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9 UNITED STATES DISTRICT COURT
 10 NORTHERN DISTRICT OF CALIFORNIA
 11 SAN JOSE DIVISION

12 RITZ CAMERA & IMAGE, LLC, a)	CASE NO.: 5:10-CV-02787 JF
Delaware limited liability company, on)	
13 behalf of itself and others similarly situated,)	DEFENDANT'S NOTICE OF MOTION
)	AND MOTION TO CERTIFY THE
14 Plaintiff,)	COURT'S WALKER PROCESS STANDING
)	RULING FOR INTERLOCUTORY
15 v.)	APPEAL
)	
16 SANDISK CORPORATION,)	Date: May 5, 2011
)	Time: 9:00 AM
17 Defendants.)	Judge: Honorable Jeremy Fogel
)	

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1 Pursuant to 28 U.S.C. § 1292(b), Defendant SanDisk Corporation respectfully submits this
2 Memorandum In Support Of Defendant’s Motion To Certify The Court’s *Walker Process* Standing
3 Ruling For Interlocutory Appeal.¹

4 **I. INTRODUCTION**

5 The Court’s February 24, 2011 Order held that a direct purchaser like Plaintiff, Ritz Camera &
6 Image, LLC (“Ritz”), has standing to pursue a *Walker Process* antitrust claim in situations where the
7 patents at issue are allegedly “tarnished” because a summary judgment motion on the *Walker Process*
8 claim was denied in a prior lawsuit. Defendant believes that this Court’s ruling is the only instance of
9 a direct purchaser being allowed to proceed with a *Walker Process* lawsuit where there has not been a
10 prior judicial determination that the patents at issue are unenforceable based on inequitable conduct.

11 As discussed herein, the Court’s ruling should be certified for appeal under § 1292(b) because
12 it involves a “controlling question of law” on which there is “substantial ground for difference of
13 opinion” and an immediate appeal “may materially advance the ultimate termination” of this case.

14 *First*, whether direct purchasers have standing to pursue *Walker Process* claims involves a
15 “controlling question of law.” This is a purely legal issue and the Court has acknowledged that the
16 remaining claims in this case should be dismissed if Ritz does not have *Walker Process* standing.

17 *Second*, there is “substantial ground for difference of opinion” as to whether direct purchasers
18 like Ritz have standing to bring a *Walker Process* claim. The Court acknowledged that allowing a
19 direct purchaser standing to bring a *Walker Process* claim is the minority view. In fact, there are only
20 two reported decisions resulting in direct purchasers being allowed to pursue *Walker Process* claims
21 and each involved a prior judicial finding of inequitable conduct in connection with procurement of
22 the patents at issue. This Court’s ruling not only conflicts with the majority view; it stands alone in
23 allowing a direct purchaser’s *Walker Process* claim to proceed without any finding of wrongdoing by
24 the patent holder. The new rule announced by the Court implicates significant policy concerns and,
25 given the lack of binding precedent and the conflicting court decisions, immediate appellate review of

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27 ¹ The Court dismissed with prejudice Count I of the First Amended Complaint (“FAC”), the only
28 count directed to Defendant Dr. Eliyahou Harari. *See* Order, Dkt. 60, at 14-15. Count II of the FAC
is the only remaining cause of action and SanDisk is the only remaining Defendant.

1 this unsettled issue will allow the Federal Circuit to finally provide uniform, nationwide guidance.²

2 *Third*, resolution of the *Walker Process* standing issue may materially advance resolution of
3 this case. As noted, an appellate decision in Defendant’s favor on this issue will effectively end this
4 case. Moreover, consistent with the legislative history of § 1292(b), courts have held that certification
5 of a controlling and case dispositive issue like the instant direct purchaser *Walker Process* standing
6 issue is particularly appropriate in antitrust and other complex lawsuits to avoid protracted and
7 expensive litigation.

8 *Finally*, Defendant requests that discovery be stayed or limited pending appeal to reduce the
9 burdens on the Court, the parties, and third parties.

10 **II. ARGUMENT**

11 **A. The Applicable Standard**

12 “A district court, in its discretion, may certify an issue for interlocutory appeal under 28 U.S.C.
13 § 1292 if (1) there is a ‘controlling question of law,’ (2) on which there are ‘substantial grounds for
14 difference of opinion,’ and (3) ‘an immediate appeal may materially advance the ultimate termination
15 of the litigation.’” *Wilton Miwok Rancheria v. Salazar*, 2010 WL 693420, *11 (N.D. Cal. Feb. 23,
16 2010) (quoting *In re Cement Antitrust Litig.*, 673 F.2d 1020, 1026 (9th Cir. 1982)).

17 Each of these factors strongly support certifying the Court’s *Walker Process* standing ruling
18 for interlocutory appeal.

19 **B. The Walker Process Standing Issue Is A “Controlling Question Of Law”**

20 The *Walker Process* direct purchaser standing issue is a “controlling question of law.” It is a
21 pure legal issue that does not involve any disputed facts. Moreover, this Court held that “each of
22 Ritz’s claims is dependent upon the theory that [Defendant has] engaged in the enforcement of
23 fraudulently-obtained patents.” Order at 4. The *Walker Process* standing issue therefore effectively
24 controls whether Ritz has a viable claim. *See Wilton Miwok Rancheria*, 2010 WL 693420, at *11-12
25 (finding “controlling issue of law” where “dismissal is required” if party’s disputed case law
26 interpretation was correct).

27 ² As discussed below, because the *Walker Process* standing issue “turns on substantial issues of
28 patent law,” jurisdiction over this issue resides with the Federal Circuit.

1 **C. There Is “Substantial Ground For Difference Of Opinion” On The Direct**
 2 **Purchaser Walker Process Standing Issue**

3 There is “substantial ground for difference of opinion” as to whether a direct purchaser like
 4 Ritz has standing to bring a *Walker Process* claim. The majority view is that direct purchasers do not
 5 have standing to pursue *Walker Process* claims. The Court recognized during the hearing on
 6 Defendant’s motion to dismiss that allowing direct purchasers standing to bring *Walker Process*
 7 claims is the minority view. *See* 12/17/10 Hearing Tr., Dkt. 54, at 3.

8 In fact, only two reported decisions have allowed *Walker Process* lawsuits brought by a direct
 9 purchaser to proceed beyond the motion to dismiss stage, and in both cases there had been a prior
 10 judicial determination in connection with a competitor lawsuit that the patents at issue were
 11 unenforceable due to inequitable conduct.³ Thus, the Second Circuit created a narrow exception to
 12 the majority rule in *In re DDAVP Direct Purchaser Antitrust Litigation*, 585 F.3d 677 (2d Cir. 2009),
 13 and allowed a direct purchaser standing where the patents at issue were “already unenforceable due to
 14 inequitable conduct.” *Id.* at 691-92. Similarly, in *Molecular Diagnostics Laboratories v. Hoffman-La*
 15 *Roche Inc.*, 402 F. Supp. 2d 276 (D.D.C. 2005), the district court in the competitor lawsuit “found that
 16 the [patent at issue] had been fraudulently obtained and, accordingly, determined that the ... patent
 17 was unenforceable.” *Id.* at 282 n.7; *see also id.* (noting that the court “once again” found the patent
 18 unenforceable upon remand from the Federal Circuit).⁴

19 This Court also acknowledged that Defendant is “correct that a denial of a motion for
 20 summary judgment is not tantamount to a finding of inequitable conduct[.]” Order at 6. However, the
 21 Court’s ruling stands alone in permitting a direct purchaser standing to bring a *Walker Process* claim
 22 where there has not been such a judicial finding.

23 The other courts that have considered the direct purchaser *Walker Process* standing issue have
 24 held that direct purchasers do not have standing to pursue such claims. *See, e.g., Kroger Co. v.*

25 ³ In the only other decision supporting direct purchaser standing, *In re Netflix Antitrust Litigation*,
 26 506 F. Supp. 2d 308 (N.D. Cal. 2007), Judge Alsup dismissed the direct purchaser’s *Walker Process*
 27 claims for failure to plead a cognizable antitrust injury. Judge Alsup’s ruling on the *Walker Process*
 28 standing issue was not necessary to the decision, and in response to the Court’s questioning counsel
 for Ritz conceded that the *Walker Process* ruling was dicta. 12/17/10 Hearing Tr. at 6.

⁴ Unlike the Second Circuit in *In re DDAVP*, the court in *Molecular Research* did not expressly
 hinge its *Walker Process* standing ruling on the prior finding of inequitable conduct.

1 *Sanofi-Aventis*, 701 F. Supp. 2d 938, 957 (S.D. Ohio 2010) (dismissing direct purchaser’s *Walker*
 2 *Process* claim “so as not to open the door to all direct purchasers otherwise unable to challenge a
 3 patent’s validity being able to do so by dressing their patent challenge with a *Walker Process* claim”);
 4 *Kaiser Foundation v. Abbott Laboratories*, 2009 WL 3877513 (C.D. Cal. Oct. 8, 2009); *In re*
 5 *Remeron Antitrust Litigation*, 335 F. Supp. 2d 522, 529 (D.N.J. 2004).⁵

6 The Court’s ruling on the *Walker Process* standing issue directly conflicts with Judge Walter’s
 7 decision in *Kaiser*. In that case, the Ninth Circuit reversed a multidistrict litigation district court’s
 8 grant of summary judgment for the patent holder on the *Walker Process* claim, holding that the
 9 *Walker Process* claim presented a jury issue for trial. *See* 552 F.3d 1033, 1054 (9th Cir. 2009). Thus,
 10 the patent at issue in *Kaiser* met this Court’s definition of “tarnished.” Nevertheless, on remand Judge
 11 Walter dismissed the direct purchaser’s *Walker Process* claim for lack of standing based on the
 12 majority rule that “only competitors or parties sued or threatened with a patent infringement suit have
 13 antitrust standing.” 2009 U.S. Dist. LEXIS 107512 at *9 (citing cases).⁶

14 Immediate appellate review is needed because of the conflicting decisions on the *Walker*
 15 *Process* standing issue and the lack of binding precedent. Numerous district courts have addressed
 16 this issue with differing results, and the Second Circuit’s decision in *In re DDAVP* is the only
 17 appellate decision on the issue. The *Walker Process* standing issue ultimately is an issue for
 18 determination by the Federal Circuit,⁷ which has not ruled on the issue.

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 20 ⁵ *See also In re Ciprofloxacin Hydrochloride Antitrust Litigation*, 363 F. Supp. 2d 514, 547
 21 (E.D.N.Y. 2005) (discussing cases limiting standing to competitors), and *In re K-Dur Antitrust*
 22 *Litigation*, 2007 WL 5297755, at *60 (D.N.J. Mar. 1, 2007) (“Since *Walker Process* was decided,
 23 federal courts have fairly consistently measured a party’s standing to assert such claims by their status
 24 as a competitor in the marketplace.”). Although these decisions recognize the rules limiting *Walker*
 25 *Process* standing to competitors, the Court is correct that these decisions involved indirect purchasers.
 Order at 5-6.

26 ⁶ Although the Court’s Order states that the *Kaiser* “court dismissed the plaintiff’s *Walker Process*
 27 claim because of the indirect nature of the alleged antitrust injury,” Order at 5, this was actually “[i]n
 28 addition” to main the basis of the court’s dismissal, *namely* “that only competitors or parties sued or
 threatened with a patent infringement suit have antitrust standing.” *See* 2009 U.S. Dist. LEXIS
 107512 at *9-11.

⁷ The Second Circuit acknowledged in *In re DDAVP* that the *Walker Process* standing issue “turn[s]
 on substantial questions of patent law” and that appellate jurisdiction over this issue “would lie
 exclusively with the Federal Circuit[.]” 585 F.3d at 685. The Second Circuit retained jurisdiction
 over the appeal only because another of plaintiffs’ theories did not “turn on a substantial question of
 patent law.” *Id.* Here, Defendant only seeks to appeal the Court’s *Walker Process* standing ruling.

1 The direct purchaser *Walker Process* standing issue is important not only to this case, but also
2 to future litigants facing this issue. See *Wilton Miwok Rancheria*, 2010 WL 693420, at *13 (“On
3 balance, the Court concludes that certification would further rather than frustrate resolution of the
4 underlying dispute. The jurisdictional issue is important not only for the Parties but to future litigants
5 who may be similarly situated.”). As things stand, (i) direct purchasers are not able to bring *Walker*
6 *Process* claims in certain federal district courts, (ii) they are able to bring such claims in other districts
7 but only after there has been a judicial determination of wrongdoing in connection with the
8 procurement of the patents at issue, (iii) in this district, depending on whether the dicta in *Netflix* or
9 the rule announced by this Court is followed, direct purchasers either generally have standing or they
10 only have standing following a denial of summary judgment on the *Walker Process* claims in a prior
11 lawsuit even though there has not been a judicial determination of wrongdoing, and (iv) since most
12 districts have not yet addressed the issue, whether direct purchasers are able to bring *Walker Process*
13 claims in those districts is completely uncertain. An immediate interlocutory appeal of this Court’s
14 ruling will allow the Federal Circuit to finally weigh in and provide uniform, nationwide guidance on
15 this important, unsettled issue.

16 The direct purchaser *Walker Process* standing issue implicates important policy considerations
17 at the intersection of antitrust and patent law. See, e.g., *Kroger*, 701 F. Supp. 2d at 963 (allowing
18 direct purchasers standing would greatly “expand the universe of patent challengers” and “disturb the
19 incentives for innovation,” and thereby “disrupt the delicate balance between patent law and antitrust
20 law that *Walker Process* delineated.”); cf. *Data Gen. Corp. v. Grumman Sys. Support Corp.*, 36 F.3d
21 1147, 1186 (1st Cir. 1994) (“exposing patent activity to wider antitrust scrutiny would weaken the
22 incentives underlying the patent system, thereby depriving consumers of beneficial products”). The
23 Second Circuit in *In re DDAVP* “specifically crafted a narrow holding so to not disturb this
24 balance[.]” *Kroger*, 701 F. Supp. 3d at 963; see also *id.* (“The desirability of such a change is a
25 complex issue which . . . should be made by Congress, and not by the courts.”).

26 Although this Court also declined to open the *Walker Process* doors to all direct purchasers,
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1 the Court's ruling will nonetheless negatively impact the conduct of patent litigation.⁸ For example, it
 2 will limit the willingness of patent holders to seek summary judgment on meritless *Walker Process*
 3 claims for fear of opening the floodgates to direct purchaser antitrust lawsuits. Under the Court's
 4 ruling, direct purchasers will no longer need to wait for a judicial determination that the patent is
 5 actually unenforceable before filing suit. The Court's ruling also provides an additional incentive for
 6 accused infringers to bring *Walker Process* claims since the mere chance that these fact-intensive
 7 claims may survive summary judgment serves as an additional weapon against patent holders.
 8 Moreover, the Court's rule is counter to the strong policy favoring settlement to the extent it interferes
 9 with the ability of patent holders to settle cases where *Walker Process* claims survive summary
 10 judgment. *See, e.g., In re K-Dur Antitrust Litigation*, 2007 U.S. Dist. LEXIS 100238, at *64
 11 (expanding *Walker Process* standing would "likely discourage settlement and inject a significant level
 12 of uncertainty into the process of adjudicating patent disputes"); *see generally Asahi Glass Co. v.*
 13 *Pentech Pharms, Inc.*, 289 F. Supp. 2d 986, 991 (N.D. Ill. 2003) (Posner, J.) ("The general policy of
 14 the law is to favor the settlement of litigation, and the policy extends to the settlement of patent
 15 infringement suits.").

16 **D. Resolution Of The Direct Purchaser *Walker Process* Standing Issue "May**
 17 **Materially Advance The Ultimate Termination" Of This Case**

18 Resolution of the *Walker Process* standing issue "may materially advance resolution of this
 19 case." This requirement is satisfied where "a question which would be dispositive of the litigation is
 20 raised" and an appellate decision "may avoid protracted and expensive litigation, as in antitrust and
 21 similar protracted cases." *U. S. Rubber Co. v. Wright*, 359 F.2d 784, 785 (9th Cir. 1966) (quoting S.
 22 Rep. No. 2434, 85th Cong. 2nd Sess., 1958 U.S. Code Cong. & Ad. News, at 5255, 5260).
 23 Accordingly, this Court and others have held that dispositive jurisdictional and standing questions are
 24 appropriate for interlocutory appeal. *See Wilton Miwok Rancheria*, 2010 WL 693420 * 13 (N.D. Cal.
 25 Feb. 23, 2010) (certifying jurisdictional question for interlocutory appeal); *see also Burchett v.*

26 ⁸ Because of the prior judicial determination that the patent at issue in *In re DDVAP* was
 27 unenforceable, the Second Circuit held that it was "able to grant [the direct purchaser] antitrust
 28 standing without altering the typical limits on who can start a challenge to a patent's validity." 585
 F.3d at 691. There has been no such determination here.

1 *Bardahl Oil Co.*, 470 F.2d 793, 796 (10th Cir. 1972) (accepting interlocutory appeal of jurisdictional
 2 question); *Lemery v. Ford Motor Co.*, 244 F. Supp. 2d 720, 728 (S.D. Tex. 2002) (“It would pain the
 3 Court to see both attorneys ... [and parties] proceed to judgment after considerable expense and delay,
 4 only to discover that the judgment must be overturned on appeal because the federal judiciary lacks
 5 subject matter jurisdiction.”); *Myles v. Schlesinger*, 436 F. Supp. 8, 22 (E.D. Pa. 1976) (“There is no
 6 purpose in proceeding with costly and time-consuming litigation if the Third Circuit will eventually
 7 hold that there was no jurisdiction.”).

8 Courts also have held that certification is particularly appropriate where appellate review of a
 9 threshold question could eliminate the need for prolonged and costly discovery. For example, in *In re*
 10 *Chocolate Confectionary Antitrust Litigation*, 607 F. Supp. 2d 701 (M.D. Pa. 2009), the court certified
 11 a threshold standing question, explaining:

12 Certifying an interlocutory appeal could significantly advance the termination of the
 13 instant matter. Discovery on class and merits issues has not yet commenced and will
 14 likely implicate reams of documents, weeks of depositions, and a battery of
 15 interrogatories and requests for admissions. Expenses in the form of attorney time,
 16 document storage, and parties' involvement will likely mount as discovery
 progresses. . . . Appellate review of the motions to dismiss could eliminate the need
 for this period of prolonged and costly discovery. Alternatively, affirmance . . . would
 validate these significant expenditures.

17 *Id.* at 707-08.

18 This Court has acknowledged that Ritz’s remaining claims rise or fall with the *Walker Process*
 19 standing issue, *see* Order at 4, and resolution of this issue in Defendant’s favor on appeal effectively
 20 would end this case. Moreover, as in *In re Chocolate Confectionary Antitrust Litigation*, an
 21 immediate interlocutory appeal may eliminate the need for prolonged and costly discovery. Although
 22 it is difficult to estimate at this point the precise burden this case will impose on the Court, the parties
 23 and third parties since no discovery has been served, it undoubtedly will be substantial. It would be
 24 wasteful for the Court to adjudicate, and the parties to litigate, this matter only to have it determined
 25 on appeal that Ritz never had standing.

26 **E. Discovery Should Be Stayed Or Limited Pending Appeal**

27 District courts are empowered to stay proceedings pending an interlocutory appeal. *See* 28
 28 U.S.C. § 1292(b). As this Court explained in *Asis Internet Services v. Active Response Group*, 2008

1 WL 4279695, at *4 (N.D. Cal. Sept. 16, 2008), a stay pending interlocutory appeal is appropriate
2 where it will “promote economy of time and effort for itself, for counsel, and for litigants.” Discovery,
3 class certification proceedings and trial of this matter will consume a considerable amount of the
4 Court’s time and the parties’ resources. In addition, Ritz admits that it does not possess evidence
5 supporting its alleged “causal antitrust injury.” *See* Ritz Opp. to Def.s’ Mot. to Dismiss, Dk. 43, at
6 12-13 (“Without further investigation and discovery, Plaintiffs cannot present key facts relevant to
7 determining whether STM’s joint venture with Intel allowed it to remain in the flash market[.]”). This
8 case will therefore also inflict significant burdens and costs on numerous third parties.

9 On the other hand, Ritz will not be prejudiced by a stay. The allegedly fraudulent patents have
10 expired. *See* Def.s’ Req. for Judicial Notice, Dkt. 40, at 4-5. Thus, Ritz only has damages claims –
11 there is no continuing harm or basis for injunctive relief. Further, in the event that the Federal Circuit
12 ultimately finds that Ritz lacks standing, on balance it would be far better for all concerned, including
13 Ritz, to have this issue resolved now, as opposed to sometime in the distant future.

14 Alternatively, if the Court is not willing to stay discovery pending appeal, Defendant requests
15 that discovery be limited. As demonstrated by Defendant’s Motion to Dismiss, Ritz’s antitrust injury
16 allegations – *i.e.*, that Defendant’s enforcement of the ‘338 and ‘517 patents thwarted a joint venture
17 between STMicro and Hynix and drove STMicro from the flash memory market – are incorrect.
18 Ritz’s only response to the SEC filings and other materials demonstrating this fact is that it needs
19 discovery to determine the truth of its allegations. *See* Ritz Opp. to Def.s’ Mot. to Dismiss, Dkt. 43, at
20 12-13 (“Without further investigation and discovery, Plaintiffs cannot present key facts relevant to
21 determining whether STM’s joint venture with Intel allowed it to remain in the flash market[.]”).

22 The “antitrust injury” issue is case dispositive. *See, e.g., In re Netflix Antitrust Litigation*, 506
23 F. Supp. 2d 308 (N.D. Cal. 2007) (dismissing *Walker Process* claim where enforcement of the
24 allegedly fraudulent patent could not have caused the alleged antitrust injury). Defendant does not
25 believe that Ritz will be able to establish any basis for its antitrust injury allegations and this issue
26 most likely can be determined by summary judgment. Limiting discovery to this dispositive issue will
27 limit the burden on the parties and the Court pending appellate resolution of the similarly case-
28 dispositive *Walker Process* standing issue.

