

BOSTON COLLEGE

INDUSTRIAL AND COMMERCIAL LAW REVIEW

VOLUME XVIII

NOVEMBER 1976

NUMBER 1

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COMMENTS

RES JUDICATA EFFECT OF CONSENT JUDGMENTS IN PATENT LITIGATION

The United States patent system seeks to promote scientific and economic advancement through the stimulus of invention by carving out a limited exception to the general rule against monopolies.¹ The federal policy which supports this system mandates that ideas be dedicated to the common good, unless they are protected by a valid patent.² The public, therefore, has a paramount interest in assuring that patent monopolies meet the congressionally imposed criteria of patentability,³ which alone can justify the restriction on public access

¹ See *Lear, Inc. v. Adkins*, 395 U.S. 653, 663 (1969) [hereinafter cited as *Lear*]; *Precision Instrument Mfg. Co. v. Automotive Maintenance Mach. Co.*, 324 U.S. 806, 816 (1945).

At "common law, monopolies were unlawful because of their restriction upon individual freedom of contract and their injury to the public." *Standard Oil v. United States*, 221 U. S. 1, 54 (1911). Notwithstanding the illegality of monopolies, the English sovereign had long exercised the authority to grant letters patent "reciting the grant of some dignity, office, monopoly franchise, or other privilege to the patentee. They are not sealed up, but are left open (hence the term 'patent') and are recorded in the patent rolls in the Record Office." A Deller, 1 WALKER ON PATENTS 2 (1937), quoting 13 THE ENCYCLOPEDIA BRITANNICA 969 (14th ed.).

The Crown often granted monopolies to the privileged few, who then sold them to the highest bidder. *Id.* at 6. Continual abuse of the royal prerogative led, in 1623, to Parliament's enactment of the Statute of Monopolies, 21 Jac. 1, c. 3 (1623) which abolished all monopolies, but expressly exempted from such prohibition "any letters - patent and grants of privilege, for the term of fourteen years or under, hereafter to be made, of the sole working or making of any manner of new manufactures . . . to be the true and first inventor and inventors of such manufactures . . ." 21 Jac. 1, c. 3, Part VI (1623) quoted in, A. Deller, 1 WALKER ON PATENTS 20 (1937). In the United States, Article I, section 8, clause 8 of the Constitution invests Congress with the authority "[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries . . ." Federal statutes enacted in accordance with this authority have been in force since 1790. *Id.* at 35. The current Patent Code provides that "[w]hoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title." 35 U.S.C. § 101 (1970).

² *Lear*, 395 U.S. 653, 668 (1969). See also *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 230-31 (1964); *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234, 237 (1964).

A patent is, in effect, a contract between the inventor and the public. A. Deller, 1 WALKER ON PATENTS 27 (1937). The patentee gives his invention to the community in exchange for the right to exclude others from making, using or vending the invention. If an invention does not meet the statutory requirements, there is no consideration for the grant of the privilege of exclusivity.

³ The statutory conditions for patentability include the requirements of novelty and utility as defined in 35 U.S.C. §§ 101 and 102 (1970). In addition, the subject matter sought to be patented must not "have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains." 35 U.S.C. § 103 (1970).

to a free and open market.⁴

Judicial review of patent validity is an essential safeguard to the public interest.⁵ One factor contributing to the significance of such review is that the U.S. Patent Office has tended to apply relatively lenient standards in its determinations of patentability.⁶ This government agency often arrives at its decision to issue a patent after an *ex parte* proceeding, without the aid of argument by parties interested in proving patent invalidity.⁷ As a result, "most judges . . . think that a strong well-financed applicant has a pretty good chance of getting at least some patent claims allowed somewhere along the line."⁸ As a result, flimsy patents are common, requiring judicial review to expose their invalidity.⁹

A second factor which contributes to the importance of judicial review of patent validity is the public's dependence on private litigants to vindicate its interest in stripping an invalid patent of its government-sanctioned monopoly.¹⁰ This private enforcement mechanism, however, does not necessarily effectuate federal patent policy. The patentee, for example, may sue an alleged infringer who possesses neither the resources, nor the desire necessary to go to trial and fully ventilate the issue of patent validity. As a result, the parties may negotiate a consent judgment, which typically recites both the validity

⁴ Precision Instrument Mfg. Co. v. Automotive Maintenance Mach. Co., 324 U.S. 806, 816 (1945). See *Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation*, 402 U.S. 313, 343 (1971), where the Court noted that "[a] patent yielding returns for a device that fails to meet the congressionally imposed criteria of patentability is anomalous." See generally *Lear*, 395 U.S. 653, 663 (1969); *United States v. Bell Tel. Co.*, 128 U.S. 315, 357, 370 (1888).

⁵ "A patent, in the last analysis, simply represents a legal conclusion reached by the Patent Office." *Lear*, 395 U.S. 653, 670 (1969). Although the Patent Office has the primary responsibility for application of the broad criteria of patentability, Congress has lodged final authority to decide that question in the federal courts. 35 U.S.C. § 141 (1970) (Board of Appeal's denial of a patent application is reviewable in the Court of Customs and Patent Appeals.); 35 U.S.C. § 282 (1970) (A federal district court may review the validity of an issued patent in an infringement action because patent invalidity is a defense to an action for infringement. Under 28 U.S.C. § 1338 (1970), federal district courts have original and exclusive jurisdiction of civil actions arising under the Patent Code.) See *Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation*, 402 U.S. 313, 332 (1972); *Graham v. John Deere Co.*, 383 U.S. 1, 18 (1965).

⁶ In *Graham v. John Deere Co.*, 383 U.S. 1 (1966), the Supreme Court "observed a notorious difference between the standards applied by the Patent Office and by the courts." *Id.* at 18.

⁷ *Lear*, 395 U.S. 653, 670 (1969).

⁸ Fortas, *The Patent System in Distress*, 53 J. PAT. OFF. SOC'Y, 810, 816 (1971).

⁹ One claim was recently invalidated as having been anticipated by Euclidian geometry. *Ken Wire & Metal Prods., Inc. v. Columbia Broadcasting Sys.*, 338 F. Supp. 624, 628 (S.D.N.Y. 1971).

¹⁰ The federal government can only challenge patent validity in the case of fraud on the Patent Office. *United States v. American Bell Tel. Co.*, 167 U.S. 224, 265 (1897). But cf. *United States v. Glaxo Group Ltd.*, 410 U.S. 52, 57-60 (1973), where the Supreme Court recognized the limited authority of the federal government to challenge the validity of a patent which is directly involved in antitrust violations when the government presents a substantial case for relief in the form of restrictions on the patent.

and past infringement of a patent. Although the court enters this agreement as a judgment, thus giving it its imprimatur, these recitals sometimes serve to validate a patent whose invalidity would have been revealed in a fully contested adversary proceeding. Thus, where the same parties seek to relitigate the issue of validity, the question of the degree of sanctity to be accorded a consent judgment in a subsequent suit implicates countervailing considerations. On the one hand, the principle of *res judicata* requires finality, so as to prevent vexation to the parties and the waste of judicial resources.¹¹ On the other hand, federal patent policy, which "requires that all ideas in general circulation be dedicated to the common good unless they are protected by a valid patent,"¹² seeks to remove all obstacles to an authoritative test of patent validity.¹³

The federal policy which seeks to facilitate judicial review of a patent's validity received the Supreme Court's full endorsement in *Lear, Inc. v. Adkins*.¹⁴ There, in a contract action for unpaid royalties, the Court held that a patent licensee was not estopped from challenging the validity of a patent despite his status as the beneficiary of a licensing agreement.¹⁵ Justice Harlan, speaking for a majority of the

For a history of the limitations on the federal government's authority collaterally to challenge the validity of issued patents, see *id.* at 65-69 (Rehnquist, J., dissenting).

¹¹ The doctrine of *res judicata* is "founded upon the generally recognized principle that there must be some end to litigation." 1B J. MOORE, FEDERAL PRACTICE ¶0.405 [1], at 628 (2d ed. 1974), quoting *Heiser v. Woodruff*, 327 U.S. 733 (1946). *Res judicata* thus fosters reliance on judicial action and conserves judicial resources while sparing the parties the vexation of relitigation and the concomitant possibility of inconsistent results. *Developments in the Law—Res Judicata*, 65 HARV. L. REV. 818, 820 (1952). At the same time, however, the permanence of prior judgments may spawn overzealous litigation, perpetuate bad law and limit judicial flexibility. *Id.* As a result, *res judicata*, both in its general application and in its application to consent judgments, must remain a flexible doctrine. See, e.g., *Mercoid Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 661, 669-71 (1944) (failure to interpose a patent misuse defense in earlier infringement litigation involving the validity of the same patent did not foreclose an antitrust claim based upon patent misuse); cf. *Sola Elec. Co. v. Jefferson Elec. Co.*, 317 U.S. 173, 177 (1942). See also 1B J. MOORE, FEDERAL PRACTICE ¶0.409[5], at 1032 (2d ed. 1974).

Res judicata operates through the principles of bar, merger and collateral estoppel. A valid final judgment for the plaintiff on the merits merges the plaintiff's cause of action. 1B J. MOORE, FEDERAL PRACTICE ¶0.405[1], at 625 (2d ed. 1974). Thereafter he may sue the defendant only on the judgment, and not on the original claim. *Id.* Likewise, an *in personam* judgment for the defendant serves as a judgment in bar, extinguishing the plaintiff's original cause of action. *Id.* at 626. Bar and merger, therefore, preclude a second suit on the same cause of action, both as to issues actually litigated and decided as well as those that might have been litigated. *Lawlor v. National Screen Serv. Corp.*, 349 U.S. 322, 326 (1955). The doctrine of collateral estoppel, on the other hand, "precludes relitigation of issues actually litigated and determined in the prior suit, regardless of whether it was based on the same cause of action as the second suit." *Id.*

¹² *Lear*, 395 U.S. 653, 668 (1969). See note 2 *supra*. See also *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 230-31 (1964); *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234, 237 (1964).

¹³ *Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation*, 402 U.S. 313, 344-45 (1971).

¹⁴ 395 U.S. 653 (1969).

¹⁵ *Id.* at 670-71.

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Court, determined that the technical requirements of the contract doctrine which forbids a dissatisfied purchaser from repudiating his promises must yield to the public interest in challenges to the patentability of an inventor's claims.¹⁶ The Court reasoned that the contractual equities of the licensor do not outweigh "the important public interest in permitting full and free competition in the use of ideas which are in reality a part of the public domain."¹⁷

The Supreme Court's central concern in *Lear*, then, was the facilitation of the private litigant's challenge to patent validity.¹⁸ The lower federal courts have acknowledged this concern by widely applying the *Lear* rationale to eliminate other traditional obstacles to challenges of patent validity.¹⁹ It has not been extended, however, to require the yielding of the public interest in the finality of fully contested judgments.²⁰ This comment will seek to pinpoint the proper

In *Lear*, John Adkins, an inventor, was hired to improve gyroscope accuracy. After Adkins developed a new method of gyroscope construction, but before the Patent Office had issued a final decision as to its patentability, the parties negotiated a licensing agreement. *Id.* at 655-57. During Adkins' drawn out negotiations with the Patent Office, *Lear* concluded that Adkins' inventions were not patentable and ceased paying the royalties required under the licensing agreement. *Id.* at 659-60. Adkins, on obtaining his patent, immediately brought suit for breach of contract. The California Supreme Court held that the doctrine of licensee estoppel barred *Lear* from raising the defense of patent invalidity. *Adkins v. Lear, Inc.*, 67 Cal. 2d 882, 907, 435 P.2d 321, 336, 64 Cal. Rptr. 545, 549-50 (1967).

On appeal, the Supreme Court vacated the state court's judgment and remanded for consideration of the validity of the patent. 395 U.S. at 676.

¹⁶ 395 U.S. at 670-71.

¹⁷ *Id.* at 670.

¹⁸ See *id.* at 670-71. The Court emphasized that licensees may be the only individuals with enough economic incentive to challenge the patent's validity and vindicate the public interest. The Court recognized that "by accepting a license and paying royalties for a time, the licensee may have avoided the necessity of defending an expensive infringement action during the period when he may be least able to afford one." *Id.* at 669. Thus, the Court sought to preserve the licensee's opportunity to mount a legal challenge to the patent once he was in a position to finance the suit.

Interestingly, much of the Court's reasoning was inapplicable to the facts before it. *Lear, Inc.* was a powerful, advantaged licensee who negotiated a license more than four years before Adkins received his patent, not to avoid the necessity of defending an infringement suit, but rather to gain the important pre-patent benefit of exclusive access to the inventor's ideas not obtained by the typical licensee. *Id.* at 671. Pending patent applications are kept in confidence by the Patent Office, 35 U.S.C. § 122 (1970), whereas the inventor's ideas are made public on issuance of the patent. 37 C.F.R. § 1.11(a) (1975).

¹⁹ See, e.g., *Crane, Co. v. Aeroquip Corp.*, 504 F.2d 1086, 1092-93 (7th Cir. 1974) (marking estoppel); *Coastal Dynamics Corp. v. Symbolic Displays, Inc.*, 469 F.2d 79 (9th Cir. 1972) (per curiam) (assignor estoppel); *Massillon-Cleveland-Akron Sign Co. v. Golden State Advertising Co.*, 444 F.2d 425, 427 (9th Cir.), cert. denied, 404 U.S. 873 (1971) (no-contest clause in settlement agreement); *Beckman Instruments, Inc. v. Technical Dev. Corp.*, 433 F.2d 55, 58 (7th Cir.), cert. denied, 401 U.S. 976 (1970) (exclusive licensee estoppel). Cf. *United States v. Glaxo Group Ltd.*, 410 U.S. 52, 58 (1973) (*Lear* rationale is sufficient authority to permit Federal Government a limited ability to challenge patent validity in antitrust suits.)

²⁰ See *Locklin v. Day-Glo Color Corp.*, 468 F.2d 1359, 1360 (9th Cir. 1972); *Shatterproof Glass Corp. v. Guardian Glass Co.*, 462 F.2d 1115, 1125 (6th Cir.), cert. denied, 409 U.S. 1039 (1972). In *Schlegel Mfg. Co. v. USM Corp.*, 525 F.2d 775 (6th Cir.

placement of consent judgments on the continuum between the *Lear* license situation and the fully contested disposition.²¹

Initially, this comment will compare consent decrees with the licensee estoppel doctrine to determine whether the *Lear* rationale requires that recitals of patent validity in consent decrees should no longer preclude further challenge to the validity of the same patent. It then will analyze the distinction courts have drawn between consent judgments reciting both validity and infringement, which are given *res judicata* effect, and those adjudicating validity alone, which are not deemed conclusive. It will be submitted that a consent judgment should not bar a litigant from further challenge to patent validity. However, the judiciary's determination to prevent litigants from coming to regard the consent process as an idle ceremony is likely to thwart any change in the trend of the decisions. It is therefore suggested that the distinction between the two types of consent judgments may offer a viable compromise between the competing policies of finality and authoritative validity determinations, for the distinction serves in practice to deny conclusive effect to those consent decrees most likely to result in the protection of spurious patents. The distinction thus compensates for the absence of an adequate safeguard against the entry of erroneous decrees; it retains some of the benefits of *res judicata*, while minimizing the disadvantages inherent in the application of the finality principle to consent judgments in patent litigation.

I. A COMPARISON OF CONSENT DECREES AND LICENSEE ESTOPPEL IN THE CONTEXT OF FEDERAL PATENT POLICY

Consent judgments have usually been accorded full *res judicata*

1975), *cert. denied*, 96 S. Ct. 1509 (1976), the court observed "[w]e are aware of no court which has entertained the suggestion that *Lear* abrogates the doctrine of *res judicata* after a fully litigated result." *Id.* at 780. Thus, the court reasoned that "[e]ven though the degree of judicial involvement is different between a consent decree and a litigated result, we are not prepared to find that judicial involvement in a consent decree is so inconsequential as to justify different treatment." *Id.*

²¹ This continuum, in effect, encompasses the full range of obstacles which may obstruct a challenge to the validity of a patent. At one end of the continuum are those obstacles which the courts readily have overturned. See cases cited *supra* at note 19. What these obstacles have in common is the fact that they have arisen entirely as the result of private action and offer no guarantee that the obstacle in fact protects a valid patent from unnecessary challenge. A license, a settlement agreement and an assignment of a license all originate in an agreement between private parties. Similarly, marking estoppel arises as the result of action taken by the parties when an alleged infringer marks its product with the patentee's patent number. At the other end of the continuum is the obstacle posed by the fully contested judgment of validity which the courts have refused to overturn. See cases cited *supra* at note 20. In the case of a fully litigated disposition, the resultant judgment does not merely reflect the agreement or action of private parties, but stands as the pronouncement of the court. This pronouncement, in turn, is based on the full ventilation of the issue of validity. A fully contested judgment of validity, therefore, is likely to protect only valid patents from further challenge because the litigation would have exposed the invalidity of spurious patents.

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effect, at least with respect to those issues actually adjudicated.²² Courts have thus rejected any attempt to characterize a consent judgment as a simple contract between the parties.²³ "[T]he judgment is not an *inter partes* contract; the court is not properly a recorder of contracts, but is an organ of government constituted to make judicial decisions and when it has rendered a consent judgment it has made an adjudication."²⁴ The consent decree's adjudicative function has been stressed particularly where it concludes litigation which implicates the public interest.²⁵ Despite this claim that the consent decree is adjudicative, there is no requirement that the court, in fact, must exercise judicial discretion in the entry of a consent judgment.²⁶

While the conventional wisdom, therefore, would deny that a consent judgment was an *inter partes* contract,²⁷ as a practical matter, the distinction in patent litigation is often a purely formal one. Indeed, prior to the Supreme Court's decision in *Lear*, both patent licensing agreements²⁸ and consent judgments²⁹ typically included

²² *United States v. Swift & Co.*, 286 U.S. 106, 119-20 (1932); 1B J. MOORE, FEDERAL PRACTICE ¶0.409[5], at 1032 (2d ed. 1974). However, consent judgments will not be given collateral estoppel effect as to issues not concluded by the judgment. *Sealor Corp. v. Flexibox, Ltd.*, 242 F. Supp. 693, 698 (D.D.C. 1965). *But see* E. Ingraham Co. v. Germanow, 4 F.2d 1002, 1003 (2d Cir. 1925). Nor will the court accord the judgment collateral estoppel effect where the subsequent litigation was not foreseeable at the time of the first suit. 1B J. MOORE, FEDERAL PRACTICE ¶9.444[1], at 4003 (2d ed. 1974).

²³ *United States v. Swift & Co.*, 286 U.S. 106, 115 (1932). *But see* PCR Golf Ball Co. v. Chemold Corp., 361 F. Supp. 187, 188 (E.D.N.Y. 1973) (mem.); *Sealor Corp. v. Flexibox, Ltd.*, 242 F. Supp. 693, 697-98 (D.D.C. 1965).

²⁴ 1B J. MOORE, FEDERAL PRACTICE ¶0.409[5], at 1030 (2d ed. 1974).

²⁵ *See* James, *Consent Judgments as Collateral Estoppel*, 108 U. PA. L. REV. 173, 178, 185 (1959).

In the case which involves a purely private dispute, where the parties have full capacity to contract, the court will not inquire into the merits of their settlement. *Risk v. Director of Ins.*, 141 Neb. 488, 496, 3 N.W.2d 922, 926 (1942) (plaintiff insured attacked validity of reinsurance agreement). *James, supra*. In fact, the court may be compelled by mandamus to enter judgment as submitted. *See State ex rel. Carmichael v. Jones*, 252 Ala. 479, 482-83, 41 So.2d 280, 282-83 (1949). On the other hand, in the action which implicates the public interest, the court may examine the merits and refuse to enter the consent decree or require the parties to explain and justify their result. *See United States v. Radio Corp. of America*, 46 F. Supp. 654, 655 (D. Del. 1942), *appeal dismissed*, 318 U.S. 796 (1943) (consent decree entered pursuant to stipulations in antitrust suit). Timberg, *A Primer on Antitrust Consent Judgments and FTC Consent Orders*, 39 BROOKLYN L. REV. 567, 568 (1973); Note, 72 HARV. L. REV. 1314, 1316 (1959).

²⁶ In *USM Corp. v. Standard Pressed Steel Co.*, 184 U.S.P.Q. 476 (N.D. Ill. 1974), *aff'd*, 524 F.2d 1097 (7th Cir. 1975), for example, the fact that the consent decree had been signed by a judge who was not regularly assigned to the case and had not participated in any of the pre-trial matters, 184 U.S.P.Q. at 477, was not mentioned by the court in subsequent litigation as a ground for not deciding its res judicata effect. 524 F.2d at 1099.

²⁷ *See* notes 23-24 *supra*.

²⁸ *See, e.g., Pope Mfg. Co. v. Gormully*, 144 U.S. 224, 232 (1892); *National Clay Prods. Co. v. Heath Unit Tile Co.*, 40 F.2d 617, 618 (8th Cir. 1930). Because the doctrine of licensee estoppel obstructed the licensee's challenge to the validity of the patent, a concession of validity in a license agreement was, in effect, gratuitous.

²⁹ *See, e.g., Crane Boom Life Guard Co. v. Saf-T-Boom Corp.*, 362 F.2d 317,

either a concession of the patent's validity or a covenant not to contest its validity. *Lear*, however, abrogated the doctrine of licensee estoppel and thus vitiated the effect of no-contest clauses in license agreements.³⁰ To date, the *Lear* court's rationale has not had a practical impact on consent decrees entered in patent infringement litigation which usually continue to include a provision for the payment of royalties for prospective use and a concession of the patent's validity.³¹ The application of the principles of *res judicata* to consent decrees, then, would guarantee permanent effect to their recitals of a patent's validity.³² This section will examine the features which distinguish consent decrees from simple licensing agreements in order to determine whether different treatment of their concessions of validity is consistent with federal patent policy. It will then analyze the extent to which this different treatment may give rise to undesirable consequences.

A. Consent Decrees and Licensing Agreements as Barriers to Challenges of Patent Validity

1. Safeguard against the entry of erroneous decrees

The court's sanction of the settlement submitted by the parties constitutes the most obvious distinction between a consent decree and a simple license agreement. The role of the judiciary in the entry of such judgment is neither blind nor purely ceremonial. Often the judge is well acquainted with the merits of the case after overseeing years of discovery and pretrial conferences.³³ In addition, recognition of the public interest affecting patent litigation has stimulated courts to take more active roles in reviewing consent decrees submitted by the parties.³⁴ For example, judges occasionally have insisted on dis-

321-22 (8th Cir. 1966); *Siebring v. Hansen*, 346 F.2d 474, 476 (8th Cir. 1965); *Joseph Freeman & Co.*, 323 F.2d 636, 637 (1963).

³⁰ See 395 U.S. at 670-71.

³¹ See, e.g., *USM Corp. v. Standard Pressed Steel Co.*, 524 F.2d 1097, 1098 (7th Cir. 1975); *Crane Co. v. Aeroquip Corp.*, 364 F. Supp. 547, 549 (N.D. Ill. 1973), *rev'd on other grounds*, 504 F.2d 1086, 1088 (7th Cir. 1974).

³² The effect would be permanent insofar as the validity issue arose in a subsequent action between the same parties. See discussion of bar and merger principles *supra* at note 11.

³³ See, e.g., *Broadview Chem. Corp. v. Loctite Corp.*, 474 F.2d 1391, 1392 (2d Cir. 1973) (3 years of litigation); *Business Forms Finishing Serv., Inc. v. Carson*, 452 F.2d 70, 71 (7th Cir. 1971) (3 years); *Kiwi Coders Corp. v. Acro Tool & Die Works*, 250 F.2d 562, 563 (7th Cir. 1957) (4 years and 2 pre-trial conferences). This is not always the case. 36.3% of the consent decrees recorded in the period from 1949-1958 were entered within the first six months after the suit was filed. STAFF OF THE SUBCOMMITTEE ON PATENTS, TRADEMARKS AND COPYRIGHTS OF THE SENATE COMMITTEE ON THE JUDICIARY, 86th CONG., 2d SESS., AN ANALYSIS OF PATENT LITIGATION STATISTICS 14 (Comm. Print 1961).

³⁴ Note, "To Bind or Not to Bind": Bar and Merger Treatment of Consent Decrees in Patent Infringement Litigation, 74 COLUM. L. REV. 1322, 1339 (1974). In addition, there are informal safeguards against the entry of erroneous decrees. "Patent cases seem to

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missing the suit with prejudice.³⁵ Further, in some cases they have clarified the limits on the citation of consent decrees against third parties³⁶ and have even recognized that a refusal to sign consent judgments may best protect the public interest.³⁷

Despite the view that the issue of validity is in some sense adjudicated, and not merely negotiated, in a consent decree, the court's participation in the settlement process does not guarantee that consent judgments will not validate spurious patents. The expense of patent litigation,³⁸ a disproportionate share of which is borne by the challenger,³⁹ increases the likelihood that the parties will reach settlements reflecting factors other than the relative merits of their respective legal claims. The complexity of patent litigation makes it particularly inappropriate for effective judicial overview of the summary disposition accomplished by the parties,⁴⁰ for even in fully contested suits, judges sometimes frankly admit their inability to grasp the technical aspects of the claims.⁴¹ Additionally, there is no guarantee that decrees will be entered by judges well schooled in the history of the controversy between the parties.⁴² Finally, the disparity between the outcomes of contested and consented dispositions suggests that the settlement process validates patents which would otherwise be found invalid: while consent judgments usually support the patentee's claims,⁴³ litigated patents fare poorly in the federal courts. From 1966 to 1972, for example, 68% of all the patents reviewed in federal appellate litigation were invalidated.⁴⁴ Thus, it would seem that there is no guarantee that judicial participation will ensure that only valid patents will be protected by the barrier erected by the consent decree. In effect, for the purposes of determining patent validity, the consent de-

be assigned to judges who are interested in trying them; presumably such judges are attuned to federal patent policies." *Id.* (footnote omitted).

³⁵ See, e.g., *Kraly v. National Distillers and Chem. Corp.*, 502 F.2d 1366, 1368 (7th Cir. 1974); *Brose v. Sears, Roebuck & Co.*, 455 F.2d 763, 767 (5th Cir. 1972).

³⁶ See, e.g., *Weston Instruments, Inc. v. Data Technology Corp.*, 64 F.R.D. 100, 102 (N.D. Cal. 1974); *PCR Golf Ball Co. v. Chemold Corp.*, 361 F. Supp. 187, 188 (E.D.N.Y. 1973).

³⁷ *Butterfield v. Oculus Contact Lens Co.*, 332 F. Supp. 750, 760 (N.D. Ill. 1971), *aff'd per curiam*, 177 U.S.P.Q. 33 (7th Cir. 1973).

³⁸ See text at notes 81-82 *infra*.

³⁹ See text at notes 107-117 *infra*.

⁴⁰ Significantly, judicial "activism" in the processing of consent decrees has related primarily to the procedural, and not the substantive aspects of the disposition. See text at notes 35-37 *supra*.

⁴¹ See *Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation*, 402 U.S. 313, 331 (1971).

⁴² See note 26 *supra*.

⁴³ See, e.g., *USM Corp. v. Standard Pressed Steel Co.*, 524 F. 2d 1097, 1098 (7th Cir. 1975); *Business Forms Finishing Serv., Inc. v. Carson*, 452 F.2d 70, 71 (7th Cir. 1971). The author's research has not uncovered any case where the parties were seeking to reopen a consent decree which found a patent invalid.

⁴⁴ Comment, *Blonder-Tongue Bites Back: Collateral Estoppel in Patent Litigation—A New Look*, 18 VILL. L. REV. 207, 227 (1972).

cree, like the license, simply reflects the agreement reached by the parties.⁴⁵

The litigants' access to discovery, which facilitates the appraisal of their opponents' claims, appears to constitute the only real distinction between these private processes. This distinction, however, is not insignificant. Access to discovery may well prove sufficient to prevent the validation of "scarecrow" patents, as the challenger will press to litigate a patent whose invalidity is easily proven. At the same time, the availability of discovery will secure protection for valid claims. It ensures that some consent decrees will be submitted after a preview of the merits, and not simply out of the expediency of avoiding further litigation. Practical considerations also are likely to inhibit attempts to reopen consent decrees validating patents whose claims were definitively corroborated by the discovery process in the prior suit. Thus, the parties' access to judicial machinery can narrow the range of patents whose validity the parties seek subsequently to relitigate.

Nevertheless, the courts' sanction of the settlement submitted by the parties does not ensure that consent decrees will protect only valid patents from further challenge. Therefore, the consent decree, like the license agreement, fails to accomplish an authoritative test of patent validity. An increased accuracy, therefore, cannot justify honoring recitals of validity in consent decrees while abrogating the estoppel created by license agreements.

2. Persons concluded: numbers and equities

A second possible basis for distinguishing between the barrier of licensee estoppel abrogated by *Lear* and the barrier erected by the consent decree lies in the number and equities of the parties thereafter precluded from challenging the validity of the patent. From a numerical perspective, the doctrine of licensee estoppel closes the doors of the court to a large group, perhaps comprising all those with sufficient interest in a patent to challenge its validity;⁴⁶ all the assignors,⁴⁷

⁴⁵ *USM Corp. v. Standard Pressed Steel*, 184 U.S.P.Q. 476, 477 (N.D. Ill. 1974), *aff'd on other grounds*, 524 F.2d 1097 (7th Cir. 1975) (The court noted that the consent decree "was merely a matter of formalizing a license agreement."); *PCR Golf Ball Co. v. Chemold Corp.*, 361 F. Supp. 187, 188 (E.D.N.Y. 1973) (mem.) (The court filed a memorandum opinion "to record [its] view that the judgment merely gives effect to the agreement of the parties and is not based on any judicial examination of the validity or scope of the patent."); *Sealol Corp. v. Flexibox, Ltd.*, 242 F. Supp. 693, 697-98 (D.D.C. 1965) (The court noted that "[i]t is clear from the judgment that nothing was actually adjudicated" and that the court entering the consent decree "was performing an essentially administrative function in recording an agreement reached between the parties.") *Cf. Wilson v. Haber Bros.*, 275 F. 346, 347 (2d Cir. 1921).

⁴⁶ *Schlegel Mfg. Co. v. USM Corp.*, 525 F.2d 775, 781 (6th Cir. 1975), *cert. denied*, 96 S. Ct. 1509 (1976). *See Lear*, 395 U.S. at 670.

⁴⁷ *Westinghouse Elec. & Mfg. Co. v. Formica Insulation Co.*, 266 U.S. 342, 348-51 (1924).

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licensees⁴⁸ and their privies.⁴⁹ Giving res judicata effect to consent decrees, however, bars only the *parties* and their privies from further challenge.⁵⁰ Other licensees and interested third persons⁵¹ are not bound by the consent decree.⁵² As for the respective equities of the parties barred from challenging patent validity, they are not so completely different as might appear from the superficial comparison of the position of the licensee with that of a party who, having signed a consent decree and foregone an opportunity to go to trial on the merits, is now attempting to relitigate the issue of patent validity.

Several factors might suggest, at the outset, that the licensee has cleaner hands—and therefore stronger equities—than the party to the consent decree who is seeking to relitigate the issue of validity. First, the licensee may never have conceded the validity of the patent,⁵³ whereas the party to the consent decree who seeks to avoid the doctrine of res judicata has conceded the patent's validity—after full opportunity for trial on the merits—and then cavalierly has ignored the

⁴⁸ *Automatic Radio Mfg. Co. v. Hazeltine Research, Inc.*, 339 U.S. 827, 836 (1950).

⁴⁹ *Buckingham Prods. Co. v. McAleer Mfg. Co.*, 108 F.2d 192, 194-95 (6th Cir. 1939); *Frick Co. v. Lindsay*, 27 F.2d 59, 61 (4th Cir. 1928).

⁵⁰ *Schlegel Mfg. Co. v. USM Corp.*, 525 F.2d 775, 781 (6th Cir. 1975), *cert. denied*, 96 S.Ct. 1509 (1976).

⁵¹ Interested third persons would include all manufacturers of products which are not licensed by the patentee and which might be deemed to infringe the patent.

⁵² *See, e.g., Schlegel Mfg. Co. v. USM Corp.*, 525 F.2d 775, 781 (6th Cir. 1975), *cert. denied*, 96 S. Ct. 1509 (1976); *Boutell v. Volk*, 449 F.2d 673, 677-78 (10th Cir. 1971).

The consent decree may affect third parties because the patent owner can offer the consent judgment as evidence of validity in actions against different defendants. *Sanson Hosiery Mills, Inc. v. Warren Knitting Mills, Inc.*, 202 F.2d 395, 397 (3d Cir. 1953); *PCR Golf Ball Co. v. Chemold Corp.*, 361 F. Supp. 187, 188 (E.D.N.Y. 1973). Nevertheless, the consent judgment would never have the same preclusive effect as licensee estoppel except where the party to the consent decree was an exclusive licensee. A consent decree precluding an exclusive licensee from further legal challenge is not unduly troublesome. It could be argued, for example, that an exclusive license does not create much of a clog on the free market of ideas. *See To Bind or Not to Bind*, note 34 *supra*, at 1349. Furthermore, a manufacturer able to negotiate an exclusive license seems likely also to have sufficient resources to go to trial on the merits. Thus, any consent judgment he negotiates is more likely to reflect the legal merits of his case, and not financial limitations which might handicap his ability to proceed to trial. The recital of validity in a consent decree negotiated by an exclusive licensee, therefore, may well protect only valid patents from further challenge.

⁵³ A patent licensing agreement may include a covenant not to contest patent validity. *See, e.g., Pope Mfg. Co. v. Gormully*, 144 U.S. 224, 232 (1892); *National Clay Prods. Co. v. Heath Unit Tile Co.*, 40 F.2d 617, 618 (8th Cir. 1930). But, because before the Supreme Court's decision in *Lear* the doctrine of licensee estoppel itself was sufficient to obstruct the licensee's challenge to the validity of the patent, a concession of validity in a license agreement was, in effect, gratuitous. In *Lear*, for example, *Lear* never conceded the validity of Adkins' patent but challenged its patentability from the time it acquired its licensing rights prior to the grant of the patent. 395 U.S. at 659-60. Much of the Supreme Court's opinion in *Lear* was directed at the more typical licensee who may negotiate a licensing agreement expressly to avoid "the necessity of defending an expensive infringement suit during the period when he may be least able to afford one." *See id.* at 669.

consequences.⁵⁴ Second, in consenting to the entry of a consent decree, the signing party may have foregone alternative non-prejudicial means of terminating the litigation.⁵⁵ In fact, he might have negotiated a license and thus avoided litigation altogether.⁵⁶

There are, however, indications that the licensee does not, in fact, have stronger equities than the party to a consent decree because the suggestion that the signing party has foregone non-prejudicial means of terminating the litigation may be deceptive. That the earlier suit concluded with a consent decree as opposed to a voluntary dismissal or a settlement should not have any bearing on the equities of the patent-challenger who, in signing a consent decree, may have simply acceded to the litigation strategy of the patent-owner. The patent-owner, for example, can vitiate the challenger's ability to terminate the litigation without prejudice. In a declaratory judgment action, the owner can prevent the plaintiff from dismissing the action over his objection by filing a counterclaim for infringement.⁵⁷ In an infringement action, he can simply refuse to negotiate a settlement agreement unless it is submitted to the court for entry as a consent judgment.⁵⁸ Thus, the fact that the challenger seems to have foregone alternative, non-prejudicial means of terminating the litigation may

⁵⁴ *Wallace Clark & Co. v. Acheson Indus., Inc.*, 394 F. Supp. 393, 400 (S.D.N.Y. 1975), *aff'd*, 532 F.2d 846 (2d Cir. 1976); *Business Forms Finishing Serv., Inc. v. Carson*, 452 F.2d 70, 73 (7th Cir. 1971).

⁵⁵ As the plaintiff in a declaratory judgment action, he might have sought a voluntary dismissal without prejudice under Rule 41(a). Fed. R. Civ. P. 41(a). See *Wallace Clark & Co. v. Acheson Indus., Inc.*, 394 F. Supp. 393, 400 (S.D.N.Y. 1975), *aff'd*, 532 F.2d 846 (2d Cir. 1976). The plaintiff's ability voluntarily to dismiss an action is limited, under Rule 41(a), to the period before the defendant has answered or moved for summary judgment. Also, some cases suggest that the plaintiff's right to a nonsuit terminates once the parties have joined issue on the merits. See, e.g., *Harvey Aluminum, Inc. v. American Cyanamid Co.*, 203 F.2d 105, 107-08 (2d Cir.), *cert. denied*, 345 U.S. 964 (1953). After that period, plaintiff may only dismiss with the consent of the court or on stipulation of the other parties. See note 59 *infra*.

As the defendant charged with infringement, he might have negotiated a settlement without calling upon the court to enter it as a binding judicial decree. See *Massillon-Cleveland-Akron Sign Co. v. Golden State Advertising Co.*, 444 F.2d 425 (9th Cir. 1971).

⁵⁶ The patentee, however, is under no obligation to offer to negotiate a license before filing an action for infringement. *Bela Seating Co. v. Poloron Prods., Inc.*, 438 F.2d 733, 738 (7th Cir. 1971). But see *Allied Research Prods., Inc. v. Heatbath Corp.*, 300 F. Supp. 656, 657 (ND. Ill. 1969).

⁵⁷ Rule 41(a)(2) provides that after the defendant has filed an answer or a motion for summary judgment, "an action shall not be dismissed at the plaintiff's instance save upon the order of the court. . . . If a counterclaim has been pleaded by a defendant prior to the service upon him of the plaintiff's motion to dismiss, the action shall not be dismissed against the defendant's objection unless the counterclaim can remain pending for independent adjudication by the court." FED. R. CIV. P. 41(a)(2). See *United States Indus. Chems., Inc. v. Carbide & Carbon Chems. Corp.*, 52 F. Supp. 164, 166 (S.D.N.Y. 1943).

⁵⁸ The patent-owner's status as favored litigant under the Patent Statute may make him particularly unwilling to accede to non-prejudicial settlements proposed by the challenger. See text at notes 107-123 *infra*.

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simply reflect the patentee's superior resources and willingness to litigate, rather than the respective equities of the parties.

Furthermore, the suggestion that the party to the consent decree has abandoned the contest after full opportunity for trial on the merits⁵⁹ is misleading. The expense of litigating an infringement suit⁶⁰ can render this "full opportunity" self-defeating for the small businessman. The consent decree may well constitute the one realistic alternative for an alleged infringer sued by a patentee who refuses to negotiate a pre-litigation licensing agreement or to accede to a non-prejudicial means of terminating the litigation.⁶¹ The patent-challenger's equities, therefore, should not diminish on signing a consent decree because the submission of that agreement for entry by the court may simply reflect the extent to which his options have been limited by his more powerful opponent.

Where the consent decree, however, was entered at the conclusion of a declaratory judgment suit brought by the challenger, the question of his relative equities is somewhat more problematic. By seeking a declaration of patent invalidity, the challenger took the offensive, and thus rendered himself more vulnerable to the argument that he either should have gone through with litigation on the merits or have abandoned all objections. This approach, however, ignores the possibility that the declaratory judgment action brought by a manufacturer threatened with an impending infringement suit may have represented more of a defensive than an offensive maneuver.⁶² On the other hand, where the earlier suit which resulted in the consent judgment was initiated during the term of a licensing agreement, the licensee then truly may be said to have been the aggressor. By signing the license and conforming to its provisions, the licensee effectively had immunized itself from the necessity of defending an expensive infringement suit. Thus, the equities of the parties would justify the application of *res judicata* where the licensee, for the second time during the term of a license, has sought a declaratory judgment of the patent's invalidity.⁶³ Practical considerations, however, render this par-

⁵⁹ *Wallace Clark & Co. v. Acheson Indus., Inc.*, 394 F. Supp. 393, 400 (S.D.N.Y. 1975), *aff'd*, 532 F.2d 846 (2d Cir. 1976).

⁶⁰ See text at notes 81-82 *infra*.

⁶¹ See note 56 *supra*.

⁶² In effect, the requirement that an "actual controversy" exist as prerequisite to a declaratory judgment action suggests that an infringement suit must always be threatened. 28 U.S.C. § 2201 (1970) provides that "[i]n a case of actual controversy within its jurisdiction, . . . any court of the United States . . . may declare the rights and other legal relations of any interested party seeking such declaration . . ." See text at note 125 *infra*. Thus, the initiation of a declaratory judgment action may be a defensive maneuver in the sense that the alleged infringer, knowing that the patentee is about to file an infringement suit, is thereby seeking simply to avail himself of the opportunity to choose the time and place of suit. See note 130 *infra*.

⁶³ The argument to apply *res judicata* also seems compelling because the licensor has no alternatives in that situation. If the patent-owner is the defendant in a declaratory judgment action initiated prior to the negotiation of a license, he always has the sanction of refusing thereafter to grant a license to that particular manufacturer. Once

ticular combination of events rather unlikely.⁶⁴ The prospect, therefore, of a licensee bringing two separate declaratory judgment actions against the patentee during the term of the license should not otherwise negate the equities of the patent-challenger.

Although the challenger's equities would not seem to change once he has signed a consent judgment, the patentee's equities are arguably more insistent upon taking such action. As the Supreme Court noted in *Lear*, the equities of the patentee who has merely negotiated a license agreement "are far from compelling [since his] patent . . . simply represents a legal conclusion reached by the Patent Office [. . .] predicated on factors as to which reasonable men can differ widely [and] . . . buttressed by the presumption of validity . . ."⁶⁵ After a consent judgment, however, the patentee's claims draw support from a court's adjudication. In addition, where the consent decree recites both validity and infringement, the patentee has won greater concessions and received more substantial consideration than the licensor who simply negotiates a no-contest clause in a licensing agreement.⁶⁶ Refusal to enforce the decree seems, therefore, more destructive of his equities.⁶⁷

Thus, a comparison of the barrier of licensee estoppel with the res judicata effect of the consent decree, both in terms of the numbers and the equities of the parties thereafter precluded from challenging the validity of the patent, is somewhat inconclusive. On one hand, the numerical perspective might justify honoring recitals of va-

the license has been negotiated, however, he may not be able to terminate it even though his licensee insists on bringing a declaratory judgment action, because the licensee can protect his rights under the agreement by continuing to pay royalties. *Morton-Norwich Prods., Inc. v. International Salt Co.*, 183 U.S.P.Q. 748, 750 (N.D.N.Y. 1974).

⁶⁴ The first action, even where terminated by consent, may last long enough to diminish the marginal utility of a second suit. It may make more sense for the licensee to pay out the royalty agreement for the remaining term of the license than to become liable for litigation costs. This is not necessarily the case where the first action preceded the license agreement, so that the second action *a fortiori* occurs earlier during the term of the licensing agreement when the remaining royalty liability is likely to be more substantial.

Significantly, none of the post-*Lear* cases involving an attempt to relitigate issues adjudicated in a consent decree entered in an earlier declaratory judgment action duplicated this hypothetical situation. Instead, in each case, the plaintiff brought his initial declaratory judgment action *before* signing a license, during a time when he was still vulnerable to an infringement action. See, e.g., *Wallace Clark & Co. v. Acheson Indus., Inc.*, 532 F.2d 846, 847 (2d Cir. 1976); *Broadview Chem. Corp. v. Loctite Corp.*, 474 F.2d 1391, 1392 (2d Cir. 1973).

⁶⁵ 395 U.S. at 670.

⁶⁶ Cf. *Ransburg Electro-Coating Corp. v. Spiller & Spiller, Inc.*, 489 F.2d 974, 976 (7th Cir. 1973) (settlement agreement provided that defendant in infringement action would pay the patentee \$70,000 for past infringement).

⁶⁷ Doubts about the effectiveness of judicial oversight will undercut this argument. See text at notes 33-45 *supra*. If, as this comment concludes, there is no guarantee that judicial participation will ensure that only valid patents will be protected by a consent decree, then the support which the patentee's claims draw from the court's adjudication is more ceremonious than substantive.

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lidity in consent decrees while abrogating the same concessions in license agreements because consent decrees may affect fewer parties and are, therefore, less obstructive of the public interest in an authoritative testing of a patent's validity. On the other hand, the equitable perspective would not require different treatment of the barrier of licensee estoppel and that erected by the consent decree because the equities of the patent-challenger do not necessarily diminish, nor do those of the patentee substantially increase, once they have submitted a consent agreement to the court.

3. Timing of the challenge to patent validity

If disregarding recitals of validity in consent decrees substantially were to delay the legal challenge to patent validity, the impact on the timing of the legal challenge might constitute a third possible justification for continuing to honor such recitals in consent judgments while disregarding those in licensing agreements. The timing of such legal challenge is critical because long delays may work to eliminate altogether the prospect of an ultimate authoritative testing of patent validity.⁶⁸ Because patents expire after a 17-year term,⁶⁹ at some point it must become more advantageous for a licensee to pay out the remaining terms of a royalty agreement than to incur the costs of bringing suit. This deterrent effect is particularly severe in the many scientific fields in which technological development proceeds sufficiently rapidly as to make a patent obsolete long before its term has expired.⁷⁰ Furthermore, the question of timing implicates the public interest not only because long delay may jeopardize the ultimate authoritative testing of patent validity, but also because the burden of any delay is borne by the consumer as the licensee passes on the cost of royalties in the form of higher prices which are unrecoverable, even in the event of an ultimate holding of invalidity.⁷¹

Some delay, however, may be inevitable, even in the context of the abrogation of the doctrine of licensee estoppel. In *Lear*, for example, the Court recognized that the manufacturer who enters a licensing agreement after the patent has been issued may do so, at least in part, precisely to avoid "the necessity of defending an expensive infringement action during the period when he may be least able to af-

⁶⁸ Cf. *Lear*, 395 U.S. at 673-74.

⁶⁹ 35 U.S.C. § 154 (1970).

⁷⁰ Cf. *Lear*, 395 U.S. at 673-74.

⁷¹ *Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation*, 402 U.S. 313, 346 (1971). The magnitude of the problem is obvious in light of the average annual gain of a patent—estimated at about \$70,000. Rollins, *In rem Invalidity: A Solution in Search of a Problem?*, 52 J. PAT. OFF. SOC'Y 561, 562 (1970). The problem is further compounded by the slowness of the judicial process. For patents which become involved in litigation, the average period from issuance by the Patent Office to the first decision of an appellate court is 10 years 7.5 months. AN ANALYSIS OF PATENT LITIGATION STATISTICS, note 33 *supra*, at 5.

ford one."⁷² The alleged infringer who, before the Supreme Court's decision in *Lear*, might have brought a declaratory judgment action to challenge a patent's validity *before* signing a license agreement, now may negotiate the license and delay his suit until he has had a better chance to assess the extent of his own resources and the strength of the patentee's claims or is threatened by other manufacturers who were not paying royalties. In overturning the doctrine of licensee estoppel⁷³ and thereby preserving this subsequent opportunity for the licensee to challenge the patent's validity, the Court implied that the initial delay in bringing the legal challenge was not unacceptable if it facilitated an eventual authoritative adjudication. If, however, the willingness to reopen issues concluded by a consent decree substantially increased that delay, this impact on the timing of a legal challenge might serve to justify continuing to honor recitals of validity in consent decrees while abrogating the estoppel created by licensing agreements.

The Sixth Circuit has suggested that the willingness to reopen issues concluded by a consent decree would cause an unacceptable delay in the challenge to patent validity:

When a consent decree is to be given res judicata effect, litigants are encouraged to litigate the issue of validity rather than to foreclose themselves by a consent decree By giving res judicata effect to consent decrees this court protects the public interest in that an alleged infringer is deprived of a judicial device which could be used to postpone and delay a final adjudication of validity.⁷⁴

It is not certain, however, that giving res judicata effect to consent decrees necessarily would accelerate the legal testing of patent validity. Clearly, once in court, the challenger will be more likely to go to trial on the merits rather than to foreclose himself with a consent decree.⁷⁵ However, a marginal manufacturer who knows that he cannot afford to go to trial will become more intent on avoiding litigation altogether, preferring to negotiate a license,⁷⁶ thus actually delaying an authoritative testing of patent validity. Therefore, it would seem that the *refusal* to grant res judicata effect to consent decrees in fact might encourage *earlier* challenges to the patentee's claims. Assured of a second chance, the purported infringer might be less cautious in assessing his own readiness to bring suit. In conclusion, then, it is clear that the abrogation of the doctrine of licensee estoppel may, in some circumstances, delay the ultimate adjudication of patent validity. The willingness to disregard recitals of validity in consent decrees does not substantially

⁷² 395 U.S. at 669.

⁷³ *Id.* at 670-71.

⁷⁴ *Schlegel Mfg. Co. v. USM Corp.*, 525 F.2d 775, 781 (6th Cir. 1975), *cert. denied*, 96 S. Ct. 1509 (1976).

⁷⁵ *Id.*

⁷⁶ See *Lear*, 395 U.S. at 669.

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increase that delay except in the case of the patent-challenger who is already involved in litigation. Thus, the different treatment of the barrier raised by the consent decree and that formerly created by the license cannot seemingly be justified in terms of a different impact on the timing of a legal challenge to patent validity.

4. The policies of licensee estoppel compared with those of res judicata

The estoppel created by the license agreement grew out of the "technical requirements of contract doctrine,"⁷⁷ which forbid a "purchaser to repudiate his promises simply because he later becomes dissatisfied with the bargain he has made."⁷⁸ However, as the Court in *Lear* noted, even these considerations are not particularly insistent: "[A]lthough licensee estoppel may be consistent with the letter of contractual doctrine, we cannot say that it is compelled by the spirit of contract law, which seeks to balance the claims of promisor and promisee in accord with the requirements of good faith."⁷⁹

The refusal to accord res judicata effect to consent judgments implicates not simply the technical requirements of contract doctrine, but also policies of judicial economy and the notion of judicial dignity. Implication of the concept of judicial dignity reflects the judiciary's general concern that the practice of reopening issues already adjudicated by the consent decree "would be subversive, if not indeed wholly destructive, of the plenary power of the court to enforce its decrees."⁸⁰ The promotion of judicial economy, on the other hand, seems particularly crucial in patent litigation, for the lengthy, expensive character of patent litigation intensifies the importance of the conservation of judicial and individual resources normally sought in any application of res judicata. The cost of litigating patent validity has been variously estimated to run from \$50,000⁸¹ on upward to between \$80,000 and \$110,000.⁸² Furthermore, as the Supreme Court has acknowledged, patent cases take an "inordinate amount of trial time."⁸³ The fact that many patent suits never go to trial on the

⁷⁷ *Id.* at 670.

⁷⁸ *Id.* at 668.

⁷⁹ *Id.* at 670.

⁸⁰ *Schlegel Mfg. Co. v. USM Corp.*, 525 F.2d 775, 780 (6th Cir. 1975), *cert. denied*, 96 S. Ct. 1509 (1976), *quoting* *Wadsworth Elec. Mfg. Co. v. Westinghouse Elec. & Mfg. Co.*, 71 F.2d 850, 851-52 (6th Cir. 1934); *accord*, *Wallace Clark & Co. v. Acheson Indus., Inc.*, 394 F. Supp. 393, 402 (S.D.N.Y. 1975), *aff'd*, 532 F.2d 846 (2d Cir. 1976).

⁸¹ *Hearings on S. 2, S. 1042, S. 1377, S. 1691, S. 2164, S. 2597 Before the Subcomm. on Patents, Trademarks and Copyrights of the Senate Comm. on the Judiciary*, 90th Cong., 2d Sess., pt.2, at 616 (1968) (statement of Henry J. Cappello, President, Space Recovery Research Center, Inc., and consultant on patent policy for the National Small Business Association).

⁸² Harris, *Cost of Enforcement of Industrial Property Rights*, 13 IDEA, Conference Number 1969, at 53 (1969).

⁸³ *Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation*, 402 U.S. 313, 337 (1971). While patent cases constitute less than 2% of the total number of

merits⁸⁴ has not lightened the burden imposed by patent litigation on either the judicial system or the individual litigants. Sometimes the parties submit settlement agreements only after several years of various pleadings, briefs, discovery, and pre-trial conferences.⁸⁵ Because discovery is the largest single component of patent litigation cost,⁸⁶ often most of the expense has been incurred by the time the parties arrive at a settlement agreement.

The application of res judicata principles to consent decrees, then, would prevent not only relitigation, but also the unnecessary duplication of legal costs. In addition, it would conserve resources in the initial suit, for granting finality to consent decrees encourages settlement. By contrast, the failure to give consent decrees conclusive effect "would force every patent validity and infringement suit to a trial on the merits to assure a res judicata effect. It would discourage settlement of such litigation, since otherwise there could be no assurance of finality."⁸⁷

Res judicata, however, is not a wholly inflexible doctrine and may yield to considerations which are more insistent than the concern for judicial economy.⁸⁸ Thus, important qualifications to the principles of res judicata have developed in the patent area to protect "the substantial public interest in fruitful utilization of the grant."⁸⁹ In *Mercoid Corp. v. Mid-Continent Investment Co.*,⁹⁰ for example, the Supreme Court ruled that the failure to interpose a patent misuse defense in earlier infringement litigation would not foreclose an anti-trust claim based on patent misuse.⁹¹ The Court determined that the outcome should not be governed by "usual rules governing the settlement of private litigation" because the application of res judicata

civil suits filed each year in the district courts, *id.* at 336, 22% of all civil trials terminated in 1970 which required 20 or more days of trial were patent cases. ANNUAL REPORT OF THE DIRECTOR OF THE ADMINISTRATIVE OFFICE OF THE UNITED STATES COURTS FOR THE FISCAL YEAR ENDED JUNE 30, 1970, Table C-9 (Temp. ed. 1971), cited in *Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation*, 402 U.S. 313, 338 n.33 (1971).

⁸⁴ Upwards of 72% of all patent cases terminated in the federal courts between 1949 and 1958 were concluded by consent or consent dismissal. STAFF OF THE SUBCOMMITTEE ON PATENTS, TRADEMARKS AND COPYRIGHTS OF THE SENATE COMMITTEE ON THE JUDICIARY, 86TH CONG., 2D SESS., AN ANALYSIS OF PATENT LITIGATION STATISTICS 13 (Comm. Print 1961).

⁸⁵ See, e.g., cases cited at note 33 *supra*.

⁸⁶ Harris, Chuppe & Tri, *An Empirical Study of Cost Factors in Patent Litigation*, 15 IDEA 523, 526 (Winter 1971-72).

⁸⁷ *Wallace Clark & Co. v. Acheson Industries, Inc.*, 394 F. Supp. 393, 400 (S.D.N.Y. 1975), *aff'd*, 532 F.2d 846 (2d Cir. 1976).

⁸⁸ J. MOORE, FEDERAL PRACTICE, ¶0.405 [11], at 783-87, ¶0.409[5], at 1032 (2d ed. 1974).

⁸⁹ *Developments in the Law - Res Judicata*, 65 HARV. L. REV. 818, 882 (1952).

⁹⁰ 320 U.S. 661 (1944).

⁹¹ *Id.* at 669-70. *Cf. Sola Elec. Co. v. Jefferson Elec. Co.*, 317 U.S. 173, 177 (1942).

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would prejudice the public interest in confining a patent to its legitimate scope.⁹²

Even in the absence of antitrust claims, the public interest in the elimination of invalid patents may require a qualification to the principles of res judicata. In *Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation*⁹³ the Supreme Court recognized the relative insignificance of the concern for judicial economy in the context of federal patent policy. Overruling *Triplett v. Lowell*,⁹⁴ which "exemplified the . . . doctrine of mutuality of estoppel, ordaining that unless both parties . . . in a second action are bound by a judgment in a previous case, neither party . . . in the second action may use the prior judgment as determinative of an issue in the second action,"⁹⁵ the Court held that a defendant is not precluded from raising a plea of estoppel when charged with infringement of a patent held invalid in an infringement suit brought against a different defendant.⁹⁶ In reaching its conclusion, the Court explicitly noted that the reduction of litigation attendant on the repudiation of the mutuality doctrine was an "incidental" concern.⁹⁷ Instead, the determinative factor was the Court's desire to counter *Triplett's* tendency to multiply the opportunities for patentees to exact royalties for the use of an idea that is not in fact patentable.⁹⁸

In addition, there are practical considerations which may tip the balance so that the public interest in the elimination of invalid patents clearly outweighs the benefits of res judicata. The expense⁹⁹ and complexity of patent litigation,¹⁰⁰ as well as the handicaps imposed by the Patent Code on prospective patent challengers,¹⁰¹ will inhibit casual efforts to relitigate issues adjudicated in earlier consent decrees. As a result, litigants are not likely to initiate additional suits against patents whose validity was clearly corroborated in earlier litigation which terminated in a consent decree. Instead, these practical concerns suggest that attempts to reopen a consent judgment's recital of patent validity will likely be confined to those situations where the consent judgment simply reflects the parties' relative capacities to go to trial rather than the relative merits of their legal claims. In these situations, the public interest in securing authoritative determinations of patent validity would seem clearly to outweigh the principles of finality.

In conclusion, then, a comparison of the policies behind the two barriers to further challenges to patent validity indicates that the judi-

⁹² 320 U.S. at 670.

⁹³ 402 U.S. 313 (1971).

⁹⁴ 297 U.S. 638 (1936).

⁹⁵ 402 U.S. at 320-21.

⁹⁶ *Id.* at 350.

⁹⁷ *Id.* at 349.

⁹⁸ See *id.* at 342-43, 345-49.

⁹⁹ See text at notes 81-82 *supra*.

¹⁰⁰ See text at note 41 *supra*.

¹⁰¹ See text at notes 107-117 *infra*.

cial policies of *res judicata* are *prima facie* more compelling than the contractual principles of licensee estoppel. This fact, however, does not justify honoring the barrier posed by consent decrees while disregarding that raised by licensing agreements, because the policies of *res judicata* are themselves flexible and must be balanced against competing considerations. Allowing relitigation will not unduly jeopardize the promotion of judicial economy, since practical concerns will severely restrict the number of attempts to reopen consent decrees. The public interest in the elimination of invalid patents, therefore, must outweigh the importance of the finality principle.

B. *Danger in the Fact of Different Treatment: Over-Zealous Litigation*

A comparison of consent decrees with the doctrine of licensee estoppel not only fails to isolate any compelling justification for honoring the barrier raised by the consent decree while abrogating the doctrine of licensee estoppel, but also reveals a potential for overzealous litigation which may be created by the very fact of different treatment. Prior to the Supreme Court's decision in *Lear*, the patentee could deflect future challenges to the validity of his claims simply by negotiating licensing agreements with interested manufacturers.¹⁰² After *Lear*, litigation may become more attractive, because a consent judgment can secure the benefit of finality lost when *Lear* abrogated the doctrine of licensee estoppel.¹⁰³ Granting *res judicata* effect to consent judgments, therefore, may well encourage overzealous litigation by the patentee in an attempt to undercut *Lear*.

The potential for overzealous litigation which might arise as a result of giving *res judicata* effect to consent judgments has been recognized by a court confronting the analogous question of the conclusive effect of settlement agreements. In *Massillon-Cleveland-Akron Sign Co. v. Golden State Advertising Co.*,¹⁰⁴ the Ninth Circuit refused to distinguish a settlement agreement from the *Lear* license situation.¹⁰⁵ Holding the no-contest clause in a settlement agreement to be unenforceable, the court noted that it was "just as easy to couch licensing arrangements in the form of settlement agreements."¹⁰⁶ The court thereby effectively implied the enforcement of the no-contest clause would encourage the patent owner to precipitate litigation solely to induce a settlement agreement.

¹⁰² *Automatic Radio Mfg. Co. v. Hazeltine Research, Inc.*, 339 U.S. 827, 836 (1950). But see *Lear*, 395 U.S. at 664-67, for a history of the proliferation of exceptions undercutting the doctrine of licensee estoppel.

¹⁰³ Consent decrees adjudicating both validity and infringement generally are deemed conclusive. See cases cited at note 147 *infra*. The post-*Lear* cases, however, have uniformly refused to give full *res judicata* effect to consent judgments reciting solely validity, as opposed to validity and infringement. See cases cited at note 147 *infra*.

¹⁰⁴ 444 F.2d 425 (9th Cir. 1971).

¹⁰⁵ *Id.* at 427.

¹⁰⁶ *Id.*

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While the prospect of overzealous litigation does not necessarily presuppose bad faith on the part of the patentee, it does reflect the realities of patent litigation. The patentee holds the advantage inside and possibly outside the courtroom.¹⁰⁷ The costs of patent litigation, which is normally enormously complex, lengthy and expensive,¹⁰⁸ handicap the prospective challenger more severely than they burden the patentee. First, the patent-challenger initially incurs heavier costs in combatting the statutory presumption of patent validity¹⁰⁹ which ensures that patent-owners will be the "heavily favoured . . . class of litigants"¹¹⁰ under the patent statute. Thus, the statute forces the challenger both to produce proof to counter the presumption and to attempt to rebut the patentee's efforts to bolster his claims, whereas it allows the patent-owner to choose merely to rely on his opponent's inability to combat the presumption of validity.¹¹¹

A second factor which contributes to the patentee's advantage inside the courtroom is the courts' interpretation of the patent statute's provisions for the distribution of costs at the conclusion of litigation. Section 284 of the Patent Code authorizes the court to award the patentee damages sufficient to compensate for the infringement, as well as interest and costs.¹¹² The court may award punitive damages for infringement up to three times the amount found or assessed.¹¹³ To compensate for the notorious cost of patent litigation, courts are usually generous in their awards to the patentee.¹¹⁴ If the challenger is successful, however, he must be satisfied with a dismissal of the action and a limited bill of costs.¹¹⁵ Because of the courts' narrow interpretation of "exceptional cases"¹¹⁶ warranting an award of reasonable attorney's fees to the prevailing party, the successful defendant in an infringement action generally

¹⁰⁷ The typical infringement case does not pit the lonely inventor against the infringing corporation. Corporations are often the patentee, receiving more than half of the patents issued. From 1939 to 1955, the 176 largest U.S. corporations received about 20% of all patents issued. AN ANALYSIS OF PATENT LITIGATION STATISTICS, *supra* note 84 at 9.

¹⁰⁸ See text at notes 81-82 *supra*.

¹⁰⁹ Section 282 of the Patent Code provides that "[a] patent shall be presumed valid. . . . The burden of establishing invalidity of a patent . . . shall rest on the party asserting it." 35 U.S.C. § 282 (1970). The presumption, however, may be weakened by the Patent Office's failure to consider all the pertinent art. *Tec-Pak, Inc. v. St. Regis Paper Co.* 491 F.2d 1193, 1196 (6th Cir. 1974).

¹¹⁰ *Blonder-Tongue*, 402 U.S. at 335.

¹¹¹ *Id.*

¹¹² 35 U.S.C. § 284 (1970).

¹¹³ *Id.*

¹¹⁴ Woodward, *A Reconsideration of the Patent System as a Problem of Administrative Law*, 55 HARV. L. REV. 950, 969 (1942).

¹¹⁵ *Id.* at 970. The Federal Rules authorize allowance of costs "as of course to the prevailing party unless the court otherwise directs." FED. R. CIV. P. 54(d). A list of litigation expenses which may be taxed as costs by a federal court are set out in 28 U.S.C. § 1920 (1970).

¹¹⁶ 35 U.S.C. § 285 (1970), provides that "[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party."

can recover his legal costs only by showing bad faith on the part of the patentee.¹¹⁷ Thus, the patent-challenger initially must expend considerably more than the patentee to make out a prima facie case and, in addition, stands less of a chance to recoup his expenses in the event that he succeeds on the merits.

Furthermore, the patentee can parlay his favored status to further advantage by shopping for a pro-patent forum. Usually the aggressor in patent litigation,¹¹⁸ the patentee is in good position to capitalize on the disparity¹¹⁹ between the attitudes of the circuits. The purported infringer is unlikely to initiate litigation both because of his disfavored status and because of pitfalls in the declaratory judgment procedure.¹²⁰ As the aggressor, the patentee is also in a position to pick weaker opponents until he has obtained a few judicial declarations of validity.¹²¹ A favorable history of litigation increases his bargaining power outside the courtroom in negotiating either license agreements or consent judgments with opponents unwilling or unable to go to trial on the merits.¹²² These consent judgments then may be offered as evidence of validity in subsequent actions against different, more powerful defendants.¹²³

The alleged infringer cannot necessarily offset his handicap under the patent statute by initiating a declaratory judgment suit, for there are substantial limitations on the manufacturer's ability to sue for a declaration of patent invalidity. Due to the Act's "actual controversy" requirement,¹²⁴ the patentee may be allowed to avoid the declaratory judgment simply by refraining from charging infringement.¹²⁵ Furthermore, the court may dismiss a declaratory

¹¹⁷ *Alburger v. Magnaflux Corp.*, 444 F.2d 1406, 1407 (9th Cir. 1971); *Jacquard Knitting Mach. Co. v. Ordnance Gauge Co.*, 213 F.2d 503, 509 (3d Cir. 1954).

¹¹⁸ See *Rollins, In rem Invalidity: A Solution in Search of a Problem?*, 52 J. PAT. OFF. SOC'Y 561, 567 (1970).

¹¹⁹ In the period from 1966 to 1971, the range varied from the high of 47.8% (10/21) patents validated in the Sixth Circuit, to the low of 0% (0/18) validated in the Eighth Circuit. The figures for the other circuits were as follows: 1st: 33.3% (3/9); 2d: 25.0% (7/28); 3d: 26.4% (5/19); 4th: 13.6% (3/22); 5th: 45.9% (16/35); 7th: 46.1% (35/76); 9th: 15.0% (8/53); 10th: 14.3% (1/7); D.C.: 16.7% (1/6). Brief for Appellant at 35, Appendix B, *Wallace Clark & Co. v. Acheson Indus., Inc.*, 532 F.2d 846 (2d Cir. 1976). Appellant's Brief reproduces and updates a table set out in KAYTON, *THE CRISIS OF LAW IN PATENTS* (Patent Resources Group 1970).

¹²⁰ In order to establish that an actual "case or controversy" exists, the "infringer" may produce evidence proving his infringement, thereby provoking to his detriment a counterclaim not otherwise contemplated by the patentee. *Rollins, In rem Invalidity: A Solution in Search of a Problem?*, J. PAT. OFF. SOC'Y 561, 567 (1970).

¹²¹ *Id.* at 564.

¹²² *Id.*

¹²³ *Sanson Hosiery Mills, Inc. v. Warren Knitting Mills, Inc.*, 202 F.2d 395, 397 (3d Cir. 1953); *PCR Golf Ball Co. v. Chemold Corp.*, 361 F. Supp. 187, 188 (E.D.N.Y. 1973).

¹²⁴ 28 U.S.C. § 2201 (1970) provides that "[i]n a case of actual controversy within its jurisdiction, . . . any court of the United States . . . may declare the rights and other legal relations of any interested party seeking such declaration"

¹²⁵ *Sherwood Medical Indus., Inc. v. Deknatel, Inc.*, 512 F.2d 724, 726-28 (8th Cir. 1975); *W.R. Grace & Co. v. Union Carbide Corp.*, 319 F. Supp. 307, 310 (S.D.N.Y.

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judgment action when an infringement suit involving the same parties is pending,¹²⁶ or perhaps even where one has been subsequently filed.¹²⁷ Once the declaratory judgment plaintiff has hurdled the possibility of dismissal for lack of standing, the patent owner may counterclaim for infringement, thereby becoming eligible for an award for treble damages under the Patent Code,¹²⁸ whereas the manufacturer may not be able to recover his legal costs even if he succeeds on the merits.¹²⁹ In effect, therefore, the availability of a declaratory judgment action fails to offset the challenger's handicap under the Patent Statute. In filing such action, he gains only the opportunity to choose the time and place of suit.¹³⁰

In conclusion, it would seem that honoring consent decrees while abrogating the doctrine of licensee estoppel will likely create a dangerous potential for overzealous litigation by patentees seeking to protect their patents from future legal challenge. Since the negotiation of licensing agreements no longer affords immunity from suits brought by the licensee, the patent-owner may well choose to exploit his status as favored litigant under the Patent Code and resort to litigation in order to secure the same protection through the negotiation of consent judgments.

C. Conclusion

A comparison of consent decrees and the doctrine of licensee estoppel in the context of federal patent policy fails to isolate any compelling justification for continuing to honor the barrier raised by the consent decree to further challenges to patent validity while abrogating the doctrine of licensee estoppel. The court's imprimatur on the decree submitted by the parties does not ensure that consent judgments, any more than licenses, will not obstruct the public interest in

1970); E. BORCHARD, *DECLARATORY JUDGMENTS*, at 807 (2d ed. 1941); *accord*, *Tremond Co. v. Schering Corp.*, 122 F.2d 702, 706 (3d Cir. 1941). *But see* *E.J. Brooks Co. v. Stofel Seals Corp.*, 160 F. Supp. 581, 592-93 (S.D.N.Y. 1958).

¹²⁶ *TRW, Inc. v. Ellipse Corp.*, 495 F.2d 314, 322 (7th Cir. 1974).

¹²⁷ *See* *Columbia Boiler Co. v. Manville Boiler Co.*, 188 F. Supp. 520, 521 (S.D.N.Y. 1960). The fact that plaintiff had begun its suit for a declaratory judgment five years prior to defendant's suit for infringement, was a factor, but "by no means determinative" of whether the declaratory judgment action should be stayed pending the outcome of the infringement suit. *Id.*

¹²⁸ 35 U.S.C. § 284 (1970).

¹²⁹ *See* *Atlas Chem. Indus., Inc. v. Moraine Prods.*, 509 F.2d 1, 8 (6th Cir. 1974). *But see* *Security Ins. Co. v. White*, 236 F.2d 215, 220 (10th Cir. 1956).

¹³⁰ Venue of a declaratory judgment action is governed by 28 U.S.C. § 1391 (1970). *See* *Minnesota Automotive, Inc. v. Stromberg Hydraulic Brake & Coupling Co.*, 309 F. Supp. 614, 616 (D. Minn. 1970). The other central advantage provided by the Declaratory Judgments Act is that the defendant in an infringement suit can file a counterclaim for a declaratory judgment of invalidity, thereby precluding a dismissal without prejudice and thus preventing the patent-owner from making "irresponsible threats and getting all the benefits of stifling competition without submitting to a show-down." E. BORCHARD, *DECLARATORY JUDGMENTS*, at 804 (2d ed. 1941).

the elimination of invalid patents, although the litigants' access to discovery procedures, as a practical matter, may serve to eliminate further controversy over patents shown to be either clearly valid or clearly spurious. Furthermore, while the consent decree forecloses fewer parties from future challenges to a patent's validity, the equities of the parties concluded in each case are not significantly different. Although the judicial policies which support *res judicata* are more compelling than the contractual doctrine overridden by *Lear*, these judicial policies are themselves flexible and must be balanced against the public interest in the free circulation of ideas. This public interest seems paramount in light of the practical features of patent litigation which will serve to inhibit casual attempts to relitigate the validity of patents whose claims already have been corroborated by a consent judgment. In addition, the comparison of consent decrees and licensee estoppel suggests that the very fact of different treatment creates ominous incentives for overzealous litigation, as patent-owners resort to litigation in order to secure favorable consent judgments which will protect their grant from future legal challenge by the same defendant.

In the absence of any compelling justification for continuing to honor the barrier raised by the consent decree while overturning the doctrine of licensee estoppel, it is submitted that such different treatment is inconsistent with the rationale of *Lear* which seeks to promote authoritative adjudications of the validity of the patentee's claims.

Nevertheless, because any erosion of the principles of *res judicata* will threaten the sanctity of a court's prior action, it seems unlikely that the judiciary will look favorably on the argument to allow litigants to reopen issues adjudicated by a consent decree entered in patent litigation. Therefore, this comment will next explore the possibility of an alternative solution—giving *res judicata* effect only to those consent decrees adjudicating both validity and infringement—which may serve to retain the benefits of *res judicata*, while minimizing the disadvantages inherent in an application of the finality principle to patent litigation.

II. DISTINCTION BETWEEN CONSENT JUDGMENTS ADJUDICATING VALIDITY AND THOSE ADJUDICATING BOTH VALIDITY AND INFRINGEMENT

One judicial response to the problems incident to an application of *res judicata* to consent judgments in patent litigation has been the development of a distinction¹³¹ between consent decrees solely reciting validity and those adjudicating both validity and infringement. In giving full *res judicata* effect only to those reciting both validity and infringement, the courts have attempted to balance the competing policy considerations involved in patent litigation by giving conclusive ef-

¹³¹ See, e.g., cases cited at note 147 *infra*.

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fect only to those consent decrees in which the recital of validity is less likely to obstruct the public interest in the invalidation of spurious patents. This section will examine the development, possible bases and viability of that distinction.

A. Development of the Distinction

In an action for patent infringement, the patent owner can recover damages only when he proves both that his patent is valid and that the defendant had infringed it.¹³² The alleged infringer, on the other hand, succeeds if he proves either that the patent is invalid or that he has not infringed.¹³³ Thus, a finding of validity, when coupled with a finding of noninfringement, is a gratuitous holding, immaterial to the disposition of the case.¹³⁴

The distinction between adjudications of validity and those involving both validity and infringement first appeared in fully contested cases. In *Electrical Fittings Corp. v. Thomas & Betts Co.*,¹³⁵ the trial court has entered a decree in an infringement case sustaining the validity of one claim of the patent but dismissing the bill for failure to prove infringement.¹³⁶ The Supreme Court held that the defendants were entitled to have the recital of validity eliminated from the decree because it was irrelevant to the holding.¹³⁷ Subsequently, in *Cover v. Schwartz*,¹³⁸ the Second Circuit introduced a constitutional basis for the distinction.¹³⁹ In dismissing the patentee's appeal for want of jurisdiction, the court noted that "once the issue of infringement is decided against the patentee, there exists no case or controversy justifying a decision in his favor that the patent is valid."¹⁴⁰ On the basis of these two cases, the Supreme Court in *Alvater v. Freeman*¹⁴¹ noted

¹³² *Cover v. Schwartz*, 133 F.2d 541, 544-45 (2d Cir. 1942), cert. denied, 319 U.S. 749 (1943). Invalidity of the patent and noninfringement are defenses to any action for infringement. 35 U.S.C. § 282 (1970).

¹³³ *Id.* at 545.

¹³⁴ *Aero Spark Plug Co. v. B.G. Corp.*, 130 F.2d 290, 293 (2d Cir. 1942) (Frank, J., concurring); *Monolith Portland Midwest Co. v. Kaiser Alum. & Chem. Corp.*, 267 F. Supp. 726, 782 (S.D. Cal. 1966), modified on other grounds and aff'd, 407 F.2d 288 (9th Cir. 1969); *Sperti Prods., Inc. v. Coca-Cola Co.*, 272 F. Supp. 441, 447-48 (D. Del. 1967), aff'd, 399 F.2d 607 (3d Cir. 1968) (per curiam); accord, *Alvater v. Freeman*, 319 U.S. 359, 363 (1943); cf. *Zalkind v. Scheinman*, 80 F. Supp. 299, 303-04 (S.D.N.Y. 1948) (Held: improper for a court to combine a finding that the plaintiff is not the prior inventor with a finding of validity of his claims because that gratuitous holding of validity would be against the public interest).

¹³⁵ 307 U.S. 241 (1939).

¹³⁶ *Thomas & Betts Co. v. Electrical Fittings Corp.*, 23 F. Supp. 920, 921, 926 (S.D.N.Y.), appeal dismissed, 100 F.2d 403 (2d Cir. 1938), rev'd, 307 U.S. 241 (1939).

¹³⁷ 307 U.S. at 242.

¹³⁸ 133 F.2d 541 (2d Cir. 1942), cert. denied, 319 U.S. 749 (1943).

¹³⁹ See *id.* at 545.

¹⁴⁰ *Id.*

¹⁴¹ 319 U.S. 359 (1943).

that "[t]o hold a patent valid if it is not infringed is to decide a hypothetical case."¹⁴²

In *Addressograph Multigraph Corp. v. Cooper*,¹⁴³ the Second Circuit applied this principle to consent decrees and sought to restrict the conclusive effect of "hypothetical" decisions.¹⁴⁴ The court concluded that a consent decree's recital of validity should not be given res judicata effect without:

either an adjudication of infringement, or a grant of some relief from which infringement may be inferred [because] the public interest in a judicial determination of the invalidity of a worthless patent is great enough to warrant the conclusion that a defendant is not estopped by a decree of validity . . . unless it is clear that in the litigation resulting in the decree the issue of validity was genuine.¹⁴⁵

The Supreme Court's opinion in *Lear* which sought to facilitate the private litigant's challenge to patent validity has not affected the viability of the *Addressograph* rule, which precluded further challenge where the decree recited both validity and infringement. *Addressograph* was effectively reaffirmed by the Second Circuit in *Broadview Chemical Corp. v. Loctite Corp.*¹⁴⁶ Furthermore, the post-*Lear* cases generally have restricted res judicata effect to consent decrees adjudicating both validity and infringement, although the result has not always stemmed

¹⁴² *Id.* at 363.

¹⁴³ 156 F.2d 483 (2d Cir. 1946).

¹⁴⁴ *Id.* at 485.

¹⁴⁵ *Id.*

After *Addressograph*, the question of the propriety of adjudications of validity in the absence of infringement continued to arise in fully contested cases where there was some confusion in the decisions. Compare *United States Plywood Corp. v. General Plywood Corp.*, 370 F.2d 500, 506 (6th Cir. 1966), *cert. denied*, 389 U.S. 820 (1967); *Sparton Corp. v. Evans Prods. Co.*, 293 F.2d 699, 705 (6th Cir. 1961), *cert. denied*, 368 U.S. 967 (1962) (holding that the court had properly found the patent in question valid despite a finding of noninfringement), with *Forest Laboratories, Inc. v. Pillsbury Co.*, 452 F.2d 621, 629 (7th Cir. 1971); *Drew Chem. Corp. v. Hercules Inc.*, 407 F.2d 360, 362-63 (2d Cir. 1969); *Lockwood v. Langendorf United Bakeries, Inc.*, 324 F.2d 82, 91-92 (9th Cir. 1963) (holding that a judgment should not pass on a patent's validity absent a finding that it had been infringed). There were, however, no cases involving the res judicata treatment of consent decrees reciting solely validity. The distinction was approved in *Crane Boom Life Guard Co. v. Saf-T-Boom Corp.*, 362 F.2d 317 (8th Cir. 1966), where the court accorded full res judicata effect to a consent decree which included a permanent injunction from which the court inferred a finding of past infringement. *Id.* at 321-22. In addition, those cases reciting both validity and infringement were given full res judicata effect. *Brunswick Corp. v. Chrysler Corp.*, 408 F.2d 335, 338 (7th Cir. 1969); *Siebring v. Hansen*, 346 F.2d 474, 477 (8th Cir.), *cert. denied*, 382 U.S. 943 (1965); *Hopp Press, Inc. v. Joseph Freeman & Co.*, 323 F.2d 636, 637 (2d Cir. 1963); *Kiwi Coders Corp. v. Acro Tool & Die Works*, 250 F.2d 562, 568 (7th Cir. 1957).

¹⁴⁶ 74 F.2d 1391, 1394-95 (2d Cir. 1973). *Accord*, *Wallace Clark & Co. v. Acheson Indus.*, 532 F.2d 846, 848 (2d Cir. 1976).

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from explicit recognition of the *Addressograph* distinction.¹⁴⁷ Only in *USM Corp. v. Standard Pressed Steel*¹⁴⁸ has a court suggested the possibility that the "policy of unfettered contesting of patents announced in *Lear*" would require the judiciary to allow the parties to relitigate validity even where the consent decree adjudicated both validity and infringement¹⁴⁹ because the consent decree "was merely a matter of formalizing a license agreement."¹⁵⁰

¹⁴⁷ The following cases have explicitly followed *Addressograph* in refusing to give res judicata effect to consent decrees reciting solely validity: *Kraly v. National Distillers Chem. Corp.*, 502 F.2d 1366, 1368-69 (7th Cir. 1974); *Business Forms Finishing Serv., Inc. v. Carson*, 452 F.2d 70, 75 (7th Cir. 1971); *Crane Co. v. Aeroquip Corp.*, 364 F. Supp. 547, 549-50 (N.D. Ill. 1973), *rev'd in part on other grounds*, 504 F.2d 1086 (7th Cir. 1974).

Other cases have denied res judicata effect to consent judgments reciting solely validity, without explicitly following the *Addressograph* rule. *Butterfield v. Oculus Contact Lens Co.*, 332 F. Supp. 750, 760 (N.D. Ill. 1971), *aff'd per curiam*, 177 U.S.P.Q. 33 (7th Cir. 1973). *Cf. Rialto Prods., Inc. v. Rayex Corp.*, 166 U.S.P.Q. 222, 223 (N.Y. Sup. Ct. 1970).

Decrees reciting both validity and infringement, on the other hand, generally have been deemed conclusive. *Wallace Clark & Co. v. Acheson Indus., Inc.*, 532 F.2d 846, 848 (2d Cir. 1976); *Schlegel Mfg. Co. v. USM Corp.*, 525 F.2d 775, 781 (6th Cir. 1975), *cert. denied*, 96 S. Ct. 1509 (1976); *Broadview Chem. Corp. v. Loctite Corp.*, 474 F.2d 1391, 1394-95 (2d Cir. 1973); *Schnitger v. Canoga Electronics Corp.*, 462 F.2d 628 (9th Cir. 1972) (*per curiam*); *United States ex rel. Shell Oil Co. v. Barco Corp.*, 430 F.2d 998, 1001 (8th Cir. 1970); *cf. Ransburg Electro-Coating Corp. v. Spiller & Spiller, Inc.*, 489 F.2d 974, 977-78 (7th Cir. 1973). *But see Kraly v. National Distillers & Chem. Corp.*, 502 F.2d 1366, 1369 (7th Cir. 1974) (*dictum*); *USM Corp. v. Standard Pressed Steel Co.*, 184 U.S.P.Q. 476, 477 (N.D. Ill. 1974), *aff'd on other grounds*, 524 F.2d 1097, 1099 (7th Cir. 1975); *cf. Massillon-Cleveland-Akron Sign Co. v. Golden State Advertising Co.*, 444 F.2d 425, 427 (9th Cir. 1971).

Only two of these cases have explicitly followed *Addressograph* in according full res judicata effect to consent judgments adjudicating infringement as well as validity. *Wallace Clark & Co. v. Acheson Indus., Inc.*, 532 F.2d 846, 848 (2d Cir. 1976); *Broadview Chem. Corp. v. Loctite Corp.*, 474 F.2d 1391, 1394-95 (2d Cir. 1973). Most opinions either have not recognized or have not decided the viability of the distinction: *Schlegel Mfg. Co. v. USM Corp.*, 525 F.2d 775, 779-80 (6th Cir. 1975), *cert. denied*, 96 S. Ct. 1509 (1976) (apparently not recognizing the distinction in deciding not to follow the 7th Circuit's *Crane* and *Kraly* decisions where the consent decrees only recited validity); *Schnitger v. Canoga Electronics Corp.*, 462 F.2d 628 (9th Cir. 1972) (*per curiam*) (no discussion of the distinction); *Maxon Premix Burner Co. v. Eclipse Fuel Engineering Co.*, 471 F.2d 308, 311-12 (7th Cir. 1972), *cert. denied*, 410 U.S. 929 (1973) (need not decide whether the distinction justifies different treatment because the licensee waived any rights he might otherwise have had through his action during the course of the trial); *cf. Herbert Rosenthal Jewelry Corp. v. Kalpakian*, 446 F.2d 738, 739-40 (9th Cir. 1971) (saving the question whether a concession of a copyright's validity is res judicata). *See also USM Corp. v. Standard Pressed Steel Co.*, 524 F.2d 1097, 1099 (7th Cir. 1975) (finding it unnecessary to reach the question of the res judicata effect of a consent judgment adjudicating validity and infringement or to decide the issue of the viability of the *Addressograph* distinction).

¹⁴⁸ 184 U.S.P.Q. 476 (N.D. Ill. 1974), *aff'd on other grounds*, 524 F.2d 1097 (7th Cir. 1975).

¹⁴⁹ *Id.* at 477. On appeal, however, the Seventh Circuit found it unnecessary to reach "[t]he question . . . whether a consent judgment adjudicating infringement as well as validity bars a party to the judgment from subsequently challenging the validity of the patent . . ." 524 F.2d at 1098-99.

¹⁵⁰ 184 U.S.P.Q. at 477.

B. *Possible Bases of the Distinction*

1. Constitutional basis for the distinction

Article III, § 2, of the Constitution invests the federal courts with the power to decide "Cases" and "Controversies."¹⁵¹ No federal court, therefore, has jurisdiction to issue opinions in cases where there is no definite and concrete controversy touching the legal relations of parties having adverse interests.¹⁵² Thus, in patent infringement cases, courts have viewed the element of a past or threatened infringement as an indispensable prerequisite to a judgment upholding the validity of a patent,¹⁵³ "[f]or, once the issue of infringement is decided against the patentee, there exists no case or controversy justifying a decision in his favor that the patent is valid."¹⁵⁴ As a result, once a court has found no infringement, it must dismiss for want of jurisdiction.¹⁵⁵ Furthermore, if the court finding noninfringement then proceeds to enter a judgment sustaining validity of the patent, the alleged infringer is entitled to have the recital of validity eliminated from the decree.¹⁵⁶ There is, therefore, a firm constitutional basis for the distinction between fully litigated decrees of validity and adjudications of both validity and infringement because without infringement, there is no actual controversy which can serve as the predicate for the jurisdiction of federal courts under Article III.

Two separate factors, however, suggest that the constitutional dimension of this distinction drawn in fully litigated dispositions is not relevant to the inquiry into the *res judicata* effect of a consent decree. Therefore, these constitutional considerations cannot serve to justify giving conclusive effect only to consent judgments of both validity and infringement. First, consent judgments which adjudicate only validity generally do not address themselves to the issue of infringement.¹⁵⁷ As a result, there is usually no express finding of noninfringement

¹⁵¹ U.S. CONST. art. III, § 2.

¹⁵² *Cover*, 133 F.2d at 544. See *Aetna Life Ins. Co. v. Haworth*, 300 U.S. 227, 240 (1937); *Muskat v. United States*, 219 U.S. 346, 356 (1911).

¹⁵³ See, e.g., *Cover*, 133 F.2d at 544; *W.R. Grace & Co. v. Union Carbide Corp.*, 319 F. Supp. 307, 308-09 (S.D.N.Y. 1970). There is, however, no requirement that a court finding no infringement must refuse to decide that a patent is invalid. *Cover*, 133 F.2d at 545. "Indeed, since the public is affected, there is much to be said for a decision in such a case as to the invalidity of the alleged patent monopoly . . . whenever the issue of invalidity is before the court and the evidence warrants such a decision." *Id.* (footnote omitted). This distinction stems from the fact that the patentee must prove both validity and infringement in order to prevail, whereas the alleged infringer succeeds on the merits if he can establish either invalidity or noninfringement. *Id.*

¹⁵⁴ *Cover*, 133 F.2d at 545. See *Electrical Fittings Corp. v. Thomas & Betts Co.*, 307 U.S. 241, 242 (1939). *Accord*, *Aero Spark Plug Co. v. B.G. Corp.*, 130 F.2d 290, 293 (2d Cir. 1942) (Frank, J., concurring) ("For to hold a patent valid, if it is not infringed, is to render a mere advisory opinion, to decide a hypothetical case.")

¹⁵⁵ *Cover*, 133 F.2d at 545.

¹⁵⁶ *Electrical Fittings Corp. v. Thomas & Betts Co.*, 307 U.S. 241, 242 (1939).

¹⁵⁷ See cases cited *infra* at note 162.

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which would eliminate the existence of an Article III controversy. Second, even if the decree included an express finding of noninfringement, that would not preclude its being given conclusive effect in subsequent litigation because the court's finding that it had jurisdiction is *res judicata* of that issue.¹⁵⁸ There is, therefore, no constitutional basis for giving full *res judicata* effect to consent judgments reciting both validity and infringement, while denying conclusive treatment to recitals of validity alone.

2. Procedural basis for the distinction

There is a firm procedural basis for refusing to give conclusive effect to decrees adjudicating solely validity where a court is applying collateral estoppel, and where the consent judgment entered in a patent infringement case includes an explicit finding of noninfringement. Collateral estoppel only precludes the relitigation of those findings which were necessary or alternative grounds of decision.¹⁵⁹ Thus, in that validity and infringement would each be an alternate ground of decision,¹⁶⁰ a court should give collateral estoppel effect to both findings. By contrast, a court could never give collateral estoppel effect to a finding that the patent was valid but not infringed, because a finding of validity in an infringement suit "could not conceivably have been used as a ground of decision, either alone or as an alternative to another ground."¹⁶¹

Nevertheless, there are two reasons why these orthodox procedural rules alone cannot justify the refusal to give *res judicata* effect to consent judgments adjudicating solely validity. First, the adjudication of the validity issue is often not clearly immaterial to the decision. Consent decrees reciting only validity usually do not include an explicit finding that the defendant has not infringed.¹⁶² More often, they are silent on the issue of infringement.¹⁶³ Thus, the court may

¹⁵⁸ C. WRIGHT, *HANDBOOK OF THE LAW OF FEDERAL COURTS*, at 51 (2d ed. 1970). See *RESTATEMENT OF THE LAW OF JUDGMENTS* § 10(1) (1942). This result comports with the general principle that *res judicata* forecloses further consideration of all issues which were or might have been litigated in the previous suit. C. WRIGHT, *HANDBOOK OF THE LAW OF FEDERAL COURTS*, at 51 n.8 (2d ed. 1970).

¹⁵⁹ Scott, *Collateral Estoppel by Judgment*, 56 HARV. L. REV. 1, 11-12 (1942).

¹⁶⁰ Cover, 133 F.2d at 544-45.

¹⁶¹ *Aero Spark Plug Co. v. B.G. Corp.*, 130 F.2d 290, 293 (2d Cir. 1942) (Frank, J., concurring).

¹⁶² See, e.g., *Kraly v. National Distillers & Chem. Corp.*, 502 F.2d 1366, 1367-68 (7th Cir. 1974); *Crane Co. v. Aeroquip Corp.*, 364 F. Supp. 547, 549 (N.D. Ill. 1973), *rev'd in part on other grounds*, 504 F.2d 1086 (7th Cir. 1974). Business Forms Finishing Serv., Inc. v. Carson, 452 F.2d 70 (7th Cir. 1971), is the sole post-*Lear* exception. The consent decree there included an explicit finding that plaintiff's patent was not infringed. *Id.* at 71.

¹⁶³ See, e.g., *Kraly v. National Distillers & Chem. Corp.*, 502 F.2d 1366, 1367-68 (7th Cir. 1974); *Crane Co. v. Aeroquip Corp.*, 364 F. Supp. 547, 549 (N.D. Ill. 1973), *aff'd in part, rev'd in part on other grounds*, 504 F.2d 1086 (7th Cir. 1974); *Butterfield v. Oculus Contact Lens Co.*, 332 F. Supp. 750, 760 (N.D. Ill. 1971), *aff'd per curiam*, 177 U.S.P.Q. 33 (7th Cir. 1973); cf. *Rialto Prods., Inc. v. Rayex Corp.*, 166 U.S.P.Q. 222 (N.Y. Sup. Ct. 1970).

have made no adjudication except that relating to validity. The court's sole adjudication cannot be termed immaterial to its decision.¹⁶⁴

Secondly, even if the consent decree included an express finding of noninfringement, these orthodox procedural rules would not justify the distinction unless the court was applying collateral estoppel. While collateral estoppel effect is limited to the necessary grounds of a decision,¹⁶⁵ bar and merger apply to everything that was or could have been decided.¹⁶⁶ Thus, the fact that a finding of validity was immaterial to a decision of noninfringement would not preclude the application of bar and merger principles.¹⁶⁷

If orthodox procedural rules, therefore, are to justify a distinction between the res judicata effect of the two types of consent judgments, the court must determine that the initial decree included an explicit finding of noninfringement and that its subsequent inquiry into the decree's res judicata effect is governed by collateral estoppel rather than bar and merger principles. In order to apply collateral estoppel rather than bar and merger principles, the court must determine that the second infringement suit in which the appellee has raised the issue of res judicata constitutes a different cause of action from the first action in which the consent decree was entered.¹⁶⁸ This inquiry is problematic because the concept of a cause of action is particularly difficult to define in the patent infringement context.¹⁶⁹ Slight variations in the specificity of a consent decree¹⁷⁰ or in the

¹⁶⁴ In *Addressograph*, the Second Circuit recognized this problem: "[w]e would find no difficulty whatever in reaching the conclusion that the consent decree in the former suit would not operate to estop if non-infringement had been directly adjudicated therein." 156 F.2d at 485.

¹⁶⁵ *Lawlor v. National Screen Serv. Corp.*, 349 U.S. 322, 326 (1955).

¹⁶⁶ The bar and merger effect of a consent decree, however, is limited to what was decided. See notes 22 *supra* and 168 *infra*. *Developments in the Law - Res Judicata*, 65 HARV. L. REV. 818, 824 (1952).

¹⁶⁷ *Addressograph*, 156 F.2d at 488 (Clark, J., dissenting).

¹⁶⁸ 1B J. MOORE, FEDERAL PRACTICE, ¶ 0.401 at 16-17 (2d ed. 1974). Bar and merger principles operate to make a final judgment on the merits conclusive between the parties "as to all matters that should have been litigated in reference to the same cause of action and [do not affect] a suit on a different cause of action." *Id.* at 16 (footnote omitted) (emphasis added). Collateral estoppel, on the other hand, operates to make determinations on matters or points which were in issue and material to the initial judgment conclusive between the parties in other litigation involving a different cause of action. *Id.* at 16-17.

¹⁶⁹ See Note, "To Bind or Not to Bind": Bar and Merger Treatment of Consent Decrees in Patent Infringement Litigation, 74 COLUM. L. REV. 1322, 1344-45 (1974). "If the first judgment grants only money damages for past infringement, creation of another copy of the infringing device after the settlement would technically be a new cause of action." *Id.* at 1345.

¹⁷⁰ In *Business Forms Finishing Service, Inc. v. Carson*, for example, the consent decree was unusually restrictive: "pretrial Stipulation Exhibits A and B . . . do not infringe." 452 F.2d 70, 76 (7th Cir. 1971). When the defendants began marketing a different product, the patentee initiated a second infringement suit, based on, arguably, a new cause of action. The court held that the consent judgment of validity should not have conclusive effect. *Id.* at 75. Although the court characterized the question as whether the consent decree created an "estoppel," it did not expressly indicate whether it was applying bar and merger principles or collateral estoppel.

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character of products subsequently marketed by the alleged infringer create the potential for arbitrary results as a court attempts to delineate the parameters of the initial cause of action.

Because the application of collateral estoppel in patent litigation would require a somewhat mechanistic delineation of the initial cause of action, it is submitted that courts should not look to orthodox procedural rules for justification of their decision to give res judicata effect only to consent decrees adjudicating both validity and infringement, but instead should rely on the policy bases of that distinction.

3. Policy basis for the distinction

The *Lear* rationale, which mandates an authoritative testing of patent validity, provides the central policy justification for giving conclusive effect only to those consent judgments which adjudicate both validity and infringement. Because the court which enters a consent decree does not undertake that authoritative inquiry into the validity of a patent which is mandated by *Lear*,¹⁷¹ only the litigants themselves are in a position to expose the invalidity of spurious patents. Thus, an assurance that the parties will adequately contest the issue of validity is the only vehicle for the satisfaction of the *Lear* mandate in the context of consented dispositions.¹⁷² Courts have agreed that it is unlikely that a party who defends successfully on the issue of infringement will adequately press the issue of invalidity.¹⁷³ If the defendant can easily prove that he is not infringing, the hypothetical validity of his opponent's patent does not concern him.¹⁷⁴ Indeed, a concession of its validity would not prejudice him at all¹⁷⁵ because the patent, even in the absence of such concession, is presumed to be valid.¹⁷⁶ The al-

¹⁷¹ See text at notes 33-44 *supra*.

¹⁷² See *Addressograph-Multigraph Corp. v. Cooper*, 156 F.2d 483 (2d Cir. 1946), where the court concluded that:

on grounds of public policy we ought to rule that . . . either an adjudication of infringement, or a grant of some relief from which infringement may be inferred is essential before any effect of res judicata can be given to it on the issue of validity. In other words, . . . the public interest in a judicial determination of the invalidity of a worthless patent is great enough to warrant the conclusion that a defendant is not estopped by a decree of validity, at least when the decree was by consent, unless it is clear that in the litigation resulting in the decree the issue of validity was genuine. *Id.* at 485.

¹⁷³ See *id.*; *Wallace Clark & Co. v. Acheson Indus., Inc.*, 394 F. Supp. 393, 399 (S.D.N.Y. 1975), *aff'd*, 532 F.2d 846 (2d Cir. 1976).

¹⁷⁴ *Altwater v. Freeman*, 319 U.S. 359, 363 (1943).

¹⁷⁵ The only possible source of prejudice is the danger that the concession of validity might be given res judicata effect, thereby precluding a subsequent challenge to the patent's validity. Assuming, however, that he already can prove that his *present* conduct is not infringing the patent, this consideration is of no concern unless he plans to manufacture different products in the future which arguably would impinge more directly on the patentee's claims.

¹⁷⁶ Section 282 of the Patent Code provides that "[a] patent shall be presumed valid [and t]he burden of establishing invalidity of a patent or any claim thereof shall rest on the party asserting it." 35 U.S.C. § 282 (1970).

leged infringer, therefore, has little incentive to contest a recital of validity. As a result, the consent decree which adjudicates validity alone is unlikely to represent the authoritative inquiry mandated by *Lear*.¹⁷⁷

In contrast, the litigation which results in a concession of validity in a decree which adjudicates both infringement and validity is more likely to be genuine because the defendant who is losing on the issue of infringement must contest validity in order to avoid either the issuance of an injunction which restrains future infringement¹⁷⁸ or the inclusion of a provision for what could amount to substantial liability for past infringement.¹⁷⁹ Thus, the recital of validity in a consent decree which includes a finding of past infringement is less likely to validate invalid patents than the same recital in a decree which does not address the issue of infringement.¹⁸⁰ Accordingly, the *Lear* rationale would suggest that only the former should receive *res judicata* treatment.

Not only is the litigation of validity more likely to be genuine in the case of a consent agreement adjudicating both validity and infringement, but also the equities of the patentee may then be more insistent. In decrees adjudicating solely validity, the consideration received by the patentee may be no more substantial than what he would have received in the *Lear* license situation.¹⁸¹ These decrees usually include nothing more than a license for prospective use and a covenant not to contest a patent's validity.¹⁸² In the case of a consent

¹⁷⁷ There is also a danger that the decree may reflect nothing more than the self-interest of the parties. In *Butterfield v. Oculus Contact Lens Co.*, for example, the court cautioned "that the validity of a patent should not be removed from challenge by agreement of parties who have an economic interest in it by virtue of being its owner or a licensee under it." 332 F. Supp. 750, 760-61 (N.D. Ill. 1971), *aff'd per curiam*, 177 U.S.P.Q. 33 (7th Cir. 1973). The possibility of collusion, however, has been termed a misplaced concern in the bar and merger context. There is little incentive for collusion since the parties cannot thereby extend a patent monopoly to third parties, nor secure rights vis-a-vis each other which they could not confirm by contract. *To Bind or Not to Bind*, note 162 *supra*, at 1342.

¹⁷⁸ The court may not issue an injunction absent a finding of past or threatened infringement. *Sperti Prods., Inc. v. Coca-Cola Co.*, 272 F. Supp. 441, 447-48 (D. Del. 1967), *aff'd*, 399 F.2d 607 (3d Cir. 1968).

¹⁷⁹ *Cf. Ransburg Electro-Coating Corp. v. Spiller & Spiller, Inc.*, 489 F.2d 974, 976 (7th Cir. 1973) (settlement agreement provided that Spiller would pay Ransburg \$70,000 as compensation for Spiller's past infringement of specified Ransburg patents.) *But see Kraly v. National Distillers & Chem. Corp.*, 502 F.2d 1366, 1368-69 (7th Cir. 1974) (consent decree did not include an adjudication of infringement, but provided for payment of \$8,000 in settlement of all claims.)

¹⁸⁰ See *Addressograph*, 156 F.2d at 485.

¹⁸¹ The only difference may be that the patent-owner may offer more favorable royalty terms to the purported infringer with a strong case in an attempt to persuade him to settle. Similarly, he may offer less favorable terms if he has a strong patent in order to compensate for his outlay for legal costs expended before the signing of the consent judgment.

¹⁸² See, e.g., *Crane Co. v. Aeroquip Corp.*, 364 F. Supp. 547, 549 (N.D. Ill. 1973), *rev'd in part on other grounds*, 504 F.2d 1086 (7th Cir. 1974).

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judgment which adjudicates validity and infringement, however, the patentee may recover substantial damages for past infringement.¹⁸³ Thus, the refusal to enforce a consent decree reciting validity and infringement seems more destructive of the equities of the patentee who had won greater concessions and received more substantial consideration.

Additionally, the interests of the court may be more compelling in the case of a consent decree adjudicating both validity and infringement, at least where the decree enjoins further infringement. Only consent decrees reciting both validity and infringement can support an injunction enjoining future infringement.¹⁸⁴ The issuance of such injunction enables the patentee to bring an action for contempt in the event that the infringer undertakes to manufacture similar products in the future. Entirely "independent of the equities of the case on which the decree is founded,"¹⁸⁵ the purpose of the contempt proceeding is, in part, to vindicate the court's authority.¹⁸⁶ Accordingly, the initiation of a contempt action introduces the possibility of criminal liability,¹⁸⁷ increases the scope of damages,¹⁸⁸ and narrows the scope of review.¹⁸⁹ In view of the character of a contempt proceeding, the willingness to relitigate validity in a contempt action would be more subversive of "the plenary power of the court to enforce its decrees,"¹⁹⁰ than would be the reconsideration of the same issue in a second infringement action brought by the patentee.

¹⁸³ See note 179 *supra*.

¹⁸⁴ See note 178 *supra*.

¹⁸⁵ *Wadsworth Elec. Mfg. Co. v. Westinghouse Elec. & Mfg. Co.*, 71 F.2d 850, 851 (6th Cir. 1934), *quoting* *Bullock Elec. & Mfg. Co. v. Westinghouse Elec. & Mfg. Co.*, 129 F. 105, 106 (6th Cir. 1904). See *Schlegel Mfg. Co. v. USM Corp.*, 525 F.2d 775, 781-82 (6th Cir. 1975), *cert. denied*, 96 S. Ct. 1509 (1976).

¹⁸⁶ *United States ex rel. Shell Oil Co. v. Barco Corp.*, 430 F.2d 998, 1002 n.8 (8th Cir. 1970) (criminal contempt). See generally Nemmers, *Enforcement of Injunctive Orders and Decrees in Patent Cases*, 7 INDIANA L. REV. 287, 288-91 (1973).

¹⁸⁷ *United States ex rel. Shell Oil Co. v. Barco Corp.*, 430 F.2d 998, 999 (8th Cir. 1970).

¹⁸⁸ The complainant may recover any profits made by the contemnor on sales of products in violation of the injunction against infringement. *Leman v. Krentler-Arnold Hinge Last Co.*, 284 U.S. 448, 457 (1932); *Baltz v. Walgreen Co.*, 198 F. Supp. 22, 26 (W.D. Tenn. 1961). In an ordinary patent infringement suit, the patentee can only recover damages, and not the defendant's profits. *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 504-07 (1964). The contrast may be muted by the fact that the contemnor is not liable for punitive damages in a civil contempt proceeding. Nemmers, *Enforcement of Injunctive Orders and Decrees in Patent Cases*, 7 INDIANA L. REV. 287, 306 (1973).

¹⁸⁹ In a contempt proceeding for violation of an injunction against infringement, "the question is whether the accused structure is equivalent to the original in relation to the patent in suit." *Schlegel Mfg. Co. v. USM Corp.*, 525 F.2d 775, 782 (7th Cir. 1975), *cert. denied*, 96 S. Ct. 1509 (1976), *quoting* *Panduit Corp. v. Stahlin Bros. Fibreworks, Inc.*, 338 F. Supp. 1240, 1241 (W.D. Mich. 1972), *aff'd per curiam*, 476 F.2d 1286 (6th Cir. 1973).

¹⁹⁰ *Wadsworth Elec. Mfg. Co. v. Westinghouse Elec. & Mfg. Co.*, 71 F.2d 850, 851 (6th Cir. 1934).

C. *Viability of the Distinction*

The central drawback in the application of *res judicata* principles to consent judgments in patent litigation stems from the fact that the consent decree disposes of complex issues affected with the public interest by summary agreement between the parties in a system which depends on private litigants to vindicate the public interest and which lacks firm safeguards against the entry of erroneous decrees. According to the *res judicata* effect only to those consent judgments which recite both validity and infringement appears to offer some assurance that the litigation as to validity is genuine because the finding of infringement obligated the defendant to press the issue of validity in order to avoid liability. If, as it would seem, this distinction reflects practical reality, and is not simply a theoretical nicety, then it would likely compensate for the inadequacy of institutional safeguards against the entry of erroneous decrees and thus offer a viable compromise between the competing patent and judicial policies.

There are three considerations which might cast doubt on the viability of the distinction. If the drafting of the consent decree does not reflect the intentions of the parties, or if the distinction merely amounts to different legal conclusions drawn from the same set of facts or if courts were too willing to infer a finding of infringement from the decree's grant of other relief, the distinction, in fact, may not serve its stated purpose of indentifying those cases where the litigation as to validity is more likely to be genuine. If the inclusion of a finding of infringement is, as a practical matter, immaterial to the litigants, then the distinction is an exaltation of form over substance because it does not reflect the intention of the parties. The history of the litigation in *Crane Boom Life Guard Co. v. Saf-T-Boom Corp.*,¹⁹¹ for example, suggests that the contents of a consent decree may reflect nice distinctions in draftsmanship and not the merits of the litigation. After the entry of the decree, the defendants, alleging attorney misconduct in submission of the decree, claimed that it did not express the true settlement agreement because they had not conceded to the entry of an injunction restraining infringement of the plaintiff's patents and had not even become aware of the contents of the decree until some five months after the conclusion of the suit.¹⁹² The allega-

¹⁹¹ 362 F.2d 317 (8th Cir. 1966).

¹⁹² *Id.* at 319.

The defendants raised these claims five months after the entry of the consent judgment when they filed a motion for relief under Rule 60(b) of the Federal Rules of Civil Procedure. *Id.* Rule 60(b) enables a court "[o]n motion and upon such terms as are just" to relieve a party from a final judgment. The grounds upon which such relief may be given include, *inter alia*, mistake, inadvertence, surprise or fraud. The court in *Crane Boom*, however, denied the motion. 362 F.2d at 319. Then, in a subsequent contempt action initiated by the patentee, the court, relying on *Addressograph*, concluded that the consent judgment's provision for a permanent injunction constituted a grant of some "relief from which infringement may be inferred" and held that the defendants were bound by the consent judgment. *Id.*

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tions of attorney misconduct in *Crane Boom*, however, indicate that this case constitutes the exception, rather than the rule.

On the other hand, *Addressograph* seems more representative of the normal process by which litigants arrive at consent agreements and submit them to the court.¹⁹³ The defendants there had rejected the proposed decree as first submitted to them by the plaintiff because it contained an allegation that they had infringed the patent. The decree eventually entered by the court did not contain any finding as to infringement.¹⁹⁴ This would seem to indicate that the distinction between the two types of consent decrees is one deemed crucial by the parties during the course of the litigation. There appears to be little danger, therefore, that the distinction might be infirm because it constitutes a theoretical nicety rather than a practical reality.

A second arguable infirmity of the distinction stems from the character of patent infringement litigation. Adjudications of validity and infringement and recitals of validity alone may amount to nothing more than different legal conclusions deduced from the same basic facts.¹⁹⁵ A decision sustaining validity may depend on a construction of the patentee's claims that is sufficiently narrow to avoid a finding of infringement.¹⁹⁶ Although this problem suggests that the distinction is somewhat mechanistic, the apparent importance the parties attach to the wording of the decree would seem to reaffirm the basic viability of the distinction.

A third possible weakness of the *Addressograph* distinction might arise if the courts were too willing to infer a finding of infringement from the grant of other relief in a consent decree. The *Addressograph* rule would condition res judicata treatment of a consent decree's adjudication of validity on the inclusion of "either an adjudication of infringement, or a grant of some relief from which infringement may be inferred . . ." The inference of a finding of infringement might serve as a vehicle for the distortion of the intentions of the parties and thereby undercut the presumption that the finding of infringement offers some assurance that the litigation as to validity is genuine. However, in the few cases where a finding of infringement has been inferred,¹⁹⁸ the courts' interpretation of the consent decrees has not represented the manipulations of result-oriented courts. Rather, the courts' conclusions represented bona fide efforts to gauge the true in-

¹⁹³ The district court in *Addressograph*, for example, indicated that allegations that the consent decree was unauthorized do not rebut the presumption, on which the opposing party may justifiably rely, that the signing attorney was authorized to act for his clients. 60 F. Supp. 697, 699 (S.D.N.Y. 1945), *aff'd*, 156 F.2d 483 (2d Cir. 1946).

¹⁹⁴ *Id.*

¹⁹⁵ *Cf. Cover*, 133 F.2d at 548 (Clark, J., dissenting in part).

¹⁹⁶ *Marcalus Mfg. Co. v. Automatic Paper Mach. Co.*, 110 F.2d 304, 306 (3d Cir. 1940).

¹⁹⁷ 156 F.2d at 485. (emphasis added).

¹⁹⁸ *Kraly v. National Distillers & Chem. Corp.*, 502 F.2d 1366, 1369 (7th Cir. 1974); *Crane Boom*, 362 F.2d at 321.

tentions of the parties to the original consent decree.¹⁹⁹ Thus, their results may be viewed as supporting the proposition that the different types of consent decrees merit different res judicata treatment, for the courts' efforts to interpret the provisions of a consent judgment have served to effectuate, rather than distort, the intentions of the litigants.

CONCLUSION

The comparison between licensing agreements and consent decrees isolates considerations central to any decision to apply res judicata principles to consent judgments in patent litigation. The policies of judicial economy and the finality of litigation compete with the public interest in encouraging and preserving challenges to patent validity in a system which depends on private litigants to vindicate the public interest. It is submitted that the twin dangers of validating invalid patents and spawning overzealous litigation by patent owners who seek to regain the benefit of immunity lost when *Lear* abrogated the doctrine of licensee estoppel suggest that consent judgments entered in patent litigation should not receive res judicata effect.

At the same time, it seems extremely unlikely that courts will reverse the trend in decisions and in any way denigrate the adjudicative function of the consent process. Therefore, it would seem that the *Addressograph* distinction between consent decrees adjudicating validity alone and those reciting both validity and infringement offers a viable compromise of the competing policy considerations. Reserving res judicata effect for consent judgments offering some assurance that the litigation as to validity is genuine compensates for the absence of adequate safeguards against the entry of erroneous decrees, and thus minimizes the danger of a judgment which sanctions a monopoly that fails to meet the congressional standards of patentability.

ALEXANDRA LEAKE

¹⁹⁹ See *Kraly v. National Distillers & Chem. Corp.*, 502 F.2d at 1369 n.4; *Crane Boom*, 362 F.2d at 321-22. In *Crane Boom*, for example, the court inferred a finding of infringement from the fact that infringement was the central issue in the prior suit, injunctive relief was sought and the defendants, pursuant to the consent decree, were permanently enjoined from infringing the patents. 362 F.2d at 321-22.