

## IN FOCUS

### INTELLECTUAL PROPERTY

# Taking charge of patent megacases

Often, multiple cases get pretrial consolidation before MDL Panel.

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THE AMERICAN Intellectual Property Law Association 2007 Report of the Economic Survey notes that the median cost for litigating a patent infringement case with greater than \$25 million at risk is \$5 million. See [www.aipla.org](http://www.aipla.org) (report available to members only). In an era when first-year associate salaries have now reached \$180,000, such costs may appear comparatively modest to more jaded practitioners. There are, however, a small number of patent cases whose stakes and budgets far exceed the reported results of any survey.

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These megacases involve bet-the-company-stakes, scores of attorneys and budgets that attract the attention of the board of directors in even the largest corporations.

Patent megacases often begin in popular patent venues, such as the Eastern District of Texas, the District of Delaware or the U.S. International Trade Commission (ITC). When there are multiple cases in different districts, pretrial consolidation before the Judicial Panel on Multidistrict Litigation (MDL Panel) is likely. Created in 1968, the MDL Panel evaluates whether civil actions in different districts involve common facts such that they should be transferred to a single district for centralized pretrial proceedings, irrespective of personal jurisdiction or venue considerations. 28 U.S.C. 1407. Cases are remanded to the originating court for trial.

Through Sept. 30, 2007, the MDL Panel reports that it has successfully terminated 67 patent-based MDL proceedings. Some of these were truly mammoth. The *Butterfield Patent Infringement Litig.*, MDL No. 29 (S.D. Fla.), involved 112 separate cases. The *Yarn Processing Patent Validity Litig.*, MDL nos. 82, 574 (W.D.N.C.), consisted of two MDL proceedings and a total of

119 separate cases.

There are currently 12 active MDL proceedings involving patents. And in what could be seen as an unintended argument in favor of pay raises for federal judges, Judge Gregory M. Sleet of the District of Delaware currently has two of the active MDL patent cases.

Although not as large in terms of numbers of cases as some of their predecessors, the active patent MDL proceedings are all massive litigations in their own right. *In re Katz Interactive Call Processing Patent Litig.*, MDL No. 1816 (C.D. Calif.), for example, involves 25 cases. Complying with the recent electronic discovery amendments to Fed. R. Civ. P. 26 in litigation involving dozens of cases is a daunting prospect which, in itself, makes these active MDL cases more complicated than their predecessors.

It is noteworthy that MDL proceedings are not the exclusive domain of major corporations. German licensing company Papst Licensing GmbH has shown that MDL proceedings may be effectively managed by smaller companies. Having successfully resolved the Papst MDL in the Eastern District of Louisiana, MDL No. 1298, Papst had its motion for centralization of its most recent patent enforcement litigation

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granted on Nov. 30, 2007. *In Re Papst Licensing Digital Camera Patent Litigation*, MDL No. 1880 (D.D.C.).

One court that hears some of the biggest megacases isn't a court at all. The ITC has jurisdiction under § 337 of the Tariff Act of 1930 to order the exclusion of foreign goods that infringe a U.S. patent and to order a domestic party to cease and desist selling and distributing an infringing good. Pursuant to § 337, the ITC has been handling patent megacases for decades. Among the first ITC patent megacases was the Texas Instruments Inc. DRAM investigation. In 1986, Texas Instruments filed a § 337 complaint against 19 Japanese and Korean chipmakers and their U.S. subsidiaries concerning infringement of 10 of its patents. This high-stakes affair ultimately involved 350 lawyers from 29 law firms.

Since then, the ITC has regularly heard megacases including the 2001 *Set-Top Boxes* litigation in which Gemstar (the owner of TV Guide) alleged infringement of its interactive program guide patents by DirecTV, Pioneer, Echostar and Scientific-Atlanta. USITC Inv. No. 337-TA-454. About 200 lawyers from 19 law firms played a part in this investigation. Another high-profile case concerned Apple Inc.'s much loved iPod product. In 2006, at the behest of Creative Technology, the ITC initiated the *Portable Digital Media Players* investigation to determine whether Apple infringed Creative's patent to a user interface for MP3 players. USITC Inv. No. 337-TA-576. The ITC has also been a central forum for the ongoing "telecom wars." In the past two years, the ITC has considered complaints filed by Broadcom Corp. against Qualcomm Inc., Interdigital Inc. against Samsung Corp. and Nokia Corp., as well as reciprocal actions between Qualcomm and Nokia, and between Ericsson Inc. and

Samsung. Each of these is a megacase in its own right.

Despite the ITC's status as a well-established forum for patent megacases, its authority to rule on patent matters often seems to come as a surprise to the uninitiated. In an August 2006 editorial concerning the threat of exclusion of certain mobile phones arising from the Broadcom/Qualcomm action, the *Wall Street Journal* opined that "a little-known provision of Smoot-Haw-

## Some local rules call for designation of a lead counsel.

ley, Section 337, is poised to take its own turn in the protectionist limelight by potentially crippling the U.S. wireless-phone industry. Other high-tech companies could follow in the dock.... The peril comes from the International Trade Commission (ITC), an obscure federal agency that typically deals with trade but suddenly is telecom central." Editorial, "Smoot Hawley's Revenge," *Wall St. J.*, Aug. 23, 2006, at A10.

Ultimately, no doubt to the dismay of the *Wall Street Journal's* editorial board, the ITC did order exclusion of certain Qualcomm chips and mobile devices including such chips. Such exclusion was, however, stayed in part by the U.S. Court of Appeals for the Federal Circuit during the pendency of Qualcomm's appeal. Subsequently, ever more patentees have come to the "obscure federal agency." The ITC's current docket includes significant cases concerning semiconductor packaging, digital cameras, DRAMs, GPS chips, personal computers and DVD players.

### Managing megacases

In *The Art of War*, Sun Tzu wrote that "[t]he management of the many is the same as the management of the few: it is a matter of organization." Sun Tzu never tried a patent case. While MBA-style clichés may be helpful for certain endeavors, they are useless in managing patent megacases. The Federal Judicial Center's Manual for Complex Litigation, however, does provide some guidance in cases of this intricacy.

The manual suggests that judges consider referral of the pretrial proceedings to a magistrate judge or special master. § 10.14. It later recognizes that the appointment of special masters to supervise discovery is particularly appropriate when the financial stakes justify the additional expense to the parties and in cases involving scientific or technical matters. § 11.52. Patent megacases satisfy these criteria. Furthermore, discovery-motions practice in large patent cases easily exceeds the available attention span of any district or magistrate judge.

### Manual can be useful to counsel

Although targeted at federal jurists, the Manual for Complex Litigation also provides useful advice for counsel. It recommends the designation of lead counsel, for example. §10.221. The local rules of many district courts now require the designation of lead counsel. Whether this designation is an empty formality or empowered leadership position depends upon the willingness of the client to enforce an organizational structure on outside counsel. The manual also discusses the use and roles of liaison counsel for administrative matters, trial counsel if different from lead counsel and committees of counsel. § 10.221. While these roles may be more familiar in class actions, they are equally useful

in patent megacases. Formal designation by the client of separate responsibilities at the beginning of a case will minimize the inevitable jockeying for position that will occur in the absence of such intervention.

No discussion of patent megacases would be complete without mention of the ethical dimensions of this variety of major litigation. Because the stakes are so high, the temptation by client and counsel to circumvent the Rules of Professional Responsibility is palpable. The boundary between zealous representation and misconduct, thus, often becomes unclear to those involved on the front lines of these battles. In 2007, two reputable intellectual property firms inadvertently crossed that boundary, demonstrating that even the most talented professionals may become enmeshed in unfortunate circumstances.

The war between Qualcomm Inc. and Broadcom Corp. over various technologies is a patent megacase with battles in different forums. In a case brought by Qualcomm, Qualcomm's legal team at Cupertino, Calif.'s Day Casebeer Madrid & Batchelder was found to have engaged in misconduct during discovery, in motions practice, during trial and during post-trial proceedings by concealing evidence and misrepresenting facts. *Qualcomm Inc. v. Broadcom Corp.*, No. 05-1958 (S.D. Calif. Aug. 6, 2007), Order on Remedy for Finding of Waiver at 32-52. This concealment of evidence and misrepresentation of facts proved costly to Qualcomm, resulting in a finding of exceptional case status under 35 U.S.C. 285. In a Dec. 11, 2007, order, Senior District Judge Rudi M. Brewster accepted a magistrate judge's report and recommendation and awarded Broadcom \$8,568,633.24 in attorney fees, expert fees and litigation costs, and \$691,351.85 in prejudgment interest. Because Qualcomm's outside counsel were not per-

mitted by the court to reveal confidential communications in their own defense, however, it is unclear whether they were primarily at fault or were merely negligent in passing along information originating from the client.

In a Nov. 30, 2007, 129-page sanctions order against Dorsey & Whitney in a trade secret case, U.S. District Judge Harold Baer Jr. offered his opin-

## Recent decisions seem to portend a decline in megacases.

ion on the cause of much recent litigation misconduct. He attributed the mischief to fallout from the primacy of billable hours, the fact that partners are often made and retained for their rainmaking rather than legal skills, and the fact that the struggle for credit for business origination can throw a firm into turmoil and prompt major internecine struggles. *Walter Kluwer Fin. Servs. Inc. v. Scivantage*, No. 07-2352 (S.D.N.Y. Nov. 30, 2007). These observations were directed at the legal profession in general, rather than merely at the firm involved.

Recent decisions from the U.S. Supreme Court and Federal Circuit would seem to foreshadow a decline in patent megacases. The Supreme Court's 2006 decision in *eBay v. MercExchange*, 126 S. Ct. 1837 (2006), raised the bar for obtaining injunctive relief. The Federal Circuit's 2007 en banc decision in *In re Seagate*, 497 F.3d 1360 (Fed. Cir. 2007), made obtaining damages for willful infringement more difficult. With injunctions more difficult to obtain and higher damages awards less likely, patent holders should be more restrained in

their expectations. Instead, the forum for litigating patent megacases may simply be shifting.

In the fourth quarter of 2007, a record 16 new § 337 cases were filed at the ITC. This spike in filings suggests that patent holders are turning to the ITC to escape the consequences of *eBay* and *Seagate*.

The ITC held in 2007 that *eBay* does not apply to exclusion orders under § 337. *Certain Baseband Processor Chips and Chipsets, Transmitter and Receiver (Radio) Chips, Power Control Chips, and Products Containing Same, Including Cellular Handsets*, USITC Inv. No. 337-TA-543 at 62-63 n.230 (Comm'n Op. June 7, 2007). Absent unusual circumstances, thus, an exclusion order is nearly guaranteed in a successful § 337 case. This represents a tremendous advantage over district court injunctions practice under *eBay*. As damages are never at issue in § 337 cases, *Seagate's* holding is similarly without effect at the ITC. **NLJ**