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UNITED STATES DISTRICT COURT

NORTHERN DISTRICT OF CALIFORNIA

SAN JOSE DIVISION

RITZ CAMERA & IMAGE, LLC, a Delaware limited liability company, on behalf of itself and others similarly situated, Plaintiff, v. SANDISK CORPORATION, Defendants.	CASE NO.: 5:10-CV-02787 JF **DEFENDANT'S RE-NOTICE OF MOTION AND MOTION TO CERTIFY THE COURT'S *WALKER PROCESS* STANDING RULING FOR INTERLOCUTORY APPEAL** Date: May 6, 2011 Time: 9:00 AM Judge: Honorable Jeremy Fogel

Please take notice that on May 6, 2011, in the Courtroom of the Honorable Jeremy Fogel, United States District Court for the Northern District of California, located at 280 South First Street, San Jose, California 95113, Defendant SanDisk Corporation will move the Court, pursuant to 28 U.S.C. § 1292(b), to certify for interlocutory appeal the February 24, 2011 Order concerning Plaintiff Ritz Camera & Image LLC's standing to bring its *Walker Process* antitrust claims.

Defendant's motion will be based on this Notice of Motion and Motion, the accompanying Memorandum, and upon other material and information presented at the hearing of this Motion.

DATED: March 14, 2011

SKADDEN, ARPS, SLATE, MEAGHER & FLOM LLP

By: /s/ David W. Hansen
David W. Hansen

Attorneys for DEFENDANT,
SANDISK CORPORATION

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

I. INTRODUCTION

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

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

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

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

[1] The Court dismissed with prejudice Count I of the First Amended Complaint ("FAC"), the only 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.

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

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

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

II. ARGUMENT

A. The Applicable Standard

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

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

B. The *Walker Process* Standing Issue Is A "Controlling Question Of Law"

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

[2] As discussed below, because the *Walker Process* standing issue "turns on substantial issues of patent law," jurisdiction over this issue resides with the Federal Circuit.

C. There Is "Substantial Ground For Difference Of Opinion" On The Direct Purchaser *Walker Process* Standing Issue

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

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

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

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

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[3] In the only other decision supporting direct purchaser standing, *In re Netflix Antitrust Litigation*, 506 F. Supp. 2d 308 (N.D. Cal. 2007), Judge Alsup dismissed the direct purchaser's *Walker Process* claims for failure to plead a cognizable antitrust injury. Judge Alsup's ruling on the *Walker Process* 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.

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

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

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

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

[6] Although the Court's Order states that the *Kaiser* "court dismissed the plaintiff's *Walker Process* claim because of the indirect nature of the alleged antitrust injury," Order at 5, this was actually ***"[i]n addition"*** to the main 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 (emphasis added).

[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.

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

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

Although this Court also declined to open the *Walker Process* doors to all direct purchasers,

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

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

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

[8] Because of the prior judicial determination that the patent at issue in *In re DDVAP* was unenforceable, the Second Circuit held that it was "able to grant [the direct purchaser] antitrust 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.

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

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

> Certifying an interlocutory appeal could significantly advance the termination of the instant matter. Discovery on class and merits issues has not yet commenced and will likely implicate reams of documents, weeks of depositions, and a battery of interrogatories and requests for admissions. Expenses in the form of attorney time, 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.

Id. at 707-08.

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

E. Discovery Should Be Stayed Or Limited Pending Appeal

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

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

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

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

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

III. CONCLUSION

For the foregoing reasons, Defendant respectfully requests that the Court certify its direct purchaser *Walker Process* standing ruling for immediate appeal and stay or limit discovery.

DATED: March 14, 2011

SKADDEN, ARPS, SLATE, MEAGHER & FLOM LLP

By: /s/ David W. Hansen
David W. Hansen

Attorneys for DEFENDANT,
SANDISK CORPORATION

CERTIFICATE OF SERVICE

I hereby certify on this 14th Day of March, 2011 that a copy of the foregoing was filed electronically through the Court's CM/ECF system, with notice of case activity automatically generated and sent electronically to all counsel of record who have registered for electronic filing at their electronic addresses of record, constituting service per General Order 45, section IX.B. Per General Order 45, section IX.C.2, all others were served by U.S. Mail at their street addresses of record.

DATE: March 14, 2011

By: /s/ *David W. Hansen*
David W. Hansen