

# DEFENDANT CLASS ACTIONS AND PATENT INFRINGEMENT LITIGATION

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*A crisis point is emerging at the nexus of patent law and economics. Patent rights are designed to serve as an incentive to invest in innovation. However, notoriously high litigation costs, a proliferation of invalid patents in the marketplace, and an inability to enforce low-value patents are threatening to inhibit the progress of science and the useful arts. This Comment argues that the defendant class action mechanism is necessary to achieve the patent system's goals and to address the aforementioned issues. After analyzing the economic, substantive, and procedural advantages of defendant class actions and examining the obstacles preventing the creation of defendant classes of patent infringers under the Federal Rules of Civil Procedure, this Comment advocates a workable, three-part framework designed to reconcile the utility of defendant class actions with the incompatible provisions of Rule 23.*

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“No economist, on the basis of present knowledge, could possibly state with certainty that the patent system, as it now operates, confers a net benefit or a net loss upon society.”<sup>1</sup>

## INTRODUCTION

Defendant class actions were recognized as a valid procedural tool as early as 1853, when the U.S. Supreme Court permitted the use of a defendant class based on common law rules of equity.<sup>2</sup> This doctrine was codified in Federal Rule of Civil Procedure 23, which maintains that a class member “may sue or be sued” on behalf of a class.<sup>3</sup> In the years following the adoption of Rule 23, courts widely recognized that defendant class actions are permitted and consistent with the Advisory Committee’s objectives of economies of time, effort, and expense, and uniformity of decisions.<sup>4</sup>

The defendant class action mechanism possesses three distinct procedural advantages. First, defendant class actions serve economic goals by conserving judicial resources and private litigation costs. From the plaintiff’s perspective, the need to relitigate the same question in multiple suits is avoided by consolidating a large number of parties and defenses in a single proceeding; without the defendant class action tool, a plaintiff would be compelled to sue each defendant

1. SUBCOMM. ON PATENTS, TRADEMARKS, AND COPYRIGHTS OF THE S. COMM. ON THE JUDICIARY, 85TH CONG., AN ECONOMIC REVIEW OF THE PATENT SYSTEM, STUDY NO. 15, at 79 (Comm. Print 1958) (authored by Fritz Machlup).

2. See *Smith v. Swormstedt*, 57 U.S. (16 How.) 288 (1853); 2 ALBA CONTE & HERBERT B. NEWBERG, *NEWBERG ON CLASS ACTIONS* § 4:46 (4th ed. 2002).

3. FED. R. CIV. P. 23(a); see also *In re Gap Stores Sec. Litig.*, 79 F.R.D. 283, 290 (N.D. Cal. 1978).

4. See, e.g., *Henson v. E. Lincoln Twp.*, 814 F.2d 410, 412 (7th Cir. 1987); *Thillens, Inc. v. Cmty. Currency Exch. Ass’n of Ill.*, 97 F.R.D. 668, 673 (N.D. Ill. 1983); *Technograph Printed Circuits, Ltd. v. Methode Elecs., Inc.*, 285 F. Supp. 714, 725 (N.D. Ill. 1968) (holding that a defendant class action “would achieve the objectives enumerated in the Notes of the Advisory Committee”).

individually.<sup>5</sup> In addition, from the defendant's perspective, a defendant class action confers economy of scale benefits for the litigation.<sup>6</sup> Second, defendant class actions enforce the substantive policy behind the law.<sup>7</sup> From the plaintiff's perspective, defendant class actions make it economically feasible to prosecute low-stakes claims that would otherwise be cost prohibitive.<sup>8</sup> Similarly, the cost of defending a lawsuit in the absence of a defendant class action might lead defendants with legitimate defenses to default or to settle.<sup>9</sup> In both cases, the failure to litigate undermines the goals of justice and deterrence. Third, defendant class actions ensure consistency in adjudication by extending the scope of collateral estoppel to absent class members.<sup>10</sup>

Given these benefits, defendant class actions appear to be an appropriate method of adjudicating patent infringement claims. Patent litigation is particularly costly and complex. The average cost of litigating a patent case ranges from \$650,000 for a low-valued patent to \$4.5 million for a high-valued patent.<sup>11</sup> The highly technical nature of patent cases, combined with an often unqualified trier of fact, may lead to inconsistent legal determinations.<sup>12</sup> Finally, the issues most often raised in patent litigation—claim construction, validity, and enforceability—generally focus on the plaintiff's patent claims and conduct and are thus common across a class of alleged infringers. Yet, despite achieving many of the objectives of Rule 23, defendant classes of patent infringers are uncommon.<sup>13</sup>

At the root of this reality are two fundamental obstacles to the certification of defendant classes of patent infringers: (1) the plain language of Rule 23; and (2) the Supreme Court's decision in *Blonder-Tongue Laboratories, Inc. v.*

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5. See *Thillens*, 97 F.R.D. at 673–74; Angelo N. Ancheta, Comment, *Defendant Class Actions and Federal Civil Rights Litigation*, 33 UCLA L. REV. 283, 288–90 (1985); Robert E. Holo, Comment, *Defendant Class Actions: The Failure of Rule 23 and a Proposed Solution*, 38 UCLA L. REV. 223, 225 (1990).

6. Nelson Rodrigues Netto, *The Optimal Law Enforcement With Mandatory Defendant Class Action*, 33 U. DAYTON L. REV. 59, 66 (2007).

7. See Note, *Defendant Class Actions*, 91 HARV. L. REV. 630, 631 (1978).

8. See Assaf Hamdani & Alon Klement, *The Class Defense*, 93 CALIF. L. REV. 685, 712 (2005); Holo, *supra* note 5, at 226; Netto, *supra* note 6, at 97–101.

9. See Hamdani & Klement, *supra* note 8, at 711–12; Vince Morabito, *Defendant Class Actions and the Right to Opt Out: Lessons for Canada From the United States*, 14 DUKE J. COMP. & INT'L L. 197, 198–99 (2004).

10. See Donald E. Burton, *The Metes and Bounds of the Defendant Class Action in Patent Cases*, 5 J. MARSHALL REV. INTELL. PROP. L. 292, 293–96 (2006).

11. Matthew Sag & Kurt Rohde, *Patent Reform and Differential Impact*, 8 MINN. J. L. SCI. & TECH. 1, 25 (2007).

12. Empirical research indicates that district court judges improperly construe patent claim terms in 33 percent of the cases appealed to the Federal Circuit. Kimberly A. Moore, *Are District Court Judges Equipped to Resolve Patent Cases?*, 15 HARV. J.L. & TECH. 1, 2 (2001).

13. See Thomas E. Willging, Laural L. Hooper & Robert J. Niemic, *An Empirical Analysis of Rule 23 to Address the Rulemaking Challenges*, 71 N.Y.U. L. REV. 74, 119–20 (1996).

*University of Illinois Foundation*.<sup>14</sup> Although Rule 23 explicitly permits defendant class actions, it contains no provision specifically prescribing procedures for certifying a defendant class.<sup>15</sup> As a result, courts have struggled to fit potential defendant class actions into an “awkward framework,” with many courts adopting conflicting standards.<sup>16</sup> Many courts have interpreted Rule 23’s provisions narrowly, thereby denying class certification on the grounds that the plain language of the rule precludes it.<sup>17</sup> Conversely, other courts have interpreted Rule 23 broadly in the context of defendant class actions in order to effectuate its objectives.<sup>18</sup>

Furthermore, the Supreme Court’s decision in *Blonder-Tongue* inadvertently created a barrier to defendant class certification in patent infringement cases. In *Blonder-Tongue*, the Court held that a patent holder is estopped from asserting the validity of a patent that was declared invalid in a prior judgment against a different defendant.<sup>19</sup> However, the opposite is not true: Parties who never appear in a prior action may not be collaterally estopped without litigating the issue.<sup>20</sup> As a result, alleged infringers may utilize collateral estoppel to assert patent validity against a patent holder after a single unfavorable judgment, regardless of whether the alleged infringer was involved in the prior litigation, but a patent holder who obtains a judgment of patent validity must still relitigate the issue in all subsequent suits against different defendants.

In effect, the *Blonder-Tongue* decision created a regime that aggregates the rate of judicial error across subsequent cases, thereby maximizing the overall potential for judicial error. This is an undesirable result on several levels. Uncertainty in patent litigation creates free-rider problems when the initial defendants (who are often business competitors of the later defendants) bear the entire cost of defense. Moreover, it diminishes the efficacy of potential classes by incentivizing class members to utilize the opt-out provision in Rule 23(b)(3). At a minimum, this will reduce the size and scope of a decision’s collateral estoppel effect; at most, it will preclude class certification altogether.

Given the economic, substantive, and procedural advantages of the defendant class action in patent infringement cases, as well as the illegitimate

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14. 402 U.S. 313 (1971).

15. See FED. R. CIV. P. 23; 2 CONTE & NEWBERG, *supra* note 2, § 4:46.

16. Holo, *supra* note 5, at 224.

17. See, e.g., *Tilley v. TJX Cos.*, 345 F.3d 34, 39–40 (1st Cir. 2003); *Webcraft Techs., Inc. v. Alden Press, Inc.*, No. 85 C 3369, 1985 WL 2270, at \*5 (N.D. Ill. Aug. 9, 1985); *In re Yarn Processing Patent Litig.*, 56 F.R.D. 648, 654 (S.D. Fla. 1972).

18. See, e.g., *Research Corp. v. Pfister Associated Growers, Inc.*, 301 F. Supp. 497, 500 (N.D. Ill. 1969).

19. *Blonder-Tongue*, 402 U.S. at 350.

20. *Id.* at 329.

incentives created by the *Blonder-Tongue* decision, this Comment argues that Rule 23 should be modified to prohibit defendant class members from opting out in the patent infringement context. This workable standard codifies the flexible approach implemented by several courts under the current Rule 23 regime and considers the interplay between patent infringement issues and Rule 23's overall objectives. To alleviate any increased due process concerns, this Comment further proposes to bolster the adequacy of representation by requiring notice to absent members of a defendant class and by encouraging representation through the creation of a one-sided fee-shifting provision for attorneys' fees.

Part I of this Comment explores the economic, substantive, and procedural advantages of defendant class actions. I examine the Supreme Court's holding in *Blonder-Tongue*, the illegitimate incentives the decision creates, and its consequences on judicial error rates. I further investigate the empirical research that has been performed on patent cases and illustrate how the inherent complexities involved in patent cases magnify the effects of *Blonder-Tongue*.

In Part II, I summarize the current state of the law as it applies to Rule 23 and expose the problems that are unique to certifying defendant classes of patent infringers. First, courts are split on the interpretation of Rules 23(b)(1)(A), 23(b)(1)(B), and 23(b)(2) as they apply to defendant classes of patent infringers; some courts interpret the rules flexibly in order to achieve judicial economy, while others interpret the rules narrowly according to their plain language. Second, the *Blonder-Tongue* decision created a substantial barrier to defendant class certification under Rule 23(b)(3) by virtually ensuring that defendants would opt out of the class.

Finally, in Part III, I describe in detail my proposed modification of Rule 23, setting forth the reasons why such an improvement will further the goals of the patent system while maintaining judicial economy.

## I. THE ADVANTAGES OF DEFENDANT CLASS ACTIONS

A defendant class action is a procedural device involving a single plaintiff who sues one or more representative parties on behalf of persons similarly situated.<sup>21</sup> All parties, both absent and named, are bound by the adjudication. Consequently, defendant class actions prevent the relitigation of common issues. This Part establishes the basic proposition that defendant class actions facilitate scale efficiencies and present four distinct advantages that justify expanded use of collective adjudication in the context of patent litigation.

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21. See Morabito, *supra* note 9, at 198.

### A. Conservation of Judicial Resources and Private Litigation Costs

The expenses associated with patent litigation are notoriously high. According to the American Intellectual Property Law Association, direct patent litigation costs average \$650,000 for low-valued patents and \$4.5 million for high-valued patents.<sup>22</sup> Annually, patent litigants expend over \$2 billion in the United States.<sup>23</sup> Patent owners and alleged infringers must anticipate high legal fees in light of the inherently complex subject matter. Yet litigation costs cannot be measured solely in terms of legal fees. First, discovery in patent cases typically requires the broad disclosure of product development, marketing, executive, and sales records.<sup>24</sup> Protracted discovery may divert the efforts of key personnel away from their core responsibilities while they locate documents and sit for depositions.<sup>25</sup> Second, extensive discovery increases the risk that confidential information—including proprietary patents and trade secrets—will be disclosed.<sup>26</sup> While courts generally limit such disclosure, litigants must incur additional costs to prevent the inadvertent disclosure of sensitive product and customer information.<sup>27</sup> Third, litigants frequently employ the services of costly expert witnesses to construe technical patent claim terms and specifications, to review the scope and content of relevant prior art, and to calculate damages.<sup>28</sup> Finally, the mere announcement of a patent suit may adversely impact a litigant's relationship with third-party investors. Studies reveal that the stock price of publicly traded companies decreases by 2 to 3 percent when engaged in litigation.<sup>29</sup> Similarly, venture capitalists may hesitate to fund emerging companies that face uncertain results in the judicial arena.<sup>30</sup>

In light of the absolute and relative costs of patent litigation, the economic advantages of defendant class actions are unmistakable: Defendant class actions conserve judicial resources and private litigation costs. The need to relitigate

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22. Sag & Rohde, *supra* note 11, at 25. Patent litigation is often lengthy as well. The average duration of cases reaching trial is two-and-a-half years. *Id.* at 26.

23. *See id.* at 31.

24. See Mark Nance et al., *Patent Litigation: Is It Worth the Expense?*, GENETIC ENGINEERING & BIOTECHNOLOGY NEWS, Apr. 1, 2006, available at <http://www.genengnews.com/articles/chitem.aspx?aid=1454&chid=0>.

25. See Sag & Rohde, *supra* note 11, at 29.

26. See Nance et al., *supra* note 24, at 12, 15.

27. *See id.* at 15.

28. *See id.* at 12.

29. Significantly, the average reduction in shareholder value as a result of this market adjustment is \$67.9 million. Josh Lerner, *Patenting in the Shadow of Competitors*, 38 J.L. & ECON. 463, 471 (1995); Sag & Rohde, *supra* note 11, at 29–30.

30. See Sag & Rohde, *supra* note 11, at 29. Interestingly, the high costs associated with patent litigation have inspired the maxim: “A patent is only as strong as the balance sheet behind it.” Nance et al., *supra* note 24, at 10.

identical issues in multiple suits is avoided by consolidating every alleged infringer in a single proceeding under Rule 23.<sup>31</sup> This result is logical: After all, one of the goals underlying class litigation is to “save the resources of both the courts and the parties ‘by permitting an issue potentially affecting every [class member] to be litigated in an economical fashion.’”<sup>32</sup> Without defendant class actions, a plaintiff would be compelled to sue each defendant individually and to incur the associated costs.<sup>33</sup> Similarly, the resulting multitude of patent infringement suits—which average two-and-a-half years in duration—would overwhelm judicial resources.<sup>34</sup> Defendant class actions even yield economy of scale benefits for defendant class members, who may distribute the expenses of litigation among themselves.<sup>35</sup>

#### B. Prosecution of Low-Stakes Claims

Each year, the United States Patent and Trademark Office (PTO) receives 350,000 patent applications and grants 180,000 patents.<sup>36</sup> Patent owners spend \$4.33 billion per year to obtain their patents.<sup>37</sup> Yet, in what has been labeled “The Case of the Disappearing Patents,” 99 percent of patent owners never sue to enforce their rights.<sup>38</sup> While this phenomenon may be explained to some extent by the fact that patents are frequently licensed outside of the judicial system,<sup>39</sup> common sense provides an equally reasonable explanation: Patent owners will not enforce their rights when the high transactional costs of patent litigation exceed the expected damages (or the corresponding value of an injunction).<sup>40</sup>

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31. See *Thillens, Inc. v. Cmty. Currency Exch. Ass'n of Ill.*, 97 F.R.D. 668, 673–74 (N.D. Ill. 1983).

32. *Cummings v. Connell*, 402 F.3d 936, 944 (9th Cir. 2005) (alteration in original) (quoting *Califano v. Yamasaki*, 442 U.S. 682, 701 (1979)).

33. See *Thillens*, 97 F.R.D. at 673–74; Ancheta, *supra* note 5, at 289–90; Holo, *supra* note 5, at 225–26.

34. See *Sag & Rohde*, *supra* note 11, at 26; Holo, *supra* note 5, at 225–26.

35. See *Netto*, *supra* note 6, at 66.

36. Kimberly A. Moore, *Worthless Patents*, 20 BERKELEY TECH. L.J. 1521, 1521 (2005).

37. John R. Allison et al., *Valuable Patents*, 92 GEO. L.J. 435, 435 (2004).

38. *Id.*; see also Alan Devlin, *The Stochastic Relationship Between Patents and Antitrust*, 5 J. COMPETITION L. & ECON. 75, 89 (2009).

39. See Allison et al., *supra* note 37, at 435–36.

40. See Robert P. Merges, *As Many as Six Impossible Patents Before Breakfast: Property Rights for Business Concepts and Patent System Reform*, 14 BERKELEY TECH. L.J. 577, 603 (1999).

Economic principles hold that a rational patent owner will sue to enforce its patent rights if:

$$C_p < pV$$

$C_p$  = The plaintiff's prospective cost of litigation.

$p$  = The probability ( $0 < p < 1$ ) that both (a) the plaintiff's patent withstands challenges to the patent's validity and enforceability and (b) the defendant infringes the plaintiff's patent.

$V$  = The damages that the plaintiff can recover from the defendant.<sup>41</sup>

In other words, the model indicates that litigation is only economically worthwhile if the cost of litigation is less than its expected value. The failure to enforce patent rights when  $C_p > pV$  undermines the purpose of the patent system, which purports to incentivize research and development by granting the inventor a monopoly over the product, device, or process.<sup>42</sup> These incentives are subdued if economic considerations effectively render the monopoly unenforceable.

Defendant class actions resolve this tension and make it economically feasible to prosecute low-stakes claims that would otherwise be cost-prohibitive.<sup>43</sup> By consolidating multiple defendants in a single proceeding, the amount of damages the plaintiff can recover,  $V$ , increases, while the plaintiff's litigation expenses,  $C_p$ , remain constant. Take, for example, a plaintiff with a \$100,000 claim. Assuming that litigation expenses are \$2 million with a 50 percent chance of recovery, the patent owner has no incentive to enforce its patent rights since the cost of litigation exceeds the expected value (\$50,000). But if the patent owner sues a defendant class consisting of one hundred alleged infringers for \$100,000 each, the cost of litigation is now less than the expected value (\$5 million), thereby enabling the enforcement of patent rights.

41. See George L. Priest, *Selective Characteristics of Litigation*, 9 J. LEGAL STUD. 399, 401 (1980); George L. Priest & Benjamin Klein, *The Selection of Disputes for Litigation*, 13 J. LEGAL STUD. 1, 11–13 (1984); Ranganath Sudarshan, *Nuisance-Value Patent Suits: An Economic Model and Proposal*, 25 SANTA CLARA COMPUTER & HIGH TECH. L.J. 159, 162–67 (2008). This equation assumes that damages,  $V$ , are perfectly determinate and that there is no settlement option. It simply represents the economic considerations that a patent owner weighs when determining whether to enforce patent rights in the judicial arena without comparison to settlement offers.

42. See Jay P. Kesan & Andres A. Gallo, *Why "Bad" Patents Survive in the Market and How Should We Change?—The Private and Social Costs of Patents*, 55 EMORY L.J. 61, 75 (2006).

43. See Hamdani & Klement, *supra* note 8, at 689–90; Holo, *supra* note 5, at 226; Note, *supra* note 7, at 630.



### C. Deterrence of Nuisance-Value Suits

The costs of defending a patent infringement suit may likewise lead defendants with otherwise legitimate defenses to settle.<sup>44</sup> From the defendant's perspective, a settlement is economically desirable if:

$$S < pV + C_D$$

$S$  = The settlement amount that the plaintiff offers the defendant to purchase a license and to thereby avoid litigation.

$p$  = The probability ( $0 < p < 1$ ) that both (a) the plaintiff's patent withstands challenges to the patent's validity and enforceability and (b) the defendant infringes the plaintiff's patent.

$V$  = The damages that the plaintiff can recover from the defendant.

$C_D$  = The defendant's prospective cost of litigation.<sup>45</sup>

This model indicates that alleged patent infringers will not challenge asserted patent rights if the proposed settlement is less than the expected loss incurred as a result of litigation.<sup>46</sup> Importantly, unlike the plaintiff patent owner who can offset litigation expenses with a favorable judgment, defendants must always sustain the cost of litigation,  $C_D$ . Thus, even as  $p$  approaches 0, an individual defendant will have an economic incentive to settle if  $S < C_D$ .

A defendant's propensity to settle has severe consequences in the patent system. Various scholars maintain that "bad patents"—invalid patents that should never have been issued—overwhelm the market and lie at the heart of a crisis facing the current patent regime.<sup>47</sup> Bad patents are largely a byproduct of time constraints and peculiar incentives at the PTO. In recent years, the PTO has experienced a growth in new patent applications; in 2009 alone, the PTO received over 480,000 new patent applications.<sup>48</sup> As a result of the sheer volume of work assigned to the PTO, "patent examiners have from 8 to 25 hours to read and understand each application, search for prior art, evaluate patentability, communicate with the applicant, work out necessary revisions, and reach and write up conclusions."<sup>49</sup> Given the technically complex nature of patent claims, examiners cannot accurately and consistently determine the

44. See Hamdani & Klement, *supra* note 8, at 689–90; Kesan & Gallo, *supra* note 42, at 68–69.

45. See Priest, *supra* note 41, at 11–13; Priest & Klein, *supra* note 41, at 401; Sudarshan, *supra* note 41, at 162–67. This equation assumes that damages,  $V$ , are perfectly determinate.

46. See Sudarshan, *supra* note 41, at 162–67.

47. Sag & Rohde, *supra* note 11, at 1–2; see also Alan Devlin, *Revisiting the Presumption of Patent Validity*, 37 SW. U. L. REV. 323 (2008); Kesan & Gallo, *supra* note 42; Christopher R. Leslie, *The Anticompetitive Effects of Unenforced Invalid Patents*, 91 MINN. L. REV. 101 (2006); Merges, *supra* note 40.

48. See David Goldman, *Recession's Latest Victim: U.S. Innovation*, CNNMONEY.COM (Dec. 11, 2009, 10:34 AM), [http://money.cnn.com/2009/12/11/news/economy/patent\\_filings](http://money.cnn.com/2009/12/11/news/economy/patent_filings).

49. Leslie, *supra* note 47, at 106 (quoting FED. TRADE COMM'N, TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW AND POLICY, EXECUTIVE SUMMARY 10 (2003)).

validity of new patent applications. Moreover, examiner compensation at the PTO creates a distorted incentive to accept questionable patent applications.<sup>50</sup> The flaws in the prosecution process are not insignificant: A leading study found that 46 percent of litigated patents were invalidated.<sup>51</sup> Indeed, the current patent system relies on the judiciary to weed out incorrectly issued patents.<sup>52</sup> But this reliance is misplaced when defendants with legitimate defenses forego litigation in favor of settlement. The net result is that bad patents remain unchallenged in the market.<sup>53</sup>

When insulated from challenges, bad patents frustrate the policies underlying the patent system. Nuisance-value suits, for example, are a growing concern. Nuisance-value suits are based on meritless claims that are meant to force a settlement when  $S < C_D$ .<sup>54</sup> Rent seekers may employ the threat of bad patents in nuisance-value suits to extract licensing fees from competitors.<sup>55</sup> In addition, bad patents can produce anticompetitive effects even when patent owners take no affirmative steps to enforce them.<sup>56</sup> At best, the mere existence of a bad patent imposes additional costs from investigating the patent's validity on parties considering entry into the market.<sup>57</sup> At worst, bad patents can deter would-be competitors from entering the market at all.<sup>58</sup> In sum, an environment where bad patents go uncontested creates perverse incentives when all of the advantages of a patent monopoly are available to those who merely accumulate bad patents, as opposed to those who invest in innovation.<sup>59</sup>

Defendant class actions deter nuisance-value suits and mitigate the patent system's failure to challenge bad patents. A group of alleged patent infringers, each sued individually by a patent owner, may join as a defendant class in order

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50. See Devlin, *supra* note 47, at 335; Robert P. Merges, *supra* note 40, at 590. For example, patent examiners face no penalties for issuing bad patents and are only rewarded for their initial responses to and final determinations of patent applications. Sag & Rohde, *supra* note 11, at 19.

51. Leslie, *supra* note 47, at 105–06.

52. See Kesan & Gallo, *supra* note 42, at 90.

53. Although competitors may initiate declaratory judgment actions to invalidate a questionable patent, high litigation costs will often discourage plaintiffs from acting on their own. See Kesan, *supra* note 42, at 87.

54. Nuisance-value suits may be defined as lawsuits in which the expected value of litigation is outweighed by litigation costs. In addition, the plaintiff typically incurs a relatively small cost to initiate the action, while the defendant incurs a relatively high cost to defend it. See Randy J. Kozel & David Rosenberg, *Solving the Nuisance-Value Settlement Problem: Mandatory Summary Judgment*, 90 VA. L. REV. 1849, 1850–51 (2004); Sudarshan, *supra* note 41, at 159–60.

55. See Devlin, *supra* note 47, at 348–49; Merges, *supra* note 40, at 592 & n.42.

56. See Leslie, *supra* note 47, at 103.

57. See *id.* at 104.

58. See *Bresnick v. U.S. Vitamin Corp.*, 139 F.2d 239, 242 (2d Cir. 1943) (invalidating a patent that “should not remain in the art as a scarecrow”); Leslie, *supra* note 47, at 103–04.

59. See Sag & Rohde, *supra* note 11, at 8.

to realize economy of scale benefits.<sup>60</sup> When spreading litigation expenses across multiple defendants, the cost of litigation per defendant,  $C_D$ , decreases, while the amount of damages recoverable from any particular defendant,  $V$ , remains unchanged. Thus, unlike plaintiff class actions, which can amount to “legalized blackmail,”<sup>61</sup> defendant class actions make it economically feasible to challenge the validity of asserted patents rather than to settle. The realistic prospect that defendants will choose to collectively litigate common issues may discourage patent owners from bringing frivolous lawsuits. Consider, for example, a plaintiff who threatens to assert a total of \$5 million in claims over one hundred similarly situated defendants. Because the patent’s validity is questionable, the plaintiff only has a 1 percent chance of recovery, but the plaintiff’s expenses are a moderate \$100,000 to file an infringement suit and an additional \$500,000 if the case proceeds to trial. Each defendant, in contrast, would incur litigation expenses of \$2 million. Individually, each defendant would rationally accept any settlement amount less than its expected loss, calculated by:

$$EV_{\text{Individual}} = (1\%)(\$5 \text{ million}) + \$2 \text{ million} = \$2,050,000^{62}$$

But if all one hundred alleged patent infringers aggregate their defenses in a class action and evenly distribute the litigation expenses, each defendant’s cost of litigation is reduced from \$2 million to \$20,000. Under these circumstances, defendant class members would not settle for more than their expected loss:

$$EV_{\text{Class}} = (1\%)(\$5 \text{ million}) + \$20,000 = \$70,000$$

Because the maximum settlement value the plaintiff can hope to extract from the defendant class is now less than the cost of filing a meritless infringement action, the plaintiff will be discouraged from filing a nuisance-value suit.<sup>63</sup>

#### D. Rectification of the Inadvertent Consequences of *Blonder-Tongue*: Collective Judicial Error

Rule 23 was drafted on the assumption that a party could only be bound by an adverse judgment in a prior decision with respect to a person who was also a party in that prior proceeding.<sup>64</sup> Known as the doctrine of mutuality of estoppel,

60. See Netto, *supra* note 6, at 103.

61. Charles Silver, “We’re Scared to Death”: Class Certification and Blackmail, 78 N.Y.U. L. REV. 1357, 1363 (2003) (internal quotation marks omitted).

62. Note that in this scenario the plaintiff patent owner has initiated the lawsuits in hopes of extracting nuisance-value settlements from the defendants. The plaintiff is also looking to settle because its case is weak and the cost of litigation exceeds the expected value.

63. See Netto, *supra* note 6, at 102–03.

64. 2 CONTE & NEWBERG, *supra* note 2, § 4:65, at 391.

this principle was extended to patent infringement cases in *Triplett v. Lowell*.<sup>65</sup> Under *Triplett*, an adjudication of patent invalidity in one suit did not preclude patentees from having “several bites at the apple” by relitigating the patent’s validity in subsequent actions.<sup>66</sup> Thirty-five years later, however, the Supreme Court rejected the mutuality requirement for patent infringement cases in *Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation*.<sup>67</sup>

*Blonder-Tongue* involved conflicting results of patent infringement suits.<sup>68</sup> The University of Illinois Foundation owned a much-litigated patent for radio and television antennae.<sup>69</sup> In a prior action against the Winegard Company, the Southern District of Iowa determined that the patent was “obvious to one ordinarily skilled in the art” and therefore invalid.<sup>70</sup> Nevertheless, the patent owner maintained a patent infringement suit against Blonder-Tongue Laboratories, Inc. in the Northern District of Illinois.<sup>71</sup> Although the patent had previously been ruled invalid, the district court, relying on *Triplett*, held the patent valid and enforceable against Blonder-Tongue.<sup>72</sup> Citing the economic consequences of patent litigation under the *Triplett* rule, the Supreme Court rejected the mutuality requirement and held that a patent holder is estopped from asserting the validity of a patent that was declared invalid in a prior judgment against a different defendant.<sup>73</sup> However, the opposite is not true: Parties who never appeared in a prior action “may not be collaterally estopped [from challenging the patent’s validity] without litigating the issue. . . . Due process prohibits estopping them despite one or more existing adjudications of the identical issue which stand squarely against their position.”<sup>74</sup> Thus, the implications of *Blonder-Tongue* are that: (1) Alleged infringers may utilize defensive collateral estoppel to assert patent invalidity against a patent holder after a single unfavorable judgment, whether or not the alleged infringer was involved in the prior litigation; and

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65. 297 U.S. 638 (1936). In *Triplett*, the U.S. Supreme Court held that an alleged patent infringer must satisfy the mutuality requirement in order to estop a plaintiff patent owner from relitigating the patent’s validity. *Id.* at 644–45.

66. 6 CONTE & NEWBERG, *supra* note 2, § 19:3, at 229.

67. 402 U.S. 313 (1971).

68. *Id.* at 314–17.

69. *Id.* at 314.

70. Univ. of Ill. Found. v. Winegard Co., 271 F. Supp. 412, 419 (S.D. Iowa 1967), *aff’d*, 402 F.2d 125 (8th Cir. 1968).

71. *Blonder-Tongue*, 402 U.S. at 315–16.

72. *Id.* Under the doctrine of mutuality of estoppel, 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. The rule does not preclude relitigation of the validity of a patent claim previously held invalid in a suit against a new defendant. *Id.* at 320–21.

73. *Id.* at 349–50.

74. *Id.* at 329.

(2) a patent holder who obtains a favorable judgment of patent validity must still relitigate the same issue in all subsequent suits against different defendants.<sup>75</sup>

*Blonder-Tongue* created an asymmetry between plaintiff patent owners and defendant infringers. As one prominent commentator describes, “the plaintiff’s loss is generalized but the plaintiff’s success is not.”<sup>76</sup> This asymmetry produces unintended consequences by aggregating the probability of judicial error across cases and thereby maximizing the overall probability that a particular patent will be erroneously adjudicated. Because the plaintiff’s success is not generalized, a patent owner who sues each defendant individually must relitigate the patent’s validity in each suit. However, because the plaintiff’s loss is generalized, each subsequent defendant will capture the sum of judicial error rates across all previous cases. In mathematical terms:

$$P(E_{\text{Total}}) = P(E_1) + P(E_2) + \dots + P(E_N)$$

$P(E_{\text{Total}})$  = The probability that any of the N suits will be erroneously adjudicated.  
 $P(E_1)$  = The probability of judicial error for the first suit.  
 $P(E_2)$  = The probability of judicial error for the second suit.  
 $P(E_N)$  = The probability of judicial error for the Nth suit.

In other words, the probability that a patent will be erroneously held valid or invalid is equal to the sum of the judicial error rates for each suit in which the patent’s validity is challenged.

Before proceeding further, it is important to discuss the two potential results of judicial error in patent infringement cases. The first is a “false negative,” when a patent is truly invalid, but the plaintiff successfully obtains a judgment of validity.<sup>77</sup> Although undesirable, this causes no additional harm above and beyond the fact that the patent owner retains a monopoly on a bad patent.<sup>78</sup> False negatives have the potential for self-correction<sup>79</sup> because the patent’s validity can be challenged by a different party in a future proceeding.<sup>80</sup> The second potential result is a “false positive,” when a patent is truly valid, but the defendant successfully obtains a judgment of invalidity.<sup>81</sup> This outcome is devastating. Collateral estoppel will forever prevent the plaintiff from enforcing

75. The Federal Circuit subsequently extended the principle of *Blonder-Tongue* to the issue of patent enforceability as well. See *Gen. Electro Music Corp. v. Samick Music Corp.*, 19 F.3d 1405, 1413 (Fed. Cir. 1994).

76. 2 CONTE & NEWBERG, *supra* note 2, § 4:65, at 392 (citing Note, *supra* note 7).

77. See Kevin D. McDonald, *Hatch-Waxman Patent Settlements and Antitrust: On “Probabilistic” Patent Rights and False Positives*, 17 ANTITRUST 68, 73–75 (2003).

78. See *supra* Part I.C.

79. McDonald, *supra* note 77, at 74.

80. Cf. *id.*

81. *Id.* at 73–75.

its patent against others, thereby frustrating the incentive utility of the patent system.<sup>82</sup> As Judge Easterbrook famously explained, “false positives are much more harmful than false negatives. Market processes undercut monopolies wrongfully permitted, but no similar processes undercut judicial decisions that wrongly condemn efficient conduct.”<sup>83</sup> Any judicial error is clearly undesirable in the pursuit of justice. But because all patent infringers effectively win if a valid patent is ever incorrectly held invalid, the patent system under *Blonder-Tongue* maximizes the incurable risk of false positives.

Moreover, the risk of false positives is exacerbated by an already high rate of judicial error in patent litigation.<sup>84</sup> Although evidence of actual error rates are inherently difficult to obtain, Alan Marco has developed an economic model that approximates error rates based on market reactions to patent litigation decisions.<sup>85</sup> Using this model, he estimates that valid patents are erroneously found to be invalid 20 to 25 percent of the time.<sup>86</sup> This estimate is supported by empirical research on claim construction reversal rates: A recent study found that district court judges incorrectly construe patent claim terms in 38.2 percent of appealed cases.<sup>87</sup> Furthermore, because claim construction is often dispositive of a patent’s validity, 29.7 percent of appealed cases were reversed or vacated and remanded due to erroneous claim interpretations.<sup>88</sup> These high reversal rates are likely a result of judges’ lack of technical training coupled with exposure to inherently complex patent cases.<sup>89</sup> In any event, this model provides a reasonable foundation with which to illustrate the adverse consequences of the patent

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82. *Id.* at 74.

83. Frank H. Easterbrook, *On Identifying Exclusionary Conduct*, 61 NOTRE DAME L. REV. 972, 977 (1986) (footnote omitted).

84. See Robert E. Thomas, *Debugging Software Patents: Increasing Innovation and Reducing Uncertainty in the Judicial Reform of Software Patent Law*, 25 SANTA CLARA COMPUTER & HIGH TECH. L.J. 191, 228–29 (2008) (observing that federal courts affirm district courts 80 percent of the time but only affirm claim construction rulings 60 percent of the time).

85. See Alan C. Marco, *Learning by Suing: Structural Estimates of Court Errors in Patent Litigation 2* (Oct. 21, 2006) (unpublished manuscript, on file with the First Annual Conference on Empirical Legal Studies), available at <http://ssrn.com/abstract=913408>.

86. *Id.* at 17.

87. See David L. Schwartz, *Courting Specialization: An Empirical Study of Claim Construction Comparing Patent Litigation Before Federal District Courts and the International Trade Commission*, 50 WM. & MARY L. REV. 1699, 1708 (2009); see also Kimberly A. Moore, *Markman Eight Years Later: Is Claim Construction More Predictable?*, 9 LEWIS & CLARK L. REV. 231, 238 (2005) (observing that the district court wrongly interpreted 34.5 percent of claim terms that were appealed to the Federal Circuit). Judge Kathleen O’Malley has pessimistically stated that “the only thing that really is predictable in [claim construction] is that we district judges will likely get it wrong, or at least that the Federal Circuit will say that we got it wrong.” *A Panel Discussion: Claim Construction From the Perspective of the District Judge*, 54 CASE W. RES. L. REV. 671, 672 (2004).

88. See Schwartz, *supra* note 87, at 1708–09.

89. See Moore, *supra* note 12, at 30.

system under *Blonder-Tongue*. Assuming that the risk of a false positive in any given action,  $P(E_N)$ , is 20 percent, then the probability that a truly valid patent will be erroneously judged invalid in any of five infringement suits is:

$$P(E_{\text{total}}) = 20\% + 20\% + 20\% + 20\% + 20\% = 100\%$$

Put differently, the model anticipates that a plaintiff will lose its patent due to judicial error after suing just five infringers individually. The progressively high probability of judicial error disadvantages risk-averse parties and raises questions about the patent system's ability to effectively and consistently protect the rights of patent holders.<sup>90</sup>

From the plaintiff's perspective, *Blonder-Tongue* increases the need for and utility of defendant class actions in patent infringement cases.<sup>91</sup> Defendant class actions ensure consistency in adjudication by extending the scope of collateral estoppel to absent class members.<sup>92</sup> More precisely, they eliminate the opportunity for subsequent courts to erroneously declare a patent invalid.<sup>93</sup> This procedure restores the symmetrical treatment of patent owners and alleged infringers: Although the plaintiff's loss is still generalized, the plaintiff's success is now binding on all class members. Accordingly, defendants are precluded from illegitimately reaping the benefits of collective judicial error.

## II. THE CURRENT LEGAL DOCTRINE: BARRIERS TO DEFENDANT CLASS CERTIFICATION UNDER RULE 23

Despite their utility, defendant classes of patent infringers are uncommon.<sup>94</sup> Motions for class certification are governed by Rule 23 of the Federal Rules of Civil Procedure. The party seeking class certification must satisfy all four prerequisites of Rule 23(a) and at least one of the requirements of Rule 23(b).<sup>95</sup> This Part discusses how courts have applied the framework of Rule 23 to defendant classes and examines the unique difficulties that arise in the context of patent litigation.

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90. See Devlin, *supra* note 38, at 92 ("If a patentee has numerous profit-generating licenses, suing a nonlicensee for potential infringement involves running the appreciable risk that the alleged infringer will successfully defend on the basis of invalidity, thereby wiping out the value of all of the patentee's licensing arrangements."); Thomas, *supra* note 84, at 224.

91. See 2 CONTE & NEWBERG, *supra* note 2, § 4:65, at 391–92.

92. See Burton, *supra* note 10, at 292–93.

93. See *id.*

94. See Willging et al., *supra* note 13, at 119–20.

95. See FED. R. CIV. P. 23(b); *In re Paxil Litig.*, 212 F.R.D. 539, 543 (C.D. Cal. 2003).

### A. Rule 23(a) Prerequisites

Rule 23(a) imposes four prerequisites for class certification: (1) numerosity; (2) commonality; (3) typicality; and (4) adequacy.<sup>96</sup> “Rule 23(a) provides a framework for the balancing of the competing interests of judicial savings and fairness to the parties. The numerosity requirement of 23(a)(1) and commonality requirement of 23(a)(2) address the interest of judicial savings, while the typicality requirement of 23(a)(3) and the requirement of adequate representation contained in 23(a)(4) seek to protect the absent class members.”<sup>97</sup>

#### 1. Numerosity

Rule 23(a)(1) is satisfied when the proposed class is so numerous that joinder of all members is impracticable.<sup>98</sup> The numerosity prerequisite does not demand that joinder be impossible; it simply indicates that joinder must be sufficiently difficult to make class certification desirable.<sup>99</sup> As a general rule, classes comprising more than forty members satisfy the numerosity prerequisite.<sup>100</sup> However, although the absolute size of the putative class can be dispositive,<sup>101</sup> courts may also assess numerosity in light of other practical difficulties, including the geographic dispersion of class members<sup>102</sup> and the judicial economy of avoiding multiple actions.<sup>103</sup>

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96. Rule 23(a) provides:

One or more members of a class may sue or be sued as representative parties on behalf of all members only if: (1) the class is so numerous that joinder of all members is impracticable; (2) there are questions of law or fact common to the class; (3) the claims or defenses of the representative parties are typical of the claims or defenses of the class; and (4) the representative parties will fairly and adequately protect the interests of the class.

FED. R. CIV. P. 23(a).

97. *Wecraft Techs., Inc. v. Alden Press, Inc.*, No. 85 C 3369, 1985 WL 2270, at \*2 (N.D. Ill. Aug. 9, 1985).

98. FED. R. CIV. P. 23(a)(1).

99. See *In re Intel Sec. Litig.*, 89 F.R.D. 104, 112 (N.D. Cal. 1981); *Holo*, *supra* note 5, at 229.

100. See, e.g., *Stewart v. Abraham*, 275 F.3d 220, 226–27 (3d Cir. 2001); *Consol. Rail Corp. v. Town of Hyde Park*, 47 F.3d 473, 483 (2d Cir. 1995) (“[N]umerosity is presumed at a level of 40 members.”); 1 CONTE & NEWBERG, *supra* note 2, § 3:5, at 247 (suggesting that classes consisting of more than forty members “should raise a presumption that joinder is impracticable”); *Burton*, *supra* note 10, at 303.

101. See *Thillens, Inc. v. Cmty. Currency Exch. Ass’n of Ill.*, 97 F.R.D. 668, 676–77 (N.D. Ill. 1983) (holding that, when a class consists of almost nine hundred defendants, “the numbers alone are dispositive of the impracticability of joinder”).

102. See *Alvarado Partners, L.P. v. Mehta*, 130 F.R.D. 673, 675 (D. Colo. 1990) (holding that joinder is impractical where thirty-three potential defendant class members are dispersed throughout the country); *Tietz v. Bowen*, 695 F. Supp. 441, 445 (N.D. Cal. 1987) (certifying a class of twenty-seven geographically diverse class members who may not have the means to bring individual suits); *Riordan v. Smith Barney*, 113 F.R.D. 60, 62 (N.D. Ill. 1986) (finding that twenty-nine class members from nine



The numerosity prerequisite of Rule 23(a)(1) does not present any exceptional obstacles to the certification of defendant classes in patent litigation. Indeed, a leading treatise on class actions asserts that the standard is applied more flexibly to defendant classes than to plaintiff classes in order to conserve judicial resources.<sup>104</sup> First, unlike the voluntary joinder of plaintiffs, jurisdiction requirements may bar the joinder of geographically dispersed defendants when no federal court possesses personal jurisdiction over all defendants.<sup>105</sup> Moreover, in patent infringement class actions, joinder of geographically dispersed defendants may likewise be rendered impractical due to narrow patent venue restrictions.<sup>106</sup> Finally, some commentators suggest that the failure to certify defendant classes will result in more individual lawsuits than would occur with plaintiff classes,<sup>107</sup> thereby consuming judicial resources to the extent that class certification becomes a desirable alternative. Whereas plaintiffs with sufficient financial resources to sue a defendant class are expected to pursue individual actions if class certification is denied, plaintiff classes with small claimants are often financially incapable of filing separate lawsuits.<sup>108</sup> As a result of the flexible application of Rule 23(a)(1) to defendant classes, numerosity is rarely an issue in actions contemplating a geographically dispersed class of patent infringers; courts have found the numerosity prerequisite to be satisfied by as few as thirteen alleged patent infringers.<sup>109</sup>

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different states “is enough geographical dispersion to justify a finding that joinder is impracticable”); 5 JAMES W. MOORE ET AL., *MOORE’S FEDERAL PRACTICE* § 23.22(1)(a) (3d ed. 2010) (1938).

103. See *In re Drexel Burnham Lambert Group, Inc.*, 960 F.2d 285, 290 (2d Cir. 1992) (concluding that numerosity is satisfied when individual adjudication of each claim would be expensive, time consuming, and logistically unfeasible); 5 MOORE ET AL., *supra* note 102, § 23.22(1)(a).

104. 2 CONTE & NEWBERG, *supra* note 2, § 4:57, at 369; see also *Alvarado Partners*, 130 F.R.D. at 676 (certifying a class of thirty-three defendants); *Netto*, *supra* note 6, at 89.

105. See FED. R. CIV. P. 4(k)(1); 2 CONTE & NEWBERG, *supra* note 2, § 4:57, at 369; Edward Hsieh, Note, *Mandatory Joinder: An Indirect Method for Improving Patent Quality*, 77 S. CAL. L. REV. 683, 694 (2004).

106. “A civil action for patent infringement may be brought in the judicial district where the defendant resides, or where the defendant has committed acts of infringement and has a regular and established place of business.” 28 U.S.C. § 1400(b) (2006). See *Wecraft Techs., Inc. v. Alden Press, Inc.*, No. 85 C 3369, 1985 WL 2270, at \*2 (N.D. Ill. Aug. 9, 1985) (observing that the patent venue statute would make joinder impossible for thirty-four of the forty-one alleged patent infringers); *Technograph Printed Circuits, Ltd. v. Methode Elecs., Inc.*, 285 F. Supp. 714, 720 (N.D. Ill. 1968) (holding that a class consisting of 240 alleged patent infringers satisfies the numerosity prerequisite because of venue problems); see also 6 CONTE & NEWBERG, *supra* note 2, § 19:4.

107. See, e.g., *Netto*, *supra* note 6, at 89.

108. See 2 CONTE & NEWBERG, *supra* note 2, § 4:57, at 368–69.

109. See *Dale Elecs., Inc. v. R.C.L. Elecs., Inc.*, 53 F.R.D. 531, 534–36 (D.N.H. 1971). But see *Sperberg v. Firestone Tire & Rubber Co.*, 61 F.R.D. 70, 76 (N.D. Ohio 1973) (holding that a class of twenty-one alleged patent infringers does not satisfy the numerosity prerequisite where eight defendants were not amenable to venue).

## 2. Commonality

Rule 23(a)(2) permits class certification only if there exist “questions of law or fact common to the class.”<sup>110</sup> This prerequisite has been construed permissively; all questions of law and fact need not be common to maintain a class action.<sup>111</sup> Instead, commonality may be satisfied by raising a single issue that is common to the proposed class.<sup>112</sup> When applying this liberal standard to defendant classes of patent infringers, courts must evaluate the commonality of four fundamental issues that arise in patent litigation: (1) claim construction; (2) validity; (3) enforceability; and (4) infringement.

In claim construction, the first step in patent infringement analysis, a court defines the meaning and scope of patent claim terms.<sup>113</sup> These claims define the boundaries of a patent holder’s property rights, and accordingly, claim construction is often dispositive of subsequent issues such as validity and infringement.<sup>114</sup> The Federal Circuit has emphasized that claims are properly construed by examining “intrinsic evidence,” including the claim language, the specification, and the prosecution history.<sup>115</sup> The issue of claim construction should satisfy the commonality prerequisite of Rule 23(a)(2). To the extent that all of the alleged infringers use the same infringing technology,<sup>116</sup> any determination of validity or infringement will necessarily require construction of the same patent claims. Furthermore, because the “intrinsic evidence” required to construe claims is identical notwithstanding the identities of defendant class members,<sup>117</sup> a claim construction inquiry is a question of law common across the class.<sup>118</sup>

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110. FED. R. CIV. P. 23(a)(2).

111. See *Hanlon v. Chrysler Corp.*, 150 F.3d 1011, 1019 (9th Cir. 1998); *Thillens, Inc. v. Cmty. Currency Exch. Ass’n of Ill.*, 97 F.R.D. 668, 677 (N.D. Ill. 1983).

112. See *Haley v. Medtronic, Inc.*, 169 F.R.D. 643, 648 (C.D. Cal. 1996) (“[F]or the commonality requirement to be met, there must only be one single issue common to the proposed class.”); *Standal’s Patents Ltd. v. Weyerhaeuser Co.*, Civ. No. 86-219-FR, 1986 WL 582, at \*4 (D. Or. Dec. 11, 1986) (“Only one common legal issue, despite the potential differences in the details of each defendant’s claims and defenses, is required for a finding of commonality.”); *Thillens*, 97 F.R.D. at 677.

113. See *Markman v. Westview Instruments, Inc.*, 52 F.3d 967, 976 (Fed. Cir. 1995).

114. See *Schwartz*, *supra* note 87, at 1708.

115. *Phillips v. AWH Corp.*, 415 F.3d 1303, 1316–24 (Fed. Cir. 2005); see also *Markman*, 52 F.3d at 979 (“To ascertain the meaning of claims, we consider three sources: The claims, the specification, and the prosecution history.” (internal quote marks omitted)). Extrinsic evidence concerning relevant scientific principles, the meaning of technical terms, and the state of the art is also relevant. See *Cohesive Techs., Inc. v. Waters Corp.*, 543 F.3d 1351, 1360 (Fed. Cir. 2008).

116. For example, an industry-wide group of manufacturers who produce goods containing the same infringing component will use the same infringing technology. *Burton*, *supra* note 10, at 301.

117. See *Phillips*, 415 F.3d at 1316–24; *Markman*, 52 F.3d at 979.

118. See *Burton*, *supra* note 10, at 301.

After claims are initially construed, the affirmative defense of invalidity is frequently raised in patent infringement suits.<sup>119</sup> Invalidity is a complete defense to infringement whereby defendants attempt to avoid liability by showing that the PTO improperly issued the patent in question. Accused infringers may challenge the validity of an issued patent on grounds such as utility,<sup>120</sup> novelty,<sup>121</sup> non-obviousness,<sup>122</sup> or failure to satisfy the enablement, best mode, or written description requirements.<sup>123</sup> Consequently, the underlying facts relevant to patent validity include: (1) the properly construed patent claims and specification; (2) the scope and content of prior art; (3) the level of ordinary skill in the art; (4) the differences between the prior art and the claims at issue; and (5) objective indicia of non-obviousness.<sup>124</sup> Many courts agree that the defense of invalidity satisfies the commonality prerequisite of Rule 23(a)(2).<sup>125</sup> Because any determination of the invalidity defense focuses on the inventor's patent claims and relevant prior art—which by definition is publicly available to any defendant<sup>126</sup>—rather than the accused infringers' conduct, it is clear that the defense of invalidity is common to a defendant class of alleged patent infringers.<sup>127</sup>

Similarly, unenforceability is an affirmative defense that hinges on the inventor's conduct and thus satisfies the commonality prerequisite. For example,

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119. See 69 C.J.S. *Patents* § 436 (2009).

120. See 35 U.S.C. § 101 (2006) (establishing the utility requirements).

121. See *id.* § 102 (establishing the novelty requirements).

122. A patent claim is invalid if “the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art. . . .” *Id.* § 103(a).

123. *Id.* § 112 (“The specification shall contain a written description of the invention, and of the manner and process of making and using it . . . as to enable any person skilled in the art to which it pertains . . . to make and use the same, and shall set forth the best mode contemplated by the inventor of carrying out his invention.”); see also Kimberly A. Moore, *Forum Shopping in Patent Cases: Does Geographic Choice Affect Innovation?*, 79 N.C. L. REV. 889, 918 n.94 (2001).

124. See *Graham v. John Deere Co.*, 383 U.S. 1, 17 (1966) (“[T]he scope and prior art are to be determined; differences between the prior art and claims at issue are to be ascertained; and the level of ordinary skill in the pertinent art resolved.”); *Nat’l Steel Car, Ltd. v. Canadian Pac. Ry., Ltd.*, 357 F.3d 1319, 1334 (Fed. Cir. 2004) (“After construing the claims, a court must compare the prior art to claims as one of ordinary skill of art at the time of the invention would have done.”); *Mark Anchor Albert, Required Class: In Order to Maintain Class Actions Against Infringers, Plaintiffs Need to Meet the Four Prerequisites of Federal Rule 23*, L.A. LAW., June 2009, at 38.

125. See *Standal’s Patents Ltd. v. Weyerhaeuser Co.*, Civ. No. 86-219-FR, 1986 WL 582, at \*4 (D. Or. Dec. 11, 1986); *Webcraft Tech., Inc. v. Alden Press, Inc.*, No. 85-C-3369, 1985 WL 2270, at \*2 (N.D. Ill. Aug. 9, 1985); *Dale Elecs., Inc. v. R.C.L. Elecs., Inc.*, 53 F.R.D. 531, 536 (D.N.H. 1971); *Research Corp. v. Pfister Associated Growers, Inc.*, 301 F. Supp. 497, 499 (N.D. Ill. 1969); *Technograph Printed Circuits, Ltd. v. Methode Elecs., Inc.*, 285 F. Supp. 714, 720 (N.D. Ill. 1968); 6 CONTE & NEWBERG, *supra* note 2, § 19:4, at 230.

126. Prior art is defined as “[k]nowledge that is publicly known, used by others, or available on the date of invention to a person of ordinary skill in an art, including what would be obvious from that knowledge.” BLACK’S LAW DICTIONARY (9th ed. 2009).

127. See *Holo*, *supra* note 5, at 251.

a patent may be rendered unenforceable under the doctrine of inequitable conduct if the applicant “with intent to mislead or deceive . . . fails to disclose material information or submits materially false information to the PTO during prosecution.”<sup>128</sup> In addition, a patent may be rendered unenforceable as a result of the patentee’s unreasonable delay in bringing suit,<sup>129</sup> misuse of the patent in an anticompetitive manner,<sup>130</sup> or misleading conduct that leads the alleged infringer to infer that the patentee does not intend to enforce its patent.<sup>131</sup> Therefore, because a court’s analysis turns on the inventor’s conduct rather than on an individual defendant’s infringing device, the defense of unenforceability is often common to all defendant class members.<sup>132</sup>

The ultimate issue of infringement, however, turns on the discrete actions of each individual defendant and therefore does not satisfy the commonality prerequisite.<sup>133</sup> Infringement is defined as the unlicensed making, using, or selling of a patentee’s invention and is determined by comparing the properly construed claims to the accused device.<sup>134</sup> Courts have expressed concerns over the diverse factual questions that arise with respect to each defendant’s allegedly infringing conduct or device and, as a result, have widely refused to certify defendant class actions on the issue of infringement.<sup>135</sup> Still, the absence of common questions and facts concerning the issue of infringement should not defeat class certification. As an initial matter, the commonality prerequisite may be satisfied by the existence of a single common legal issue.<sup>136</sup> Furthermore, Rule 23(c)(4)

128. *Larson Mfg. Co. of S.D. v. Aluminart Prods. Ltd.*, 559 F.3d 1317, 1326 (Fed. Cir. 2009) (internal quotation marks omitted).

129. *See A.C. Aukerman Co. v. R.L. Chaides Constr. Co.*, 960 F.2d 1020, 1028–29 (Fed. Cir. 1992) (en banc) (defining the elements underlying the defense of laches).

130. *See Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488, 493–94 (1942) (implementing the patent misuse doctrine); Christopher A. Cotropia, *Describing Patents as Real Options*, 34 J. CORP. L. 1127, 1141 (2009).

131. *See A.C. Aukerman*, 960 F.2d at 1028 (defining the elements of equitable estoppel).

132. *See Standal’s Patents Ltd. v. Weyerhaeuser Co.*, Civ. No. 86-219-FR, 1986 WL 582, at \*4 (D. Or. Dec. 11, 1986); *Webcraft Tech., Inc. v. Alden Press, Inc.*, No. 85-C-3369, 1985 WL 2270, at \*2 (N.D. Ill. Aug. 9, 1985); *Dale Elecs., Inc. v. R.C.L. Elecs., Inc.*, 53 F.R.D. 531, 536 (D.N.H. 1971); *Technograph Printed Circuits, Ltd. v. Methode Elecs., Inc.*, 285 F. Supp. 714, 720 (N.D. Ill. 1968); 6 CONTE & NEWBERG, *supra* note 2, § 19:4, at 230.

133. *Holo*, *supra* note 5, at 251.

134. *See* 35 U.S.C. § 271(a) (2006).

135. *See Webcraft*, 1985 WL 2270, at \*3 (noting that the issue of infringement does not satisfy the commonality requirement because it “involves varying and sometimes unique issues as to each defendant”); *In re Yarn Processing Patent Litig.*, 56 F.R.D. 648, 652–53 (S.D. Fla. 1972); *Technograph*, 285 F. Supp. at 720 (certifying a defendant class of alleged patent infringers on the common questions of validity and enforceability but refusing to adjudicate the issue of infringement as a class action).

136. *See Haley v. Medtronic, Inc.*, 169 F.R.D. 643, 648 (C.D. Cal. 1996) (“[F]or the commonality requirement to be met, there must only be one single issue common to the proposed class.”); *Standal’s Patents*, 1986 WL 582, at \*4 (“Only one common legal issue, despite the potential differences in the details

authorizes courts to maintain class actions with respect to particular common issues.<sup>137</sup> Accordingly, commonality is strong in the patent context, but courts must limit class treatment to resolving the preliminary issues of claim construction, validity, and enforceability.<sup>138</sup>

### 3. Typicality

Rule 23(a)(3) requires that “the claims or defenses of the representative parties are typical of the claims or defenses of the class.”<sup>139</sup> The typicality prerequisite is designed to ensure that the interests of the named representative align with the class’s interests.<sup>140</sup> A claim or defense is typical if it: (1) arises from the same course of conduct that gives rise to the claims or defenses of other class members; and (2) is grounded in the same legal theory as their claims or defenses.<sup>141</sup> “Under the rule’s permissive standards, representative claims [or defenses] are ‘typical’ if they are reasonably co-extensive with those of absent class members; they need not be substantially identical.”<sup>142</sup> Only when a unique claim or defense will consume the merits of a case will a court refuse to certify a class due to lack of typicality.<sup>143</sup>

With respect to claim construction, a court’s typicality analysis will focus exclusively on plaintiff-specific intrinsic evidence. However, the mere absence of individual inquiries into each defendant’s allegedly infringing device may not be sufficient to satisfy the typicality prerequisite.<sup>144</sup> Accused patent infringers often attempt to construe claims broadly enough to encroach upon prior art yet narrowly enough to avoid subsequent determinations of infringement.<sup>145</sup> Therefore, each defendant’s strategy is formulated based on individual considerations of the accused devices. A disparity in claim construction positions may conflict with the interests of absent class members and defeat the typicality requirement.

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of each defendant’s claims and defenses, is required for a finding of commonality.”); *Thillens, Inc. v. Cmty. Currency Exch. Ass’n of Ill.*, 97 F.R.D. 668, 677 (N.D. Ill. 1983).

137. See FED. R. CIV. P. 23(c)(4).

138. See 5 MOORE ET AL., *supra* note 102, § 23.23[4][j]; *Burton, supra* note 10, at 301.

139. FED. R. CIV. P. 23(a)(3).

140. See *Hanon v. Dataproducts Corp.*, 976 F.2d 497, 508 (9th Cir. 1992); *Real Estate Alliance, Ltd. v. Sarkisian*, No. 05-cv-3573, 2007 WL 2814591, at \*2 (E.D. Pa. Sept. 24, 2007) (“[T]ypicality is satisfied when ‘litigation of the named plaintiff’s claims can reasonably be expected to advance the interests of absent class members.’” (quoting *In re Centocor, Inc. Sec. Litig.* III, No. 98-260, 1999 U.S. Dist. LEXIS 1224, at \*6 (E.D. Pa. Jan. 27, 1999))).

141. *Haley*, 169 F.R.D. at 649.

142. *Hanlon v. Chrysler Corp.*, 150 F.3d 1011, 1020 (9th Cir. 1998).

143. *Thillens, Inc. v. Cmty. Currency Exch. Ass’n of Ill.*, 97 F.R.D. 668, 678 (N.D. Ill. 1983).

144. See *Albert, supra* note 124, at 40.

145. See *Karsten Mfg. Corp. v. Cleveland Golf Co.*, 242 F.3d 1376, 1384 (Fed. Cir. 2001).

Conversely, courts have consistently agreed that the defenses of patent invalidity and unenforceability satisfy the typicality prerequisite of Rule 23(a)(3).<sup>146</sup> The defense of invalidity focuses on the existence and obviousness of prior art, while the defense of unenforceability focuses on the patent owner's inequitable conduct. Neither defense is related to the conduct of an alleged patent infringer. As the court in *Dale Electronics, Inc. v. R.C.L. Electronics, Inc.*<sup>147</sup> explained, “[a]ll these defenses involve the patents and the plaintiff's actions relative to the patents, and it is hard to see how either the law or the facts will differ as to each patent in issue.”<sup>148</sup>

Just as Rule 23(a)(2) renders the issue of patent infringement unsuitable for class treatment, infringement fails to satisfy the typicality prerequisite of Rule 23(a)(3) as well. Infringement analysis requires a “highly individualized, fact-intensive query about actual use and conduct [and] is thus a poor candidate for class treatment.”<sup>149</sup>

#### 4. Adequacy

The final prerequisite for class certification under Rule 23(a) is based upon “fundamental fairness,” which is the “hallmark of the procedural protections afforded by the Due Process Clause.”<sup>150</sup> In *Hansberry v. Lee*,<sup>151</sup> the Supreme Court articulated that due process is satisfied so long as the interests of absent class members are adequately represented.<sup>152</sup> The principle of adequate representation is codified in Rule 23(a)(4), which permits class certification if “the representative parties will fairly and adequately protect the interests of the class.”<sup>153</sup> When assessing the adequacy prerequisite, courts examine whether the proposed class representatives will (1) prosecute the action vigorously on behalf of the class; and (2) have any conflicts of interest with other class

146. See *Standal's Patents Ltd. v. Weyerhaeuser Co.*, No. 86-219-FR, 1986 WL 582, at \*5 (D. Or. Dec. 11, 1986) (holding that the defenses of the representative parties on the issues of validity and enforceability of the patents were typical of the defenses of the class); *Webcraft Techs., Inc. v. Alden Press, Inc.*, No. 85 C 3369, 1985 WL 2270, at \*3 (N.D. Ill. Aug. 9, 1985) (holding that the plaintiff had shown typicality with respect to validity and enforceability); *Dale Elecs., Inc. v. R.C.L. Elecs., Inc.*, 53 F.R.D. 531, 536 (D.N.H. 1971) (holding that the defenses of validity and enforceability were typical of the defenses of the class); *Research Corp. v. Pfister Associated Growers, Inc.*, 301 F. Supp. 497, 499 (N.D. Ill. 1969) (observing that all of the representative parties would strongly assert the defense of invalidity).

147. 53 F.R.D. 531 (D.N.H. 1971).

148. *Id.* at 536.

149. *Real Estate Alliance, Ltd. v. Sarkisian*, No. 05-CV-3573, 2007 WL 2814591, at \*3 (E.D. Pa. Sept. 24, 2007).

150. *Ford v. Wainwright*, 477 U.S. 399, 424 (1986) (Powell, J., concurring).

151. 311 U.S. 32 (1940).

152. *Id.* at 42–43.

153. FED. R. CIV. P. 23(a)(4).

members.<sup>154</sup> However, “where . . . adjudication occurs pursuant to a defendant class, due process concerns not inherent in plaintiff class actions arise.”<sup>155</sup> The crux of the distinction is that, while an absent plaintiff class member stands to gain, an absent defendant class member is exposed to potential equitable and monetary liability.<sup>156</sup> Accordingly, because of these unique due process concerns regarding certification of defendant classes, fundamental fairness demands closer scrutiny of the adequacy prerequisite.<sup>157</sup>

The first potential barrier to adequacy in a defendant class is that, because the plaintiff selects its designated adversary, the named defendant is often unwilling to serve as the class representative; it is feared that “an unwilling representative will necessarily be a poor one.”<sup>158</sup> Indeed, at least one court has denied class certification on account of, *inter alia*, the named defendant’s unwillingness to litigate.<sup>159</sup> Most courts, however, take the more sensible view that a named defendant’s unwillingness—as opposed to ability—to litigate should be given no more than token weight.<sup>160</sup> They reason that vigorously opposing certification on the grounds of inadequate representation may suggest that the party will vigorously defend other litigated issues as well.<sup>161</sup> Consequently, this may in fact be positive evidence that the named defendant will defend the action vigorously on behalf of the class.<sup>162</sup> Moreover, any contrary application of Rule 23(a)(4) would produce an anomalous result in which only those defendants who fail to contest the issue will be certified to protect the interests of absent class members.<sup>163</sup>

The second perceived adequacy concern likewise arises from the plaintiff’s power to select the defendant class representative: The plaintiff may deliberately

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154. Hanlon v. Chrysler Corp., 150 F.3d 1011, 1020 (9th Cir. 1998).

155. Thillens, Inc. v. Cmty. Currency Exch. Ass’n of Ill., 97 F.R.D. 668, 674 (N.D. Ill. 1983).

156. *Id.*

157. See *id.* at 679 (“[T]he 23(a)(4) mandate for an adequate representative must be strictly observed.”); 2 CONTE & NEWBERG, *supra* note 2, § 4:48, at 344.

158. *In re Gap Stores Sec. Litig.*, 79 F.R.D. 283, 290 (N.D. Cal. 1978); see also Note, *supra* note 7, at 639.

159. See *Mudd v. Busse*, 68 F.R.D. 522, 529–30 (N.D. Ind. 1975).

160. See, e.g., *Research Corp. v. Pfister Associated Growers, Inc.*, 301 F. Supp. 497, 499 (N.D. Ill. 1969) (“This court weighs the defendants’ protestations that they do not ‘desire’ to represent the entire class, but this is hardly enough to overcome the overwhelming evidence of their ability . . . . In any event, this factor of ‘desire,’ as opposed to ability should not be given more than token weight.”).

161. See *Thillens*, 97 F.R.D. at 679; *In re Gap Stores*, 79 F.R.D. at 290 (“Ironically, the best defendant class representative may well be the one who most vigorously and persuasively opposes certification since he is the one most likely to guarantee an adversary presentation of the issues.”).

162. 2 CONTE & NEWBERG, *supra* note 2, § 4:60, at 376. Assuming that the typicality prerequisite of Rule 23(a)(3) is established, the class representative will automatically protect the interests of the absent class members as well. *Holo*, *supra* note 5, at 233.

163. See Note, *supra* note 7, at 639.

choose a weak or ineffective opponent.<sup>164</sup> For example, a class representative with relatively small potential liability might prefer to settle or to admit liability rather than to endure the cost of defending an entire class action on the merits.<sup>165</sup> Alternatively, the named defendant might simply lack the financial resources necessary to present an effective defense.<sup>166</sup> Moreover, these financial inadequacy concerns are magnified in the context of notoriously expensive patent infringement proceedings.<sup>167</sup> As Zechariah Chafee, Jr. says, “[i]t is a strange situation where one side picks out the generals for the enemy’s army.”<sup>168</sup> This consideration should not, however, form an independent reason to preclude class certification. As an initial matter, the selected adversary may in fact be capable of adequately protecting the interests of the class. Furthermore, in actions against defendant classes of patent infringers—where subsequent individual proceedings are required to determine liability<sup>169</sup>—patent owners have a strong incentive to select an adequate representative in order to maintain any favorable adjudications on the common issues against absent class members who will almost certainly challenge the judgment collaterally for lack of adequate representation.<sup>170</sup> Finally, courts may take added measures to safeguard the interests of absent class members by directing the plaintiff to join additional defendants as class representatives.<sup>171</sup>

Potential conflicts of interest between the class representative and absent class members also raise special adequacy implications in patent infringement cases. Generally, a “strong showing of fair and adequate representation is necessary” when the named representatives are business competitors of unnamed class

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164. See 2 CONTE & NEWBERG, *supra* note 2, § 4:60, at 376; Ancheta, *supra* note 5, at 300; Note, *supra* note 7, at 640 (citing *Richardson v. Kelly*, 144 Tex. 497 (1945)).

165. See *In re Gap Stores*, 79 F.R.D. at 303 (holding that the class representative was inadequate because “its maximum liability . . . could not exceed \$42,000, and the cost of litigating the defense of all the underwriters certainly would exceed that amount” and “[w]ith so little stake in the outcome of the litigation, [the class representative] might prefer to admit liability than defend on the merits”).

166. See *Rolex Emps. Ret. Trust v. Mentor Graphics Corp.*, 136 F.R.D. 658, 666 (D. Or. 1991) (holding that the plaintiff class representative was inadequate because he could not independently fund the litigation); *Mudd v. Busse*, 68 F.R.D. 522, 529 (N.D. Ind. 1975) (holding that the proposed representative was inadequate because there was “no showing in the record of ability or willingness on the part of the defendant . . . to bear the financial burden required to adequately litigate a complex class action lawsuit”).

167. The average cost of a patent infringement suit is in the millions. Leslie, *supra* note 47, at 134.

168. ZECHARIAH CHAFEE, JR., *SOME PROBLEMS OF EQUITY* 237 (1950).

169. See *supra* text accompanying notes 133–135.

170. See 2 CONTE & NEWBERG, *supra* note 2, § 4:60, at 379; Netto, *supra* note 6, at 92.

171. See FED. R. CIV. P. 23 advisory committee’s note (1966 Amendment, subdiv. (c)(1)) (“An order embodying a determination can be conditional; the court may rule, for example, that a class action may be maintained only if the representation is improved through intervention of additional parties of a stated type.”); see also Note, *supra* note 7, at 641.



members.<sup>172</sup> In theory, such representatives are more likely to have interests that are antagonistic to the interests of the class that they purport to represent.<sup>173</sup> This risk is particularly acute in the context of patent infringement cases in which defendant class members are often business competitors and proprietary patents and trade secrets inherently lie at the heart of litigation. For example, in *Sperberg v. Firestone Tire & Rubber Co.*,<sup>174</sup> a patent owner sued five representative tire companies and sixteen additional defendant class members for infringing his method of determining tire life.<sup>175</sup> Each named defendant indicated that protective orders concerning their proprietary trade secrets might be necessary as to the other defendants in the action.<sup>176</sup> The court held that the plaintiff failed to establish the adequacy prerequisite of Rule 23(a)(4) and explained:

In such a posture, it is obviously impossible for an attorney for one of the representative defendants to fairly and adequately protect the interests of the class. In a case such as this the tactics, strategy and perhaps even settlement discussions of each representative defendant will depend partially, if not entirely, upon considerations involving protection of trade secrets unique to each defendant.<sup>177</sup>

Despite the *Sperberg* court's concerns, however, competing business interests, without more, should not be sufficient to render representatives inadequate.<sup>178</sup> Limiting class treatment to common issues of claim construction, validity, and enforceability will significantly alleviate this problem. By excluding the issue of infringement, the litigation will focus on the plaintiff's patent claims and conduct rather than the nature of the defendants' infringing devices, thereby avoiding any problematic exposure of sensitive trade secrets.<sup>179</sup> The interests of defendant class members are also more likely to converge with respect to obtaining favorable adjudications of patent invalidity and unenforceability. Furthermore, in the event that the class representative agrees to a

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172. *Webcraft Techs., Inc. v. Alden Press, Inc.*, No. 85 C 3369, 1985 WL 2270, at \*4 (N.D. Ill. Aug. 9, 1985).

173. See 5 MOORE ET AL., *supra* note 102, § 23.25[2][b][viii].

174. 61 F.R.D. 70 (N.D. Ohio 1973).

175. *Id.* at 71.

176. *Id.* at 77.

177. *Id.*

178. There is nothing inherent in the competitive relationship between named class representatives and absent class members that precludes class certification for lack of adequacy. See *Christiana Mortg. Corp. v. Del. Mortg. Bankers Ass'n*, 136 F.R.D. 372, 381 (D. Del. 1991) (concluding that the conflict between competing mortgage brokers was not so overwhelming as to preclude class certification); *McMahon Books, Inc. v. Willow Grove Assocs.*, 108 F.R.D. 32, 36–37 (E.D. Pa. 1985) (noting that adequacy is satisfied when business competitors do not have antagonistic interests with respect to the subject matter of the litigation).

179. See *Webcraft Techs., Inc. v. Alden Press, Inc.*, No. 85 C 3369, 1985 WL 2270, at \*4 (N.D. Ill. Aug. 9, 1985).

settlement, a court must first determine that the proposed settlement is “fair, reasonable, and adequate,” thus protecting absent class members from any anticompetitive results.<sup>180</sup>

Finally, in the context of plaintiff class actions, courts often hold that plaintiffs who are subject to unique defenses are incapable of adequately representing the class.<sup>181</sup> Some courts have extended this logic to defendant class actions, observing that a named representative who concedes one line of defense to strengthen another might render the representative inadequate.<sup>182</sup> Again, limiting patent litigation to issues of claim construction, validity, and enforceability will naturally constrain individualized defenses to subsequent infringement proceedings.<sup>183</sup> Inasmuch as plaintiffs utilize Rule 23(c)(4) to limit the scope of class actions to these issues, there is nothing inherent in patent infringement that precludes defendant class certification for lack of adequacy.<sup>184</sup>

#### B. Rule 23(b) Requirements

In addition to satisfying the four prerequisites of Rule 23(a), the proposed class must satisfy one of the three conditions set forth in Rule 23(b).<sup>185</sup> Classes

180. FED. R. CIV. P. 23(e)(1)(C).

181. See, e.g., *Zenith Labs., Inc. v. Carter-Wallace, Inc.*, 530 F.2d 508, 512 (3d Cir. 1976) (“Since these unique defenses could conceivably become the focus of the entire litigation and divert much of [plaintiff’s] attention from the suit as a whole, the remaining members of the class could be severely disadvantaged . . .”).

182. See *In re Yarn Processing Patent Litig.*, 56 F.R.D. 648, 653 (S.D. Fla. 1972) (“[T]he differences in the strategy, defenses, and monetary stake in the outcome render [plaintiff] an inappropriate representative.”); *Technitrol, Inc. v. Control Data Corp.*, Nos. 17653, 18317, 19515, 1970 U.S. Dist. LEXIS 13294, at \*5 (D. Md. Jan. 9, 1970) (“[T]he duty of their counsel is primarily to win the case for them, and if that can be done by concession of one line so as to strengthen defenses in another . . . there might . . . be inconsistencies from the standpoint of a member of the class.”).

183. See 2 CONTE & NEWBERG, *supra* note 2, § 4:63, at 390.

184. FED. R. CIV. P. 23(c)(4).

185. Rule 23(b) provides that a class action may be maintained if Rule 23(a) is satisfied and if:

- (1) prosecuting separate actions by or against individual class members would create a risk of:
  - (A) inconsistent or varying adjudications with respect to individual class members that would establish incompatible standards of conduct for the party opposing the class; or
  - (B) adjudications with respect to individual class members that, as a practical matter, would be dispositive of the interests of the other members not parties to the individual adjudications or would substantially impair or impede their ability to protect their interests;
- (2) the party opposing the class has acted or refused to act on grounds that apply generally to the class, so that final injunctive relief or corresponding declaratory relief is appropriate respecting the class as a whole; or
- (3) the court finds that the questions of law or fact common to class members predominate over any questions affecting only individual members, and that a class action is superior to other

certified under subdivisions (b)(1) or (b)(2) are considered mandatory: Every member of the class is bound by the judgment and may not opt out of the litigation.<sup>186</sup> In contrast, members of classes certified pursuant to Rule 23(b)(3) may exclude themselves from the proceeding.<sup>187</sup>

#### 1. Rule 23(b)(1)

Rule 23(b)(1) is designed to prevent inconsistent or prejudicial results that might otherwise arise in the absence of a class action.<sup>188</sup> Because the provision explicitly maintains its universal applicability to “actions by or against individual class members,”<sup>189</sup> courts have not struggled to apply Rule 23(b)(1) to defendant classes in general.<sup>190</sup> Indeed, plaintiffs often prefer to certify defendant classes pursuant to Rule 23(b)(1) because every class member is bound by the judgment; class members may not opt out of the action.<sup>191</sup> The nuances of patent litigation, however, do not translate so neatly into this framework.

##### a. Rule 23(b)(1)(A)

A class action is appropriate under Rule 23(b)(1)(A) if prosecuting separate actions would create a risk of “inconsistent or varying adjudications with respect to individual class members that would establish incompatible standards of conduct for the party opposing the class.”<sup>192</sup> The party opposing a defendant class is necessarily the plaintiff. The objective of this provision is to avoid

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available methods for fairly and efficiently adjudicating the controversy. The matters pertinent to these findings include:

- (A) the class members’ interests in individually controlling the prosecution or defense of separate actions;
- (B) the extent and nature of any litigation concerning the controversy already begun by or against class members;
- (C) the desirability or undesirability of concentrating the litigation of the claims in the particular forum; and
- (D) the likely difficulties in managing a class action.

FED. R. CIV. P. 23(b).

186. Netto, *supra* note 6, at 94.

187. See FED. R. CIV. P. 23(c)(2)(B)(v).

188. See FED. R. CIV. P. 23 advisory committee’s note (1966 Amendment, subdiv. (b)(1)) (“The difficulties which would be likely to arise if resort were had to separate actions by or against the individual members of the class here furnish the reasons for . . . the propriety and value of utilizing the class-action device.”).

189. FED. R. CIV. P. 23(b)(1).

190. See, e.g., *Tilley v. TJX Cos.*, 345 F.3d 34, 41 (1st Cir. 2003).

191. The rationale for the mandatory nature of Rule 23(b)(1) class actions is that unitary results are necessary to ensure consistent judgments in relation to the parties. Netto, *supra* note 6, at 94.

192. FED. R. CIV. P. 23(b)(1)(A).

difficulties that would confront plaintiffs compelled to act in irreconcilable ways with respect to individual defendants.<sup>193</sup> As courts struggle to define the scope of Rule 23(b)(1)(A), a split of authority has emerged as to whether inconsistent adjudications resulting from separate actions against alleged patent infringers will establish incompatible standards of conduct for a plaintiff patentee.

Some courts and commentators maintain that patent litigation is particularly well suited for Rule 23(b)(1)(A) because of the risk that varying results on the issue of validity would lead to the formulation of inconsistent individual remedies.<sup>194</sup> They observe that, although *Blonder-Tongue* makes an invalidity determination final and binding on the plaintiff, it does not resolve the problem of a validity finding by one court followed by an invalidity finding by a subsequent court.<sup>195</sup> The court in *Research Corp. v. Pfister Associated Growers, Inc.*<sup>196</sup> embraced this reasoning while certifying a defendant class of seed corn producers. The court explained:

A judgment of validity in one case could be matched by another judgment of invalidity. This would impose upon the plaintiff . . . incompatible standards of conduct. The plaintiff might be prevented from enforcing the patent against some alleged infringers in one circuit while the plaintiff might be permitted enforcement against others in that same circuit.<sup>197</sup>

Under this analysis, the risk that patents will be enforceable against some alleged infringers but not against others is sufficient to satisfy the risk of establishing incompatible conduct standards for the plaintiff under Rule 23(b)(1)(A).

The contrary view, adopted by *Winder Licensing, Inc. v. King Instrument Corp.*,<sup>198</sup> has developed broad support.<sup>199</sup> Although inconsistent adjudications on the issue of validity may compel a plaintiff to act differently with respect to individual defendants, the *Winder* court contends that the plaintiff would not be subjected to the incompatible standards of conduct that Rule 23(b)(1)(A)

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193. See FED. R. CIV. P. 23 advisory committee's note; Netto, *supra* note 6, at 94.

194. See *Standal's Patents Ltd. v. Weyerhaeuser Co.*, No. 86-219-FR, 1986 WL 582, at \*7 (D. Or. Dec. 11, 1986); *Dale Elecs., Inc. v. R.C.L. Elecs., Inc.*, 53 F.R.D. 531, 537 (D.N.H. 1971); *Research Corp. v. Pfister Associated Growers, Inc.*, 301 F. Supp. 497, 499-500 (N.D. Ill. 1969); *Technograph Printed Circuits, Ltd. v. Methode Elecs., Inc.*, 285 F. Supp. 714, 722 (N.D. Ill. 1968); 6 CONTE & NEWBERG, *supra* note 2, § 19:6.

195. *Dale Elecs.*, 53 F.R.D. at 537.

196. 301 F. Supp. 497 (N.D. Ill. 1969).

197. *Id.* at 499-500.

198. 130 F.R.D. 392 (N.D. Ill. 1990).

199. See *Real Estate Alliance, Ltd. v. Sarkisian*, No. 05-CV-3573, 2007 WL 2814591, at \*2-5 (E.D. Pa. Sept. 24, 2007) (referencing Rule 23(b)(1)(B) but quoting and analyzing the "incompatible standards of conduct" of Rule 23(b)(1)(A)); *Webcraft Techs., Inc. v. Alden Press, Inc.*, No. 85 C 3369, 1985 WL 2270, at \*4 (N.D. Ill. Aug. 9, 1985); *Bogosian v. Gulf Oil Corp.*, 62 F.R.D. 124, 131-32 (E.D. Pa. 1973); *In re Yarn Processing Patent Litig.*, 56 F.R.D. 648, 654 (S.D. Fla. 1972); Netto, *supra* note 6, at 95; Burton, *supra* note 10, at 310-11; Holo, *supra* note 5, at 254-55.

requires.<sup>200</sup> According to this literal interpretation of Rule 23(b)(1)(A), incompatible standards of conduct only exist in catch-22 situations in which a plaintiff receives “court orders both permitting and prohibiting the enforcement of the patent against [the same] alleged patent infringer.”<sup>201</sup> In addition, at least one court has suggested that *Blonder-Tongue* effectively reduces the possibility of inconsistent adjudications because a finding of invalidity in one suit would collaterally estop the plaintiff from relitigating the patent’s validity in subsequent actions.<sup>202</sup>

In light of the language and purpose of Rule 23(b), the *Winder* court’s reasoning is persuasive. The plain language of Rule 23(b)(1)(A) demands both the risk of inconsistent or varying adjudications *and* that such adjudications would establish incompatible standards of conduct; the courts that have certified defendant classes of patent infringers under this provision appear to have disregarded the second requirement.<sup>203</sup> The mere possibility that a plaintiff might succeed against some defendants but not others should not suffice to establish incompatible standards of conduct.<sup>204</sup> Because all prospective class actions that satisfy the Rule 23(a) prerequisites might otherwise subject the plaintiff to different verdicts with respect to individual defendants, a broader interpretation of Rule 23(b)(1)(A) would consume the remaining provisions of Rule 23(b), thereby rendering them superfluous.

#### b. Rule 23(b)(1)(B)

Defendant class actions may also be maintained pursuant to Rule 23(b)(1)(B) if prosecuting separate actions would create a risk of “adjudications with respect to individual class members that, as a practical matter, would be dispositive of the interests of the other members not parties to the individual adjudications or would substantially impair or impede their ability to protect their interests.”<sup>205</sup> This subdivision contemplates the prejudice to individual defendants that arises when an adverse judgment against one particular defendant—while not technically dispositive of the rights of other defendants—might

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200. *Winder Licensing, Inc.*, 130 F.R.D. at 394.

201. *Id.*; *Bogosian*, 62 F.R.D. at 131–32.

202. See *Webcraft*, 1985 WL 2270, at \*4.

203. See *Burton*, *supra* note 10, at 310; *Holo*, *supra* note 5, at 237.

204. This reasoning is in line with the general limitation in plaintiff class actions that Rule 23(b)(1)(A) does not apply to situations when some plaintiff class members recover against a defendant but others do not. See *Smith v. Brown & Williamson Tobacco Corp.*, 174 F.R.D. 90, 99 (W.D. Mo. 1997); *Feinstein v. Firestone Tire & Rubber Co.*, 535 F. Supp. 595, 600 n.5 (S.D.N.Y. 1982); see also 5 MOORE ET AL., *supra* note 102, § 23.41[3][a], at 158–60.

205. FED. R. CIV. P. 23(b)(1)(B).

nevertheless impair their ability to defend themselves in subsequent actions.<sup>206</sup> Many of the due process concerns that prescribe the adequacy requirement under Rule 23(a)(4) are similarly implicated in these situations. Like Rule 23(b)(1)(A), courts are divided over the application of Rule 23(b)(1)(B) to defendant classes of patent infringers.

Early courts, citing the complexity and expense of patent infringement actions, held that a ruling of validity against one defendant would substantially impair the interests of other alleged infringers.<sup>207</sup> In *Research Corp.*, for example, the court reasoned:

The difficulty of the subject matter inherent in patent cases . . . gives selected adjudications of validity or invalidity more than the usual weight when a court is considering the adoption of another court's opinion or reasoning by means of comity. This practical fact, added to the great expense of defending a patent suit . . . would tend toward impairing or impeding the nonparty class members' ability to protect their interests.<sup>208</sup>

There is anecdotal and empirical support for the *Research Corp.* court's position. Patent litigation is notoriously complex, and many judges may be ill-equipped to comprehend technical patent claims or expert testimony.<sup>209</sup> Judge Alfred Covello has even equated patent cases to being "hit . . . between [the] eyes with a four-by-four."<sup>210</sup> Indeed, the fact that district court judges improperly construe patent claim terms in 33 percent of cases reveals the inherent difficulty of the subject matter.<sup>211</sup> Furthermore, patent cases are particularly expensive: High-valued patent cases may last two-and-a-half years and cost up to \$4.5 million.<sup>212</sup> Economic principles, therefore, increase the likelihood that courts will defer to another court that has already undertaken the effort to study the patents at issue, to learn the underlying technology, and to review highly technical expert testimony.<sup>213</sup> This deference may impede defendants' practical, real-world ability to protect their interests under Rule 23(b)(1)(B).

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206. See FED. R. CIV. P. 23 advisory committee's note.

207. See *Dale Elecs., Inc. v. R.C.L. Elecs., Inc.*, 53 F.R.D. 531, 537 (D.N.H. 1971); *Research Corp. v. Pfister Associated Growers, Inc.*, 301 F. Supp. 497, 500 (N.D. Ill. 1969); *Technograph Printed Circuits, Ltd. v. Methode Elecs., Inc.*, 285 F. Supp. 714, 723 (N.D. Ill. 1968).

208. *Research Corp.*, 301 F. Supp. at 500. Marketplace sensitivity, which is particularly acute in patent cases, may also warrant class certification under Rule 23(b)(1)(B). *Emp'rs Ins. of Wausau v. Fed. Deposit Ins. Corp.*, 112 F.R.D. 52, 57 (E.D. Tenn. 1986) (distinguishing patent infringement suits).

209. See Moore, *supra* note 12.

210. Kimberly A. Moore, *Judges, Juries, and Patent Cases: An Empirical Peek Inside the Black Box*, 99 MICH. L. REV. 365, 365 (2000).

211. See Moore, *supra* note 12, at 2.

212. Sag & Rohde, *supra* note 11, at 25–26, 30.

213. Burton, *supra* note 10, at 312; see also *Honeywell Int'l Inc. v. United States*, 71 Fed. Cl. 759, 765 (2006) ("[A] determination of infringement of the . . . patent would have a persuasive if not collateral

Nevertheless, the First Circuit held in *Tilley v. TJX Companies, Inc.*<sup>214</sup> that the anticipated effect of stare decisis, without more, is an insufficient justification for class certification under Rule 23(b)(1)(B). In *Tilley*, a copyright case, a graphic artist moved to certify a defendant class consisting of 557 retailers who allegedly copied and distributed her copyrighted wallpaper design.<sup>215</sup> The First Circuit rejected the district court's reliance on *Dale Electronics*<sup>216</sup> and cautioned that such reasoning would render the remaining Rule 23(b) categories superfluous.<sup>217</sup> Because Rule 23(b)(1)(B) was not intended to swallow the other Rule 23(b) subdivisions and because the presence of common questions under Rule 23(a)(2) necessarily means that individual adjudication would have precedential value in subsequent individual litigation, the First Circuit concluded that class certification based on the prospect of stare decisis alone would open the flood gates to class actions that were not intended to be certified.<sup>218</sup>

Courts analyzing the issue in patent cases have further observed that, under *Blonder-Tongue*, separate actions will facilitate rather than impair alleged infringers' ability to protect themselves.<sup>219</sup> Rule 23(b)(1)(B) applies to situations in which separate actions would prejudice the purported defendant class members rather than the plaintiff patentee. After *Blonder-Tongue*, separate adjudications of validity are not binding even if they might carry some weight, and each defendant is entitled to relitigate the issue in subsequent actions.<sup>220</sup> However, one adjudication of invalidity precludes the plaintiff patentee from further litigating the issue.<sup>221</sup> Because individual class members may utilize collateral estoppel to assert patent invalidity against the plaintiff, separate actions may benefit rather than harm the class.<sup>222</sup>

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effect, on future litigation in which infringement of the . . . patent is at issue . . ."); *Nercon Eng'g & Mfg. Co. v. Garvey Corp.*, No. 05-C-1339, 2006 WL 1207846, at \*2 (E.D. Wis. May 1, 2006) ("[J]udicial economy and principles of comity counsel that duplication of efforts is to be avoided. In a patent case, such concerns can be acute because the issues that arise are often complex and accompanied by a steep learning curve . . .").

214. 345 F.3d 34 (1st Cir. 2003).

215. *Id.* at 36.

216. 53 F.R.D. 531 (D.N.H. 1971).

217. *Tilley*, 245 F.3d. at 41–42.

218. *Id.*; see also *Bogosian v. Gulf Oil Corp.*, 62 F.R.D. 124, 132 (E.D. Pa. 1973); *William Goldman Theatres, Inc. v. Paramount Film Distrib. Corp.*, 49 F.R.D. 35, 41 (E.D. Pa. 1969) ("The drafters of Rule 23 . . . did not intend to create a right to a class action simply because an opinion in one suit might be cited as precedent in another. If this were the rule, then almost every action would be susceptible of being brought as a class action."); 5 MOORE ET AL., *supra* note 102, § 23.42.

219. See *Webcraft Techs., Inc. v. Alden Press, Inc.*, No. 85 C 3369, 1985 WL 2270, at \*5 (N.D. Ill. Aug. 9, 1985); *In re Yarn Processing Patent Litig.*, 56 F.R.D. 648, 654 (S.D. Fla. 1972); *Burton*, *supra* note 10, at 311–12.

220. See *Webcraft*, 1985 WL 2270, at \*5.

221. *Id.*

222. *Id.*

## 2. Rule 23(b)(2)

As an initial matter, it is unclear whether Rule 23(b)(2) authorizes defendant class certification at all. This ambiguity may be traced to the language of Rule 23(b)(2), which provides that “[a] class action may be maintained if . . . the party opposing the class has acted or refused to act on grounds that apply generally to the class, so that final injunctive relief or corresponding declaratory relief is appropriate respecting the class as a whole.”<sup>223</sup> Whereas subsections (b)(1) and (b)(3) each explicitly contemplate defendant classes, subsection (b)(2) does not contain any comparable language.<sup>224</sup> This difference has prompted opposing schools of thought as to whether Rule 23(b)(2) provides for defendant class actions: Functionalists overcome this awkward language in order to preserve the purpose and utility of the class action device, while literalists maintain that the rule’s language precludes defendant class actions.<sup>225</sup>

Functionalists have taken several inconsistent approaches to certify defendant classes under Rule 23(b)(2). Some address the language dilemma directly, asserting that defendant class certification is still consistent with the structure and purpose of the rule.<sup>226</sup> Rule 23 generally permits both plaintiff and defendant class actions throughout its provisions.<sup>227</sup> For example, Rule 23(a) provides that members of a class “may sue or be sued” as representative parties.<sup>228</sup> Because the Rule 23(a) prerequisites apply to all class actions certified under Rule 23(b)(2), the functionalists maintain that, logically, Rule 23(b)(2) should be broadly construed to permit defendant class actions as well.<sup>229</sup> Furthermore, if

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223. FED. R. CIV. P. 23(b).

224. See *Nat’l Union Fire Ins. Co. v. Midland Bancor, Inc.*, 158 F.R.D. 681, 688 (D. Kan. 1994); David H. Taylor, *Defendant Class Actions Under Rule 23(b)(2): Resolving the Language Dilemma*, 40 U. KAN. L. REV. 77, 79 (1991). Rule 23(b)(1) permits class certification if “prosecuting separate actions by or against individual class members would create a risk of” incompatible or prejudicial adjudications. FED. R. CIV. P. 23(b)(1) (emphasis added). Similarly, Rule 23(b)(3) contemplates “the class members’ interests in individually controlling the prosecution or defense of separate actions.” FED. R. CIV. P. 23(b)(3) (emphasis added).

225. See Taylor, *supra* note 224, at 85–107.

226. See Scott Douglas Miller, Note, *Certification of Defendant Classes Under Rule 23(b)(2)*, 84 COLUM. L. REV. 1371, 1376–78 (1984).

227. See FED. R. CIV. P. 23(a) (a class “may sue or be sued as representative parties”); FED. R. CIV. P. 23(a)(3) (requiring that the “claims or defenses of the representative parties are typical of the claims or defenses of the class”); FED. R. CIV. P. 23(b)(1) (permitting class certification if “prosecuting separate actions by or against individual class members” would create a risk of incompatible or prejudicial adjudications); FED. R. CIV. P. 23(b)(3)(A) (contemplating the class members’ interests in “controlling the prosecution or defense of separate actions”); FED. R. CIV. P. 23(b)(3)(B) (considering litigation “already begun by or against class members”).

228. FED. R. CIV. P. 23(a).

229. See *United States v. Trucking Emp’rs, Inc.*, 75 F.R.D. 682, 691–93 (D.D.C. 1977); 2 CONTE & NEWBERG, *supra* note 2, § 4:66, at 398; Miller, *supra* note 226, at 1376–78.



the drafters intended to limit its application to plaintiff classes, they would have employed the more accurate term “defendants” instead of “the party opposing the class.”<sup>230</sup>

The second method adopted by functionalists is to concede that the language of Rule 23(b)(2) is inapplicable to defendant classes, yet nonetheless to certify defendant classes on the grounds that they are “consistent with the interests of judicial administration and justice which Rule 23 is meant to further.”<sup>231</sup> For example, *Marcera v. Chinlund*<sup>232</sup> involved the widespread practice of denying contact visitation to pretrial detainees.<sup>233</sup> The Second Circuit had previously held that detainees were entitled to contact visitations from friends and family, but those cases were adjudicated on a piecemeal basis, one institution at a time.<sup>234</sup> As a result, prior to *Marcera*, forty-seven county sheriffs continued to deny contact visitations to pretrial detainees.<sup>235</sup> To enforce their right to contact visitation, two inmates sought declaratory and injunctive relief from a defendant class of county sheriffs.<sup>236</sup> The Second Circuit certified the defendant class, reasoning that “although a literal reading of the rule might indicate otherwise, it is now settled that 23(b)(2) is an appropriate vehicle for injunctive relief against a class of local public officials.”<sup>237</sup> Courts have confined this expansive approach to civil rights actions in order to foster the most important substantive policies.<sup>238</sup>

The most prevalent approach to certifying defendant classes of alleged patent infringers under Rule 23(b)(2) is to do so on the basis of the patentee’s conduct. A literal reading of the rule requires that the plaintiff—the party opposing the defendant class—has acted on grounds that apply generally to the class.<sup>239</sup> Several courts have held that by obtaining patents, notifying alleged infringers of its patent rights, threatening infringement suits if licenses are not accepted, and filing suit, a plaintiff patentee has acted on grounds generally applicable to the class and has therefore satisfied the requirements of subsection

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230. See Miller, *supra* note 226, at 1377.

231. Doss v. Long, 93 F.R.D. 112, 119 (N.D. Ga. 1981); see also *Marcera v. Chinlund*, 595 F.2d 1231, 1238 (2d Cir. 1979); *United States v. Rainbow Family*, 695 F. Supp. 314, 320 (E.D. Tex. 1988); *Hopson v. Schilling*, 418 F. Supp. 1223, 1237 (N.D. Ind. 1976).

232. 595 F.2d 1231 (2d Cir. 1979), *vacated on other grounds sub nom.* *Lombard v. Marcera*, 442 U.S. 915 (1979).

233. *Id.* at 1234–35.

234. *Id.*

235. *Id.*

236. *Id.* at 1235.

237. *Id.* at 1238.

238. See *id.* at 1240; *McKay v. Cnty. Election Comm’rs for Pulaski Cnty.*, 158 F.R.D. 620, 625 (E.D. Ark. 1994); *United States v. Rainbow Family*, 695 F. Supp. 314, 320 (E.D. Tex. 1988); *Doss v. Long*, 93 F.R.D. 112, 119 (N.D. Ga. 1981).

239. FED. R. CIV. P. 23(b)(2).

(b)(2).<sup>240</sup> However, critics claim that courts employing this approach are making a travesty of the rule.<sup>241</sup> First, it permits plaintiffs to unilaterally define the scope of a defendant class by choosing which defendants to notify, threaten, and sue. Such a result would render Rule 23(b)(2) superfluous.<sup>242</sup> Moreover, this approach misconstrues the connection between the action and relief requirements of subdivision (b)(2).<sup>243</sup> In a defendant class action, it is the plaintiff whose action must make injunctive or declaratory relief appropriate. However, although the plaintiff may act on grounds generally applicable to the class, it typically does not seek injunctive or declaratory relief from its own actions. Rather, the plaintiff seeks relief on the basis of the defendants' actions.

The literalists oppose class certification on the grounds that the plain language of Rule 23(b)(2), read in isolation, is incompatible with defendant classes. The appellate courts that have carefully analyzed the applicability of subdivision (b)(2) to defendant classes endorse this view.<sup>244</sup> The First Circuit, for example, illustrated this incompatibility in *Tilley*:

In ordinary circumstances, it will be the defendant—the alleged wrongdoer—who “has acted or refused to act on grounds generally applicable to the class,” thereby making certification of a *plaintiff* class appropriate. In cases involving garden-variety defendant classes, there will be no single act or refusal to act on the part of the plaintiff (the party opposing the class) that makes injunctive or declaratory relief appropriate. Rather, it will be the defendants—the members of the putative class—who allegedly have acted in the same tortious or unlawful way . . . .<sup>245</sup>

Thus, proceeding with class treatment “would create the anomalous situation in which the plaintiffs' own actions . . . make injunctive relief against the defendants appropriate.”<sup>246</sup> In addition to the rule's text, literalists point to the absence of any reference to defendant classes in its drafting history as evidence that Rule 23(b)(2) only contemplates the certification of a plaintiff class

240. See *Webrcraft Techs., Inc. v. Alden Press, Inc.*, No. 85 C 3369, 1985 WL 2270, at \*5 (N.D. Ill. Aug. 9, 1985); *Dale Elecs., Inc. v. R.C.L. Elecs., Inc.*, 53 F.R.D. 531, 537 (D.N.H. 1971); *Research Corp. v. Pfister Associated Growers, Inc.*, 301 F. Supp. 497, 500 (N.D. Ill. 1969); *Technograph Printed Circuits, Ltd. v. Methode Elecs., Inc.*, 285 F. Supp. 714, 723 (N.D. Ill. 1968).

241. See Ancheta, *supra* note 5, at 314.

242. Miller, *supra* note 226, at 1392; see also Taylor, *supra* note 224, at 100.

243. See Ancheta, *supra* note 5, at 315.

244. See *Tilley v. TJX Cos.*, 345 F.3d 34, 39–40 (1st Cir. 2003); *Henson v. E. Lincoln Twp.*, 814 F.2d 410, 414 (7th Cir. 1987); *Thompson v. Bd. of Educ. of the Romeo Cmty. Sch.*, 709 F.2d 1200, 1203–04 (6th Cir. 1983); *Paxman v. Campbell*, 612 F.2d 848, 854 (4th Cir. 1980); *Greenhouse v. Greco*, 617 F.2d 408, 413 n.6 (5th Cir. 1980). At least one district court in the Ninth Circuit has also endorsed the literalist approach. See *Leer v. Wash. Educ. Ass'n*, 172 F.R.D. 439, 452 (W.D. Wash. 1997).

245. *Tilley*, 345 F.3d at 39.

246. See *Paxman*, 612 F.2d at 854.

against a single defendant.<sup>247</sup> Although some courts have recognized defendant classes under Rule 23(b)(2), they have been limited to actions to “enjoin a group of local public officials from enforcing a locally administered state statute or similar administrative policies.”<sup>248</sup>

In light of this comprehensive authority, it appears that the better approach is to restrict Rule 23(b)(2) to limited situations: (1) plaintiff classes seeking injunctive relief; (2) civil rights actions in which a party seeks to bind a class of state officials charged with enforcing an allegedly unconstitutional law; and (3) reverse declaratory judgment actions in which a defendant class seeks a declaration of nonliability against a plaintiff class. Indeed, actions against a defendant class of alleged patent infringers are incongruent with the language and purpose of Rule 23(b)(2). If the mere act of enforcing one’s patent rights were sufficient to satisfy Rule 23(b)(2)’s requirements, then all defendant classes of patent infringers would necessarily be certified, thereby rendering the provision gratuitous. Given the heightened due process concerns<sup>249</sup> that accompany defendant class actions, such results are not desirable.<sup>250</sup>

### 3. Rule 23(b)(3)

Rule 23(b)(3) serves as a broad catch-all provision for actions that fail to qualify for class treatment under subdivisions (b)(1) and (b)(2), yet nonetheless achieve “economies of time, effort, and expense, and promote uniformity of decision to persons similarly situated, without sacrificing procedural fairness or bringing about other undesirable results.”<sup>251</sup> Class actions are permitted under Rule 23(b)(3) if: (1) questions of law or fact common to the class predominate over questions affecting only individual members; and (2) a class action is superior to other methods for fairly and efficiently adjudicating the dispute.<sup>252</sup> The rule’s language unambiguously contemplates defendant classes: A court’s analysis

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247. See *Henson*, 814 F.2d at 414.

248. *Greenhouse*, 617 F.2d at 413 n.6.

249. See *supra* Part II.A.4.

250. Even if a plaintiff patentee overcomes this language predicament and establishes that it acted or refused to act on grounds generally applicable to the class, Rule 23(b)(2) also requires that injunctive or corresponding declaratory relief is the appropriate remedy. *Nelsen v. King Cnty.*, 895 F.2d 1248, 1255 (9th Cir. 1990) (“Class certification . . . is not appropriate when the relief requested relates ‘exclusively or predominantly to money damages.’” (quoting *Williams v. Owens-Ill., Inc.*, 665 F.2d 918, 929 (9th Cir. 1982))). Plaintiffs may satisfy this requirement by limiting the class issues to claim construction, validity, and enforceability, in which case relief would relate exclusively to a declaratory judgment.

251. *Amchem Prods., Inc. v. Windsor*, 521 U.S. 591, 615 (1997) (quoting FED. R. CIV. P. 23 advisory committee’s note); see also *J.B. ex rel. Hart v. Valdez*, 186 F.3d 1280, 1298 (10th Cir. 1999) (Briscoe, J., concurring in part and dissenting in part); Louis W. Hensler III, *Class Counsel, Self-Interest and Other People’s Money*, 35 U. MEM. L. REV. 53, 60 (2004).

252. FED. R. CIV. P. 23(b)(3).

may consider, for example, “the class members’ interests in individually controlling the *prosecution or defense* of separate actions.”<sup>253</sup> Unlike subdivisions (b)(1) and (b)(2), however, Rule 23(b)(3) contains an opt-out provision mandating that all class members receive notice and the opportunity to opt out of the class litigation.<sup>254</sup> This additional procedural requirement has posed a unique and often insurmountable barrier to the certification of defendant classes of patent infringers.

a. Predominance

Although similar to Rule 23(a)(2)’s commonality prerequisite, the predominance prong of Rule 23(b)(3) is “far more demanding’ because it ‘tests whether the proposed classes are sufficiently cohesive to warrant adjudication by representation.’”<sup>255</sup> In contrast to Rule 23(a)(2), which merely focuses on the existence of common issues, Rule 23(b)(3) “focuses on the relationship between common and individual issues.”<sup>256</sup> Yet despite this stringent standard, defendant classes of patent infringers are particularly well equipped to satisfy the predominance test when class treatment is properly limited to the common issues of claim construction, validity, and enforceability. These preliminary issues have generally predominated because they turn on the plaintiff’s patent claims and conduct rather than the accused infringers’ devices.<sup>257</sup> As a result, there are few, if any, questions affecting only individual members. In addition, collective adjudications with respect to these common issues will necessarily reduce the time, effort, and expense involved in litigation, thereby advancing Rule 23(b)(3)’s goal of achieving judicial economy.

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253. FED. R. CIV. P. 23(b)(3)(A) (emphasis added); see also Ancheta, *supra* note 5, at 300. In addition, Rule 23(b)(3) explicitly permits courts to consider “the extent and nature of any litigation concerning the controversy already begun *by or against* class members.” FED. R. CIV. P. 23(b)(3)(B) (emphasis added).

254. See FED. R. CIV. P. 23(c)(2)(B).

255. *Gene & Gene LLC v. BioPay LLC*, 541 F.3d 318, 326 (5th Cir. 2008) (quoting *Amchem Prods., Inc. v. Windsor*, 521 U.S. 591, 623–24 (1997)). When common questions make up a significant portion of a case, judicial economy justifies handling the dispute on a representative rather than an individual basis. See *Hanlon v. Chrysler Corp.*, 150 F.3d 1011, 1022 (9th Cir. 1998); *Valentino v. Carter-Wallace, Inc.*, 97 F.3d 1227, 1234 (9th Cir. 1996).

256. See *Hanlon*, 150 F.3d at 1022.

257. See *Research Corp. v. Pfister Associated Growers, Inc.*, 301 F. Supp. 497, 502–03 (N.D. Ill. 1969); *Technograph Printed Circuits, Ltd. v. Methode Elecs., Inc.*, 285 F. Supp. 714, 723–24 (N.D. Ill. 1968). Of course, courts are less willing to certify defendant classes when individualized inquiries are necessary to determine liability. See *Kurihara v. Best Buy Co., Inc.*, No. C-06-01884, 2007 WL 2501698, at \*11 (N.D. Cal. Aug. 30, 2007).

b. Superiority

The superiority prong of Rule 23(b)(3) raises unique difficulties for defendant classes. This subdivision requires a determination of whether the objectives of the class action procedure—economies of time, effort, and expense, and the promotion of uniform decisions—will be achieved in a particular case.<sup>258</sup> Because “massive opt-out undermines the breadth and finality of judgments, increases the possibility of duplicate litigation, and lessens the probability of giving plaintiffs full relief,” courts often assess the likelihood that class members will invoke Rule 23(b)(3)’s opt-out provision to exclude themselves from binding class litigation.<sup>259</sup>

Unlike absent plaintiff class members, who stand to gain in the event of a favorable outcome but never risk exposure to personal liability, absent defendant class members have a strong incentive to opt out of class litigation. In the event of an adverse judgment, defendant class members face equitable and monetary liability. One would expect that defendant class members would prefer to opt out and avoid potential liability—or at least force the plaintiff to sue them in a more convenient forum.<sup>260</sup> For example, *In re Arthur Treacher’s Franchise Litigation*<sup>261</sup> involved a defendant class of franchisees who failed to pay contractually mandated royalty payments to the franchisor. The court held that class certification under Rule 23(b)(3) would be “a pointless judicial exercise” because “[i]t would be patently unrealistic to assume that any of the proposed class members, given the amounts of money they each owe and their probable and natural desire to defend any action in their own respective forums, would voluntarily elect to become a defendant in the class action.”<sup>262</sup> Because defendant class members will presumably opt out, thereby frustrating the policies that justify collective adjudication in the first place, Rule 23(b)(3) is generally inappropriate for defendant class actions.

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258. See *Hanlon*, 150 F.3d at 1023. The nonexclusive matters pertinent to a determination of superiority under Rule 23(b)(3) include:

(A) the class members’ interests in individually controlling the prosecution or defense of separate actions; (B) the extent and nature of any litigation concerning the controversy already begun by or against class members; (C) the desirability or undesirability of concentrating the litigation of the claims in the particular forum; and (D) the likely difficulties in managing a class action.

FED. R. CIV. P. 23(b)(3).

259. *Williams v. State Bd. of Elections*, 696 F. Supp. 1574, 1577 (N.D. Ill. 1988); see also *In re N.D. of Cal., Dalkon Shield IUD Prods. Liab. Litig.*, 693 F.2d 847, 856 (9th Cir. 1982); *Clark v. McDonald’s Corp.*, 213 F.R.D. 198, 224–25 (D.N.J. 2003); *In re Arthur Treacher’s Franchise Litig.*, 93 F.R.D. 590, 595 (E.D. Pa. 1982); 5 MOORE ET AL., *supra* note 102, § 23.44[4], at 216–17.

260. 2 CONTE & NEWBERG, *supra* note 2, § 4:61, at 184; Burton, *supra* note 10, at 306.

261. 93 F.R.D. 590 (E.D. Pa. 1982).

262. *Id.* at 595–96.

Some courts, however, have certified defendant classes under Rule 23(b)(3) when circumstances present economic or strategic incentives to remain in the class.<sup>263</sup> In *Thillens, Inc. v. Community Currency Exchange Association of Illinois, Inc.*,<sup>264</sup> the defendant trade association allegedly conspired to restrain the plaintiff's trade in violation of federal and state antitrust laws.<sup>265</sup> The plaintiff moved to certify a defendant class consisting of former and current members of the defendant trade association.<sup>266</sup> The *Thillens* court rejected the notion that class members might "jump ship" and proceeded to certify the class under Rule 23(b)(3).<sup>267</sup> The court reasoned that a class action was superior to separate proceedings because individual defendants would not bear the cost of litigation.<sup>268</sup> The court further observed that defendants who opted out of the class risked losing the effect of a favorable decision.<sup>269</sup> Therefore, the economic benefits of a joint defense minimized any risk that defendant class members would opt out of the class litigation.<sup>270</sup>

Although defendants with insufficient resources may elect to remain in a class action to avoid the expense of litigation, the Supreme Court's decision in *Blonder-Tongue* makes this position untenable in patent cases. Instead, *Blonder-Tongue* gives alleged patent infringers every incentive to opt out of a defendant class action. *Blonder-Tongue* created an asymmetry between plaintiff patent owners and defendant infringers: Alleged infringers may utilize defensive collateral estoppel to assert patent invalidity against a patent holder after a single unfavorable judgment, whether or not the alleged infringer was involved in the prior litigation, and yet a patent holder who obtains a judgment of patent validity must still relitigate the same issue in all subsequent suits against different defendants.<sup>271</sup>

In light of the Supreme Court's decision in *Blonder-Tongue*, alleged patent infringers have every incentive to opt out of a proposed defendant class. If the representative defendants successfully obtain judgments of patent invalidity or unenforceability, those who opt out may still exploit the favorable judgments in subsequent litigation. If, on the other hand, the plaintiff successfully obtains

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263. See *Thillens, Inc. v. Cmty. Currency Exch. Ass'n of Ill.*, 97 F.R.D. 668, 682–83 (N.D. Ill. 1983); *In re Gap Stores Sec. Litig.*, 79 F.R.D. 283, 306 (N.D. Cal. 1978).

264. 97 F.R.D. 668 (N.D. Ill. 1983).

265. *Id.* at 672.

266. *Id.*

267. *Id.* at 682–83.

268. *Id.* at 682.

269. *Id.*

270. *Id.*

271. See *supra* Part I.D. The Federal Circuit subsequently extended the principle of *Blonder-Tongue* to the issue of patent enforceability as well. See *Gen. Electro Music Corp. v. Samick Music Corp.*, 19 F.3d 1405, 1413 (Fed. Cir. 1994).

judgments of patent validity or enforceability, those who opt out will have the opportunity to individually defend their interests and will be in no worse position. Moreover, defendants with limited resources will not realize any economic benefits by remaining in the class action, and those who opt out will effectively continue to reap the benefits of the named representative's financial resources and legal counsel. Because *Blonder-Tongue* renders mass opt-out a foregone conclusion, the class action device is not a superior method of adjudicating patent infringement disputes under Rule 23(b)(3).

### III. A PROPOSED SOLUTION

In light of the inadvertent consequences of the Supreme Court's decision in *Blonder-Tongue* and the high costs associated with patent litigation, defendant classes present four distinct procedural advantages in patent infringement proceedings. Defendant class actions: (1) achieve economic goals by conserving judicial resources and private litigation costs; (2) increase access to justice by furnishing a means to litigate low-stakes claims; (3) effectuate the patent system's substantive policies by deterring nuisance-value suits and encouraging defendants to challenge bad patents; and (4) reduce the occurrence of judicial error by extending the scope of collateral estoppel to absent class members. The pervasive utility of defendant class actions supports the position that they are a valuable and effective means of adjudicating patent disputes and justifies expanded class certification.

However, despite advancing the objectives that Rule 23 was designed to serve, defendant class certification has proven problematic. At the root of this conflict is the fundamentally incompatible language of the rule itself. Although Rule 23 unambiguously provides that a class member "may sue or be sued" on behalf of the class, the rule prescribes the same procedures for certifying both plaintiff and defendant classes.<sup>272</sup> Drafting history indicates that Rule 23 was designed in contemplation of a plaintiff class against a single defendant.<sup>273</sup> As a result, courts have struggled to fit potential defendant classes into an unwieldy framework.

In particular, the definitions of permissible classes under Rule 23(b) translate awkwardly in the typical patent infringement scenario. Except on rare occasions, courts have been reluctant to certify defendant classes of patent infringers under Rule 23(b)(1). With respect to subdivision (b)(1)(A), most

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272. FED. R. CIV. P. 23; see 2 CONTE & NEWBERG, *supra* note 2, § 4:46, at 336.

273. See *Tilley v. TJX Cos.*, 345 F.3d 34, 40 (1st Cir. 2003) ("[T]he drafting history of Rule 23(b)(2) makes no reference to defendant classes, using only examples involving plaintiff classes to illustrate how the rule is designed to operate.").

courts agree that inconsistent adjudications on the issue of validity will not subject a patent holder to the incompatible standards of conduct required for class certification. Likewise, subdivision (b)(1)(B) does not provide a basis for defendant class certification; under the majority approach, the anticipated effect of stare decisis is an insufficient justification for class certification. In addition, read in isolation, the plain language of Rule 23(b)(2) appears to preclude defendant class certification. Finally, Rule 23(b)(3) is rendered ineffective by an opt-out provision, which will unquestionably be invoked by rational defendant class members.

This Comment advocates a framework that reconciles the utility of defendant class actions and the incompatible provisions of Rule 23. Inasmuch as Rule 23 unambiguously authorizes defendant class actions and purports to advance the “efficiency and economy of litigation,”<sup>274</sup> expanding Rule 23 to encompass defendant classes of patent infringers is consistent with the spirit and principles of the rule. However, this consideration alone is incomplete; a thorough analysis reveals the need for caution. The simple reality is that defendant classes are inherently different than plaintiff classes: Only defendant class members risk liability while being deprived of their day in court.<sup>275</sup> Due process mandates that adequate safeguards be implemented to protect absent class members. The ideal resolution, therefore, recognizes the interplay between the comprehensive goals of Rule 23 and fundamental fairness to absentees. This Comment proposes a three-pronged approach designed to strike a balance between the advantages and hazards of collective adjudication: (1) repudiate the Rule 23(b)(3) opt-out provision in defendant class proceedings; (2) expand Rule 23(c)(2) to require the best notice practicable to all defendant class members; and (3) implement a fee-shifting system to award attorneys’ fees to successful defendant classes.<sup>276</sup>

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274. *Am. Pipe & Constr. Co. v. Utah*, 414 U.S. 538, 553 (1974).

275. “[O]ur ‘deep-rooted historic tradition [is] that everyone should have his own day in court.’” *Martin v. Wilks*, 490 U.S. 755, 762 (1989) (quoting 18 C. WRIGHT, A. MILLER, & E. COOPER, *FEDERAL PRACTICE AND PROCEDURE* § 4449 (1981)).

276. This Comment proposes a modification to Rule 23(b)(3)’s opt-out provision, codified in Rule 23(c)(2). The circumstances do not call for modifications to subdivisions (b)(1) or (b)(2). First, a proposed class only needs to satisfy the requirements of one Rule 23(b) subdivision. Modifying all three subdivisions to encompass defendant classes would create needless confusion and judicial uncertainty during the early stages of the new doctrine. Second, defendant classes of patent infringers are particularly compatible with the catch-all provision of Rule 23(b)(3) because they promote economic and efficiency goals. Third, defendant classes of patent infringers do not neatly fit into the “break the bank” or “civil rights injunction” categories of (b)(1) and (b)(2). Finally, the proposed modification to Rule 23(b)(3)’s opt-out provision is the least invasive change. Courts and practitioners are already familiar with the mandatory nature of subdivisions (b)(1) and (b)(2), which do not permit class members to exclude themselves from litigation.



### A. Repudiation of the Rule 23(b)(3) Opt-Out Provision

Under the current doctrine, a defendant class member's right to unilaterally exclude itself from a Rule 23(b)(3) proceeding creates a substantial—and often dispositive—barrier to class certification. In light of *Blonder-Tongue*, alleged patent infringers have no reasonable incentive to remain in a class. Those who opt out may free ride off of any favorable judgments obtained by the representative defendants without assuming financial responsibility or risk. Obviously, collective actions are only effective to the extent that class members do not exclude themselves from the binding force of a judgment. Thus, notwithstanding a proposed class's ability to satisfy the prerequisites of Rule 23(a) and “achieve economies of time, effort, and expense, and promote uniformity of decisions,” the opt-out provision empowers defendants to effectively terminate a Rule 23(b)(3) class action.<sup>277</sup> This outcome is problematic on two levels. First, the opt-out provision frustrates the policy objectives of the class action device.<sup>278</sup> Second, equitable principles suggest that defendant class members should not be permitted to bar class certification for an illegitimate purpose such as free riding.

It is unclear what function, if any, is served by an opt-out regime in defendant class actions. As an initial matter, it appears that the opt-out provision was designed in contemplation of a plaintiff class rather than a defendant class. The Advisory Committee's notes to Rule 23 explain the policy underlying a class member's right to exclude itself from a Rule 23(b)(3) class action: “[T]he interests of the individuals in pursuing their own litigations may be so strong here as to warrant denial of a class action altogether. Even when a class action is maintained under subdivision (b)(3), this individual interest is respected.”<sup>279</sup> The drafting history makes no reference to defendant class proceedings.<sup>280</sup> The court in *United States v. Trucking Employers, Inc.*<sup>281</sup> also questioned whether the circumstances justifying the use of an opt-out system in plaintiff class actions translate to defendant class actions:

Unfortunately, the committee provides no examples of circumstances in which a defendant might be justified in excluding himself from a proper class action. Nor does it discuss the practical implications of exclusion from a defendant class. The court questions the wisdom of permitting

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277. *Amchem Prods., Inc. v. Windsor*, 521 U.S. 591, 615 (1997) (quoting FED. R. CIV. P. 23 advisory committee's note).

278. See Morabito, *supra* note 9, at 202.

279. FED. R. CIV. P. 23 advisory committee's note.

280. See *id.*

281. 75 F.R.D. 682 (D.D.C. 1977).

defendants to opt out of a suit that is properly certifiable as a defendant class action.<sup>282</sup>

Plaintiffs stand in an inherently different position than defendants in litigation. Consider, for example, an ordinary civil action where an individual plaintiff sues an individual defendant. The defendant may not escape potential liability by merely removing himself from the lawsuit; he may only present his defenses and rebut the plaintiff's claims.<sup>283</sup> The current framework of Rule 23 fails to recognize this distinction. An opt-out provision for defendant class members conflicts with our traditional jurisprudence and serves only to bar class certification in patent infringement cases.

This Comment advocates a new framework that repudiates Rule 23(b)(3)'s opt-out provision for defendant class members in patent infringement litigation, thereby eliminating a substantial barrier to defendant class certification and advancing the policy objectives of Rule 23. Significantly, a similar standard has proven workable in practice. Comparable approaches have been adopted by the Uniform Class Actions Act, as well as Iowa, New Hampshire, and North Dakota.<sup>284</sup>

#### B. Mandatory Notice to Defendant Class Members

Notwithstanding the adequacy prerequisite of Rule 23(a)(4), fundamental fairness cautions that any potential prejudice to absent defendant class members should be counterbalanced by additional procedural safeguards to protect their interests. Rule 23 currently establishes a number of procedural safeguards designed to protect the due process interests of absent plaintiff and defendant class members. Rule 23(c)(2), for example, requires the best notice practicable to Rule 23(b)(3) class members.<sup>285</sup> If a court is unsatisfied with the adequacy of representation, it may also permit individual defendants to join as representatives or present individual defenses.<sup>286</sup> Finally, Rule 23 provides for a series of protective measures governing the settlement of class actions.<sup>287</sup>

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282. *Id.* at 693 n.8.

283. See Morabito, *supra* note 9, at 213–14.

284. See *id.* at 222–23.

285. See FED. R. CIV. P. 23(c)(2).

286. See *Harris v. Graddick*, 593 F. Supp. 128, 137 (M.D. Ala. 1984) (concluding that an absent class member “may request to be joined as a named defendant, and may present to the court any defenses inadequately presented or not already presented”); FED. R. CIV. P. 23 advisory committee’s note (“An order embodying a determination can be conditional; the court may rule, for example, that a class action may be maintained only if the representation is improved through intervention of additional parties of a stated type.”).

287. See FED. R. CIV. P. 23(e).

This Comment proposes that expanded notice provisions accompany the aforementioned changes to Rule 23(b)(3)'s opt-out provision. Specifically, this Comment suggests that courts direct the best notice practicable to defendant class members certified under any Rule 23(b) subdivision. By providing more absent class members with an opportunity to join the litigation, extensive notice requirements will alleviate some of the due process concerns inherent in defendant class actions. Moreover, a mandatory notice requirement is practical in light of Rule 23(c)(2), which provides courts with the discretion to direct "appropriate notice" to Rule 23(b)(1) or (b)(2) class members.<sup>288</sup> A mandatory notice provision merely codifies the judgment that, as a matter of law, the appropriate notice to absent defendant class members is the best notice practicable under the circumstances.

### C. Fee-Shifting Provision for Attorneys' Fees

Reforming Rule 23 to facilitate defendant class actions in patent infringement litigation is only half the battle. An effective incentive system is equally important because society cannot fully realize the economic and substantive goals of collective adjudication unless one party has a practical incentive to request defendant class certification. Whereas plaintiffs with strong patents will naturally have every incentive to achieve the economy of scale benefits conferred by defendant classes, defendants will be reluctant to assume the costs associated with class representation.<sup>289</sup> This dichotomy presents a serious issue when plaintiffs with bad patents file nuisance-value suits to extract licensing fees from alleged infringers: Plaintiffs are incentivized to shake down each alleged infringer seriatim, and defendants are incentivized to settle rather than incur the high costs of litigation.<sup>290</sup> Because society is better off when bad patents are removed from the marketplace, there is a glaring need to recruit capable entrepreneurs to utilize defendant classes and thereby deter nuisance-value suits.

The conventional solution to this tension in plaintiff class actions is to provide class attorneys with legal fees based on a share of the common fund recovered at trial.<sup>291</sup> Attorneys are only entitled to fees when the class prevails, but the large potential rewards are sufficient to persuade attorneys to prosecute

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288. FED. R. CIV. P. 23(c)(2)(A); see also Holo, *supra* note 5, at 265.

289. See 2 CONTE & NEWBERG, *supra* note 2, § 4:65; Burton, *supra* note 10, at 292–93. Plaintiffs will also have a strong incentive to utilize defendant class actions in order to eliminate the risk that a court will erroneously return a false positive judgment. See *supra* Part I.D.

290. See Netto, *supra* note 6, at 59 (advocating for compulsory aggregation of defenses); see also *supra* Part I.C.

291. Hamdani & Klement, *supra* note 8, at 714–15.

the action.<sup>292</sup> However, this method is unworkable in the defendant class context.<sup>293</sup> When a defendant class wins, no money changes hands, and thus there is no common fund from which to compensate attorneys.<sup>294</sup>

Instead, this Comment supports a one-sided fee-shifting system under which plaintiffs must pay the defendant class's attorneys' fees if the class prevails at trial. The class attorney would not, however, be entitled to any fees if the plaintiff prevails.<sup>295</sup> This approach serves two important goals: (1) it provides incentives for class attorneys to identify infringement actions involving weak patents, to locate other potential infringers, and to petition the court for class certification; and (2) it deters plaintiffs from pursuing frivolous litigation.<sup>296</sup> Moreover, a fee-shifting system is consistent with both the patent regime, which awards reasonable attorneys' fees to the prevailing party in "exceptional cases,"<sup>297</sup> and class actions seeking injunctive or declaratory relief, which often employ fee-shifting rules to compensate class attorneys.<sup>298</sup>

## CONCLUSION

Defendant class actions inherently allow parties to exploit economy of scale efficiencies in litigation. When utilized in patent infringement cases, defendant class actions also advance the policy objectives underlying substantive patent law and rectify the system's asymmetrical treatment of patent owners and infringers. While defendant class actions serve as a valuable procedural tool, the existing framework codified in Rule 23 fails to adequately provide for defendant class certification. As a result, the benefits of defendant class actions remain untapped in the patent system. Careful analysis reveals that the Rule 23(b)(3) opt-out provision is largely responsible for this outcome. Textual and historical evidence suggests that this provision serves no legitimate function in the context of defendant classes, yet it creates an often insurmountable barrier to defendant class certification. By prohibiting mass opt-out by defendant class members in patent infringement litigation, requiring comprehensive notice, and providing

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292. See Alon Klement & Zvika Neeman, *Incentive Structures for Class Action Lawyers*, 20 J.L. ECON. & ORG. 102 (2004).

293. Hamdani, *supra* note 8, at 715.

294. *Id.*; Netto, *supra* note 6, at 111–16.

295. See Hamdani & Klement, *supra* note 8, at 715–17.

296. See *id.* at 716 n.133; Netto, *supra* note 6, at 112–16. This method of awarding attorneys' fees to the prevailing defendant is similar to the English Rule, under which the losing party invariably pays the successful party's attorneys' fees. See 4 CONTE & NEWBERG, *supra* note 2, § 14:1, at 503. By contrast, under the American Rule each party typically bears its own litigation expenses. *Id.* Yet, hundreds of federal statutes include fee-shifting provisions. *Id.*

297. 35 U.S.C. § 285 (2006).

298. See Hamdani & Klement, *supra* note 8, at 716–17.

attorneys' fees to encourage representation of defendant classes, a modified Rule 23 framework will promote defendant class certification without risking the due process concerns inherent in defendant class actions, and society can reap the benefits.