federal Circuit denied a petition for writ of mandamus in which the petitioner asserted that patent infringement claims should not have been severed from its misuse-oriented antitrust counterclaims.

In so doing, the Federal Circuit set forth four reasons why it is the "now- standard practice" n166 to sever such claims: 1) affirmative defenses such as misuse are determined at the infringement trial, thus eliminating the need to retry them during the antitrust trial; n167 2) it is more convenient to try the less complex patent issues first; n168 3) consolidating the two actions would entail excessive delay, as the lengthy antitrust discovery process would stall litigation on the infringement issues for many months; n169 and 4) consolidation would generate confusion and prejudice by intermixing conceptually-divisible issues, proof, and witnesses. n170

If patent infringement claims are frequently bifurcated from antitrust counterclaims and tried separately under Rule 42(b), it would seem that the same underlying logic would apply equally to Rule 13(a). In other words, if judicial economy is promoted by severing two claims and trying them separately, it would seem inappropriate and illogical to regard either claim as a compulsory counterclaim to the other and require consolidation. The task, then, is to determine whether consolidation of the two claims would promote the basic purposes of Rule 13(a).

Antitrust counterclaims related to patent validity - such as Walker Process and Handgards claims - would seem to fail this test more often than not, as the determination of validity bears directly on the issue of infringement, thus suggesting that the two claims should be litigated in tandem. n171 On the other hand, counterclaims related to misuse

[*250] and other more economically oriented antitrust counterclaims would seem generally to be distinct in nature and substance from patent validity and infringement issues. These types of antitrust counterclaims should be tried separately as a general rule and, accordingly, should usually be deemed permissive under Rule 13(b), subject of course to the court's discretion.

VI. Conclusion

In sum, Mercoïd appears to present no bright line exception with regard to antitrust counterclaims in patent infringement litigation.

Rather, such counterclaims, like any other counterclaims, must be considered in light of the underlying policy of Rule 13: judicial economy. In this sense, Mercoïd does not represent any great departure from existing law. However, Mercoïd does operate as a reminder to courts to not interpret the logical relationship test in an excessively literal fashion and to refrain from consolidating patent and antitrust claims that are, in reality, very different in terms of the underlying facts, law, and proof, as well as the amount of time and resources required.

Accordingly, antitrust counterclaims alleging claims akin to patent misuse, which do not involve fraudulent procurement or patent validity, and which would not otherwise harm judicial economy if tried separately, should generally be considered permissive under Rule 13 because they lack a sufficient logical relationship. This, and nothing more, seems to be the appropriate lesson to be drawn from Mercoïd and its progeny.

n1 *118 S. Ct. 265 (1997)*.

n2 *Tank Insulation Int'l, Inc. v. Insultherm, Inc.*, 104 F.3d 83, 41 U.S.P.Q.2d (BNA) 1545 (5th Cir. 1997).

n3 See Supreme Court Proceedings; *Subject Matter Summary of Cases Recently Filed*, 65 U.S.L.W. 3827 (1997) (listing questions presented in Insultherm's petition for certiorari); see also Brief of Amicus Curiae American Intellectual Property Law Association in *Support of Petition for a Writ of Certiorari, Insultherm, Inc. v. Tank Insulation Int'l, Inc.*, 118 S. Ct. 265 (1997) (No. 96-1899) (available online at <<http://www.aipla.org/tank.html>>).

n4 *Genentech, Inc. v. Regents of the Univ. of Cal.*, 143 F.3d 1446, 1456, 46 U.S.P.Q.2d (BNA) 1586, 1595 (Fed. Cir. 1998) (affirming lower court decision as not an abuse of discretion but providing no extensive discussion); *Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059, 1067 n.4, 46 U.S.P.Q.2d (BNA) 1097, 1104 n.4 (Fed. Cir. 1998) (observing the conflict between the circuit courts on the issue).

n5 954 F. Supp. 17, 42 U.S.P.Q.2d (BNA) 1795 (D. Me. 1997).

n6 *Id.* at 19, 42 U.S.P.Q.2d at 1797.

n7 70 F.3d 533, 36 U.S.P.Q.2d (BNA) 1773 (9th Cir. 1995).

n8 See, e.g., *Boston Scientific Corp. v. Schneider (Europe) AG*, 983 F. Supp. 245, 267-68 (D. Mass. 1997); *Tindall v. Parks*, No. 96 Civ. 7651 (RPP), 1997 WL 473532, at *1 (S.D.N.Y. Aug. 19, 1997); *American Packaging Corp. v. Golden Valley Microwave Foods, Inc.*, No. CIV.A. 94-1839, 1995 WL 262522, at *3 (E.D. Pa. May 1, 1995).

n9 320 U.S. 661, 60 U.S.P.Q. (BNA) 21 (1944).

n10 See, e.g., *Tank Insulation Int'l, Inc. v. Insultherm, Inc.*, 104 F.3d 83, 86-88, 41 U.S.P.Q.2d (BNA) 1545, 1547-49 (5th Cir. 1997); *Grumman Sys. Support Corp. v. Data Gen. Corp.*, 125 F.R.D. 160, 164 (N.D. Cal. 1988); *Martino v. McDonald's Sys., Inc.*, 432 F. Supp. 499, 505 (N.D. Ill. 1977).

n11 See, e.g., *Hydranautics*, 70 F.3d at 536, 36 U.S.P.Q.2d at 1776; *Longwood Mfg. Corp. v. Wheelabrator Clean Water Sys., Inc.*, 937 F. Supp. 63, 64-65, 40 U.S.P.Q.2d (BNA) 1683, 1639-40 (D. Me. 1996).

n12 See generally John J. Barnhardt, III, Counterclaiming in Patent Infringement Litigation, 15 Am. Intell. Prop. L. Ass'n Q.J. 175 (1987).

n13 See, e.g., *Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 179, 206 U.S.P.Q. (BNA) 385, 389 (1980).

n14 See, e.g., *Walker Process Equip. Inc. v. Food Mach. & Chem. Corp.*, 382 U.S. 172, 177, 147 U.S.P.Q. (BNA) 404, 407 (1965).

n15 See, e.g., *Handgards, Inc. v. Ethicon, Inc.*, 743 F.2d 1282, 1284, 223 U.S.P.Q. (BNA) 214, 218 (9th Cir. 1984); *Handgards, Inc. v. Ethicon, Inc.*, 601 F.2d 986, 992, 202 U.S.P.Q. (BNA) 342, 348-49 (9th Cir. 1979).

n16 See, e.g., *Professional Real Estate Investors, Inc. v. Columbia Pictures Indus., Inc.*, 508 U.S. 49, 52, 26 U.S.P.Q.2d (BNA) 1641, 1642 (1993).

n17 See Kevin J. Arquit, Walker Process, Handgards and Professional Real Estate Investors, and Lost Profit Damages, in *Intellectual Property Antitrust: 1995*, at 625, 657-60 (PLI Pat., Copyrights, Trademarks & Literary Prop. Course Handbook Series No. 414, 1995).

n18 See infra note 45 and accompanying text.

n19 See Arquit, supra note 17.

n20 Cf. *FilmTec Corp. v. Hydranautics*, 67 F.3d 931, 936, 36 U.S.P.Q.2d (BNA) 1410, 1413 (Fed. Cir. 1995), cert. denied, 117 S. Ct. 62 (1996) (observing that facts necessary for an assessment of an antitrust counterclaim "typically may not be known until well into the litigation").

n21 *Walker Process Equip., Inc. v. Food Mach. & Chem. Corp.*, 382 U.S. 172, 147 U.S.P.Q. (BNA) 404 (1965).

n22 Cf. *USM Corp. v. SPS Techs., Inc.*, 514 F. Supp. 213, 211 U.S.P.Q. (BNA) 112 (N.D. Ill. 1981), aff'd in part, vacated in part, 694 F.2d 505, 216 U.S.P.Q. (BNA) 959 (7th Cir. 1982). In USM, USM brought a Walker Process claim against SPS despite the fact

that, three years earlier, the two companies had signed a settlement agreement acknowledging the validity of the patent at issue. *514 F. Supp. at 217, 211 U.S.P.Q. at 116*. Apparently, in the interim, new facts had come to light showing that during the prior litigation, SPS had suppressed documents indicating the patent had been fraudulently procured. *Id. at 218, 211 U.S.P.Q. at 116-17*.

n23 See *FilmTec, 67 F.3d at 936, 36 U.S.P.Q.2d at 1413*.

n24 Cf. *Rohm & Haas Co. v. Brotech Corp., 770 F. Supp. 928 (D. Del. 1991)* (plaintiff brought patent infringement suit in Delaware; defendant subsequently brought separate antitrust action in Pennsylvania).

n25 Cf. *Standard Pressed Steel Co. v. Astoria Plating Corp., 162 U.S.P.Q. (BNA) 441, 442 (N.D. Ohio 1969)* ("If the patent and antitrust issues are tried together, a jury would be required to hear all of the evidence relating to the validity of the patent under the patent laws, yet would be permitted to determine only the issues relating to the antitrust violations."). If, however, the antitrust claim is a Walker Process claim, which is analogous to inequitable conduct, a prudent attorney may wish to have the claim litigated as a counterclaim before a jury. This is because a Walker Process claim and an inequitable conduct defense generally share many factual elements, and the jury's factual findings on the antitrust issues would bind the court with respect to the inequitable conduct determination. See *Cabinet Vision v. Cabnetware, 129 F.3d 595, 600, 44 U.S.P.Q.2d (BNA) 1683, 1687 (Fed. Cir. 1997)*.

n26 See generally Arquit, *supra* note 17.

n27 See John P. Ludington, Annotation, Separate Trials, Under Rule 42(b) of Federal Rules of Civil Procedure, of Claims or Issues in Suits Involving Federal Antitrust Laws, *12 A.L.R. Fed. 831, 837 (1996)*.

n28 On the other hand, it is worth mentioning that if a defendant is considering withholding its counterclaim for strategic purposes, a safer route may be to file the counterclaim - thus avoiding the risk of being later precluded by Rule 13(a) - and subsequently move for a separate trial under Rule 42(b). Such motions are commonly granted. See *infra* text accompanying notes 162-65. However, should the Rule 42(b) motion be denied, counsel would be forced to litigate the patent and antitrust claims simultaneously. For a case where this occurred, see *General Tel. & Elec. Labs., Inc. v. National Video Corp., 297 F. Supp. 981, 160 U.S.P.Q. (BNA) 701 (N.D. Ill. 1968)*.

n29 Fed. R. Civ. P. 13(a).

n30 Fed. R. Civ. P. 13 advisory committee note 1.

n31 Restatement (Second) of Judgments ch. 1 (Introduction), at 7 (1982).

n32 *Id.*

n33 *Id.* at 7-8.

n34 *Id.*

n35 See Michael D. Conway, Comment, Narrowing the Scope of Rule 13(a), *60 U. Chi. L. Rev. 141, 155-64 (1993)*.

n36 More recently, efforts have been made to "avoid confusion resulting from the two uses of 'res judicata'." *Miagra v. Warren Bd. of Educ.*, 465 U.S. 75, 77 n.1 (1984). "Claim preclusion" replaces "res judicata" to indicate when "a valid final adjudication of a claim precludes a second action on that claim or any part of it," *Baker by Thomas v. General Motors Co.* 118 S. Ct. 657, 664 n.5 (1998), while "issue preclusion" (collateral estoppel) is indicative of when "an issue of fact or law, actually litigated and resolved by a valid final judgment, binds the parties in a subsequent action, whether on the same or a different claim." *Id.* "Res judicata" will be used as a general term throughout this article.

n37 See *Allen v. McCurry*, 449 U.S. 90, 94 n.5 (1980).

n38 *Matsushita Elec. Indus. Co. v. Epstein*, 516 U.S. 367, 376 (1996).

n39 *Kremer v. Chemical Constr. Corp.*, 465 U.S. 461, 481 n.22 (1982).

n40 *Federated Dep't Stores, Inc. v. Moitie*, 452 U.S. 394, 398, 401-02 (1981); *Commissioner v. Sunnen*, 333 U.S. 591, 597-98 (1948); see also *Heiser v. Woodruff*, 327 U.S. 726, 733-35 (1946).

n41 Fed. R. Civ. P. 1 advisory committee note 3.

n42 See generally 6 Charles A. Wright et al., *Federal Practice and Procedure* 1410 (2d ed. 1990); *Painter v. Harvey*, 673 F. Supp. 777, 781 (W.D. Va. 1987) ("This court must confess that it is somewhat mystified with the use of res judicata as a standard to determine whether a counterclaim is compulsory because, if res judicata is the standard, Rule 13(a) is superfluous."), *aff'd*, 863 F.2d 329 (4th Cir. 1988).

n43 Restatement (Second) of Judgments ch. 1 (Introduction), at 6.

n44 For example, while Rule 13(a) requires a defendant to join certain "compulsory" counterclaims to an action, there is no similar rule requiring a plaintiff to join certain claims to his cause(s) of action. See Fed. R. Civ. P. 18(a) ("A party asserting a claim to relief as an original claim . . . may join . . . as many claims . . . as the party has against an opposing party.") (emphasis added). Rather, common law res judicata principles come into play to govern plaintiffs.

n45 Fed. R. Civ. P. 13 advisory committee note 7; see generally Restatement (Second) of Judgments 22; W.R. Habeeb, Annotation, Failure to Assert Matter as Counterclaim as Precluding Assertion Thereof in Subsequent Action, Under Federal Rules or Similar State Rules or Statutes, 22 *A.L.R.2d* 621 (1952).

n46 Fed. R. Civ. P. 13(a).

n47 270 U.S. 593 (1926).

n48 *Id.* at 610.

n49 See also *Pochiro v. Prudential Ins. Co. of Am.*, 827 F.2d 1246, 1249 (9th Cir. 1987) (citing *Harris v. Steinem*, 571 F.2d 119, 123 (2d Cir. 1978) (explaining the flexible approach to Rule 13)).

n50 *Great Lakes Rubber Corp. v. Herbert Cooper Co.*, 286 F.2d 631, 634 (3d Cir. 1961), cited with approval in *Baker v. Gold Seal Liquors, Inc.*, 417 U.S. 467, 469 n.1 (1974).

n51 286 *F.2d* at 631.

n52 *Id.* at 634; see also *Pochiro*, 827 *F.2d* at 1249 (stating that the logical relationship test is met when "considerations of judicial economy and fairness dictate that all the issues be resolved in one lawsuit" (quoting *Harris*, 571 *F.2d* at 123).

n53 *Mercoid Corp. v. Mid-Continent Inv. Co.*, 320 *U.S.* 661, 670-72, 60 *U.S.P.Q.* (BNA) 21, 26-27 (1944).

n54 Claim 1 of the '146 patent reads: A heating system comprising a combustion pot, means for feeding fuel thereto, a combustion space above the combustion pot, means controlled by the temperature of the rooms to be heated for automatically regulating the fuel feeding means, and a separate thermostatic control actuated by predetermined minimum temperatures in said combustion space for preventing extinguishment of the fire when operating under low heat reitions. *Smith v. Mid-Continent Inv. Co.*, 106 *F.2d* 622, 626 n.2, 43 *U.S.P.Q.* (BNA) 59, 62 n.2 (8th Cir. 1939), aff'g 35 *U.S.P.Q.* (BNA) 204 (*W.D. Mo.* 1937) [hereinafter "*Smith*"].

n55 *Smith*, 35 *U.S.P.Q.* at 204.

n56 *Mid-Continent Inv. Co. v. Mercoid Corp.*, 133 *F.2d* 803, 805, 56 *U.S.P.Q.* (BNA) 72, 74 (7th Cir. 1943), aff'g 43 *F. Supp.* 692, 52 *U.S.P.Q.* (BNA) 154 (*N.D. Ill.* 1942) [hereinafter "*Mercoid*"].

n57 *Smith*, 35 *U.S.P.Q.* at 205-06.

n58 *Smith*, 106 *F.2d* at 631, 43 *U.S.P.Q.* at 67.

n59 *Mercoid*, 43 *F. Supp.* at 695, 52 *U.S.P.Q.* at 156-57.

n60 *Id.*

n61 *Id.* at 692, 52 *U.S.P.Q.* at 154.

n62 *Id.* at 696, 52 *U.S.P.Q.* at 158.

n63 *Id.* at 695-96, 52 *U.S.P.Q.* at 157. The district court also made special mention of the fact that *Mercoid's* device had been on the market since 1925 - five years prior to the date of issuance of the '146 patent. *Id.* at 695, 52 *U.S.P.Q.* at 157.

n64 *Id.* at 696, 52 *U.S.P.Q.* at 157-58.

n65 *Id.*

n66 *Mercoid Corp. v. Mid-Continent Inv. Co.*, 320 *U.S.* 661, 662, 60 *U.S.P.Q.* (BNA) 21, 23 (1944).

n67 *Mercoid*, 133 *F.2d* at 811, 56 *U.S.P.Q.* at 80.

n68 *Id.* at 808-09, 56 *U.S.P.Q.* at 77-78.

n69 *Id.* at 810-11, 56 *U.S.P.Q.* at 79-80.

n70 *Id.* at 811, 56 *U.S.P.Q.* at 80.

n71 Brief for Petitioner, summarized at 88 *L. Ed.* 376, 377-78 (1944). Notably, the Justice Department filed an *amicus curiae* brief for the United States agreeing that patent

misuse had been committed and that the contributory infringement claim could not stand. Brief for the United States, summarized at 88 *L. Ed.* 376, 378-79.

n72 94 *U.S.* 351 (1876).

n73 *Brief for Petitioner*, 88 *L. Ed.* at 377.

n74 Brief for Respondent, summarized at 88 *L. Ed.* 376, 378.

n75 *Id.*

n76 *Mercoïd Corp. v. Mid-Continent Inc.*, 320 *U.S.* 661, 667-68, 60 *U.S.P.Q. (BNA)* 21, 23-24 (1944).

n77 *Id.* at 668-69, 60 *U.S.P.Q.* at 24-25.

n78 *Id.* at 666-69, 669 *n.1*, 60 *U.S.P.Q.* at 23-26, 25 *n.1*.

n79 *Id.* at 670, 60 *U.S.P.Q.* at 26.

n80 *Id.* at 669-72, 60 *U.S.P.Q.* at 26-27.

n81 *Id.* at 669-70, 60 *U.S.P.Q.* at 26.

n82 *Id.* at 670, 60 *U.S.P.Q.* at 26.

n83 *Id.* at 670-71, 60 *U.S.P.Q.* at 26.

n84 *Id.* at 674-80, 60 *U.S.P.Q.* at 27-30.

n85 Rather, the dissents focused their attention on ambiguous language in the majority opinion that seemed to seriously limit the availability of the contributory infringement claims. *Id.*

n86 *Id.* at 675-76, 60 *U.S.P.Q.* at 27-28 (Roberts, J., dissenting).

n87 42 *F.R.D.* 429 (*E.D. Pa.* 1967).

n88 *Id.* at 430 (quoting Fed. R. Civ. P. 14(a)).

n89 *Id.* at 431 *n.5*, 432.

n90 *Id.* at 432 *n.8* (citations omitted).

n91 See *Mercoïd*, 320 *U.S.* at 671, 60 *U.S.P.Q.* at 26.

n92 See *Brief for Respondent*, 88 *L. Ed.* at 378.

n93 See *supra* text accompanying notes 36-45.

n94 *Mercoïd*, 320 *U.S.* at 671, 60 *U.S.P.Q.* at 26.

n95 See *Tank Insulation Int'l, Inc. v. Insultherm, Inc.*, 104 *F.3d* 83, 88, 41 *U.S.P.Q.2d (BNA)* 1545, 1548 (5th Cir. 1997) ("[I]t is clear that the Court specifically considered rule 13's application to the question before it and expressly and unambiguously held that the counterclaim was permissive.") (footnote omitted).

n96 *Douglas v. Wisconsin Alumni Research Found.*, 81 *F. Supp.* 167, 170, 79 *U.S.P.Q. (BNA)* 283, 286 (*N.D. Ill.* 1948). Other courts have criticized *Mercoïd* and evaded its holding by confining it to its unique facts. See, e.g., *United States v. Eastport Steamship Corp.*, 255 *F.2d* 795, 805 (2d Cir. 1958); *USM Corp. v. SPS Techs., Inc.*, 102

F.R.D. 167, 170, 225 U.S.P.Q. (BNA) 715, 717 (N.D. Ill. 1984); See also *Grumman Sys. Support Corp. v. Data Gen. Corp.*, *125 F.R.D. 160, 164 (N.D. Cal. 1988)*.

n97 *Douglas*, *81 F. Supp. at 170, 79 U.S.P.Q. at 286*.

n98 Restatement (Second) of Judgments 22 reporters' notes to cmt. b ("Note that the Court assumed without discussion that the counterclaim was not compulsory under Rule 13(a).") (1982).

n99 *Mercoïd*, *320 U.S. at 671, 60 U.S.P.Q. at 27*.

n100 Restatement (First) of Judgments 58 (1942).

n101 Restatement (Second) of Judgments ch. 1 (Introduction), at 5-13.

n102 Restatement (Second) of Judgments 22 reporters' note, at 190 ("This Section is drawn from 58 of the first Restatement, but with the addition of a new [s]ubsection . . . requiring the assertion of counterclaims . . . [in accordance with] compulsory counterclaim statutes or rules of court . . .").

n103 *94 U.S. 351 (1876)*.

n104 *Mercoïd*, *320 U.S. at 671, 60 U.S.P.Q. at 27*.

n105 *Cromwell*, *94 U.S. at 353*.

n106 *Cromwell*, however, continues to be solid precedent for the principle of collateral estoppel, or issue preclusion. See *Allen v. McCurry*, *449 U.S. 90, 94 (1980)*.

n107 Restatement (Second) of Judgments ch. 1 (Introduction; Relation Between Law of Res Judicata and Law of Procedure).

n108 See 6 Wright et al., *supra* note 43, 1412, at 92, ("To effectuate policy, the court had to consider the claim as permissive so that it could be brought in the instant action.").

n109 The quintessential example of Justice Douglas' efforts to install per se rules in the antitrust field is *United States v. Socony-Vacuum Oil Co.*, *310 U.S. 150 (1940)*.

n110 In the interrelated companion case to *Mercoïd*, *Mercoïd Corp. v. Minneapolis-Honeywell Regulator Co.*, *320 U.S. 680, 60 U.S.P.Q. (BNA) 30 (1944)*, with which *Mercoïd* had been consolidated in the lower courts, Justice Douglas wrote that "[t]he legality of any attempt to bring unpatented goods within the protection of the patent is measured by the antitrust laws not by patent law." *Id. at 684, 60 U.S.P.Q. at 32*. Such strong language, found in both companion cases, apparently reflects an attempt by Justice Douglas to enhance antitrust policy in the realm of patent law, at the expense of intellectual property rights, through the vehicle of patent misuse. Perhaps for this reason, *Mercoïd* has been called the "high water mark" of the patent misuse defense. See Richard Calkins, Patent Law: The Impact of the 1988 Patent Misuse Reform Act and Noerr-Pennington Doctrine on Misuse Defenses and Antitrust Counterclaims, *38 Drake L. Rev. 175, 183 (1988/1989)*.

n111 See, e.g., *Lewis Mfg. Co. v. Chisholm-Ryder Co.*, *82 F.R.D. 745, 750, 210 U.S.P.Q. (BNA) 514, 517 (W.D. Pa. 1979)*; *Dolfi Music, Inc. v. Forest Inn, Inc.*, *59 F.R.D. 5, 6, 178 U.S.P.Q. (BNA) 355, 356 (E.D. Wis. 1973)*.

n112 *82 F.R.D. at 745, 210 U.S.P.Q. at 514*.

n113 *Id. at 750, 210 U.S.P.Q. 517.*

n114 See James Wm. Moore et al., Moore's Federal Practice 13.12[2], at 13-30 to 13-31 (rel. no. 113, Mar. 1997).

n115 *261 F.2d. 428, 119 U.S.P.Q. (BNA) 401 (5th Cir. 1958).*

n116 *Id. at 430, 119 U.S.P.Q. at 402.*

n117 *Id.* In 1988, Congress broadened the scope of the statute pertaining to general venue requirements, 28 U.S.C. 1391, to permit a corporation to be sued in any jurisdiction in which it would be subject to personal jurisdiction. See 28 U.S.C. 1391(c) (1994). This amendment has been applied to patent infringement actions, even though there is a separate patent venue statute, 28 U.S.C. 1400(b) (1994). See *VE Holding Corp. v. Johnson Gas Appliance Co.*, 917 F.2d 1574, 16 U.S.P.Q.2d (BNA) 1614 (Fed. Cir. 1990). Accordingly, venue considerations are now rarely a basis to forego suing a manufacturer for patent infringement.

n118 *395 U.S. 100, 161 U.S.P.Q. (BNA) 577 (1969).*

n119 *Id.*

n120 *Id. at 108-12, 161 U.S.P.Q. at 581-82.*

n121 *Id.*

n122 *Id. at 111-12, 161 U.S.P.Q. at 581-82* (citing, inter alia, *Schnell v. Peter Eckrich & Sons, Inc.*, 365 U.S. 260, 128 U.S.P.Q. (BNA) 305 (1961)).

n123 See e.g., *Tidewater Patent Dev. Co. v. Kitchen*, 421 F.2d 680, 680-81 (4th Cir. 1970). In an earlier case, while agreeing that a non-party controlling a defense may be bound by an adverse judgment, Judge Learned Hand added the caveat that such defense must be "open and avowed." *Minneapolis-Honeywell Regulator Co. v. Thermoco, Inc.*, 116 F.2d 845, 846, 48 U.S.P.Q. (BNA) 221, 222 (2d Cir. 1941).

n124 *Bros, Inc. v. W.E. Grace Mfg. Co.*, 261 F.2d. 428, 430, 119 U.S.P.Q. (BNA) 401, 402 (5th Cir. 1958).

n125 *Id.*

n126 See *Mercoid Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 661, 669-71, 60 U.S.P.Q. (BNA) 21, 26 (1944).

n127 *Id. at 669-70, 60 U.S.P.Q. at 26.*

n128 *Id. at 671, 60 U.S.P.Q. at 26*; see also *Tank Insulation Int'l, Inc. v. Insultherm, Inc.*, 104 F.3d 83, 87-88, 41 U.S.P.Q.2d (BNA) 1545, 1548 (5th Cir. 1997) ("The [Mercoid] Court clearly accepted, at least for the purposes of its opinion, that Mercoid occupied a position equivalent to a party in the first action.").

n129 See *Mercoid*, 320 U.S. at 671, 60 U.S.P.Q. at 26.

n130 *146 F. Supp. 470 (Ct. Cl. 1956).*

n131 *Id. at 472.*

n132 *Id.* (quoting *Mercoid*, 320 U.S. at 671, 60 U.S.P.Q. at 26).

n133 See, e.g., 6 Wright et al., *supra* note 43, 1412, at 92.

n134 300 F. Supp. 676 (D.P.R. 1969).

n135 *Id.* at 678 n.1.

n136 See *Hydranautics v. FilmTec Corp.*, 70 F.3d 533, 535, 36 U.S.P.Q.2d (BNA) 1773, 1775 (9th Cir. 1995).

n137 *Id.*

n138 *Id.* at 536, 36 U.S.P.Q.2d at 1775.

n139 *Id.*; see also *Dairy Foods Inc. v. Dairy Maid Prod. Coop.*, 297 F.2d 805, 809-10, 132 U.S.P.Q. (BNA) 25, 28 (7th Cir. 1961) ("The threefold damages [sought in defendant's antitrust counterclaim in a patent infringement suit] are not dependent or contingent upon the outcome of plaintiff's action and plaintiff's attempted analogy to a counterclaim for malicious abuse of process . . . is inappropriate.").

n140 *Hydranautics*, 70 F.3d at 536-37, 36 U.S.P.Q.2d at 1776; See also *Olsen v. Puntervold*, 338 F.2d 21, 22 (5th Cir. 1964) (affirming dismissal of malicious prosecution counterclaim as premature); cf. *Solomon v. Bruchhausen*, 305 F.2d 941, 943 (2d Cir. 1962) (holding that counterclaim for abuse of process would be premature). But cf. *Bose Corp. v. Consumers Union of United States*, 384 F. Supp. 600, 603 (D. Mass. 1974) (stating that malicious abuse of process counterclaim is permissive, whereas malicious prosecution counterclaim would be premature).

n141 See *Tank Insulation Int'l, Inc. v. Insultherm, Inc.*, 104 F.3d 83, 86, 41 U.S.P.Q.2d (BNA) 1545, 1546 (5th Cir. 1997).

n142 *Id.* at 87, 41 U.S.P.Q.2d at 1548. The Fifth Circuit remarked in a footnote that it was not deciding whether every antitrust counterclaim in patent infringement lawsuit should be permissive under *Mercoïd*. *Id.* at 88 n.5, 41 U.S.P.Q.2d at 1549 n.5.

n143 *Mercoïd Corp. v. Mid-Continent Investment Co.*, 320 U.S. 661, 663, 60 U.S.P.Q. (BNA) 21, 23 (1944). Significantly, the Court stated that the basis for *Mercoïd*'s patent misuse defense was identical to that underlying its antitrust counterclaim. *Id.* at 662, 60 U.S.P.Q. at 23.

n144 *Carbice Corp. v. American Patents Dev. Corp.*, 283 U.S. 27 (1931).

n145 *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488, 52 U.S.P.Q. (BNA) 30 (1942).

n146 See *Carbice*, 283 U.S. at 29-30; *Morton Salt*, 314 U.S. at 490-91, 52 U.S.P.Q. at 32-33.

n147 See *Rohm & Haas Co. v. Brotech Corp.*, 770 F. Supp. 928, 931-35 (D. Del. 1991); See also *Martino v. McDonald's Sys., Inc.*, 432 F. Supp. 499, 505 (N.D. Ill. 1977), *aff'd*, 598 F.2d 1079 (7th Cir.); cf. 6 Wright et al., *supra* note 43, 1412, at 93.

n148 *Longwood Mfg. Corp. v. Wheelabrator Clean Water Sys., Inc.*, 954 F. Supp. 17, 18, 42 U.S.P.Q.2d (BNA) 1795, 1796- 97 (D. Me. 1997) (citations omitted). The court, probably with an eye toward the First Circuit (or beyond), also stated that "[p]erhaps *Mercoïd* . . . should be overruled, but that is not a decision for me to make." *Id.*

n149 770 *F. Supp.* at 928.

n150 *Id.* at 929.

n151 *Id.*

n152 *Id.*

n153 *Id.* at 932.

n154 *Id.* at 934.

n155 *Id.* at 935.

n156 576 *F.2d* 1057, 198 *U.S.P.Q.* (BNA) 449 (3d Cir. 1978).

n157 *Id.* at 1058, 198 *U.S.P.Q.* at 449-50. SCM's antitrust claims alleged, inter alia, that Xerox had misused its patent portfolio. *Id.*

n158 *Id.*

n159 *Id.* at 1060, 198 *U.S.P.Q.* at 451.

n160 *Id.*

n161 *Id.* at 1060, 198 *U.S.P.Q.* at 451; cf. *Mead Data Cent., Inc. v. West Publ'g Co.*, 679 *F. Supp.* 1455, 1461-62, 5 *U.S.P.Q.2d* (BNA) 1796, 1801 (S.D. Ohio 1987) (comparing copyright and antitrust claims).

n162 *Hydranautics v. FilmTec Corp.*, 70 *F.3d* 533, 536, 36 *U.S.P.Q.2d* (BNA) 1773, 1776 (9th Cir. 1995).

n163 *Id.*

n164 See Ludington, *supra* note 27, at 852-56. Rule 42(b) states, inter alia, that separate trials of claims and counterclaims can be ordered "in furtherance of convenience or . . . when separate trials will be conducive to expedition and economy." Fed R. Civ. P. 42(b).

n165 800 *F.2d* 1077, 231 *U.S.P.Q.* (BNA) 178 (*Fed. Cir.* 1986).

n166 *Id.* at 1084, 231 *U.S.P.Q.* at 184.

n167 *Id.* at 1085, 231 *U.S.P.Q.* at 184.

n168 *Id.*

n169 *Id.*

n170 *Id.* For other recent cases using similar reasoning to bifurcate patent and antitrust claims, see *Virginia Panel Corp. v. Mac Panel Co.*, 887 *F. Supp.* 880 (W.D. Va. 1995); *Hewlett-Packard Co. v. Genrad, Inc.*, 882 *F. Supp.* 1141 (D. Mass. 1995); *Baxter Int'l Inc. v. Cobe Lab., Inc.*, No. 89 C 9460, 1992 WL 77665 (N.D. Ill. 1992).

n171 This approach was utilized, for example, in *Baxter*, 1992 WL 77665, at *4, p. 10.