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Theodore W. Anderson

Harry J. Roper

LIMITING RELITIGATION BY DEFENDANT CLASS ACTIONS FROM DEFENDANT'S VIEWPOINT

By THEODORE W. ANDERSON*
and HARRY J. ROPER*

INTRODUCTION

The amendment to Federal Civil Procedure Rule 23 in July, 1966 reflected a basic change in attitude toward limiting relitigation by employing the tools of collaterial estoppel and *res judicata* in general and in the context of the related procedural device of class actions in particular. With the new rule, the foundation for class actions and the concomitant *res judicata* effect of the class action decision shifted from a conceptualism involving various real and imaginary jural relations[1] to the pragmatic considerations of managing suits involving large numbers of persons.[2] The new rule, by its own language, became a ready-made solution with built-in descriptions of the kinds of administrative problems it was to solve.

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*Members of the Illinois Bar and partners in the firm of Pendleton, Neuman, Williams & Anderson. The authors wish to express their appreciation for the assistance given by Walter P. Maksym, Jr. of the *Journal's* staff.

[1] For a discussion of previous Rule 23 see 3B J. MOORE, FEDERAL PRACTICE ¶23.08 *et seq.*, (2d ed. 1969). There apparently remains some place for jural relations in class actions under the new rule. *See* Snyder v. Harris, 394 U.S. 332 (1969).

[2] The new rule is as follows:

Rule 23. Class Actions.

(a) PREREQUISITES TO A CLASS ACTION. One or more members of a class may sue or be sued as representative parties on behalf of all 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.

(b) CLASS ACTIONS MAINTAINABLE. An action may be maintained as a class action if the prerequisites of subdivision (a) are satisfied, and in addition:

(1) the prosecution of separate actions by or against individual members of the class would create a risk of

(A) inconsistent or varying adjudications with respect to individual members of the class which would establish incompatible standards of conduct for the party opposing the class, or

(B) adjudications with respect to individual members of the class which would as a practical matter be dispositive of the interests of the other members not parties to the adjudications or substantially impair or impede their ability to protect their interests; or

(2) the party opposing the class has acted or refused to act on grounds generally applicable to the class, thereby making appropriate final injunctive relief or corresponding declaratory relief with respect to the class as a whole; or

(3) the court finds that the questions of law or fact common to

In its first five years, the new rule has proven its effectiveness primarily in plaintiff class situations, particularly, in the

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the members of the class predominate over any questions affecting only individual members, and that a class action is superior to other available methods for the fair and efficient adjudication of the controversy. The matters pertinent to the findings include: (A) the interest of members of the class in individually controlling the prosecution or defense of separate actions; (B) the extent and nature of any litigation concerning the controversy already commenced by or against members of the class; (C) the desirability or undesirability of concentrating the litigation of the claims in the particular forum; (D) the difficulties likely to be encountered in the management of a class action.

(c) DETERMINATION BY ORDER WHETHER CLASS ACTION TO BE MAINTAINED; NOTICE; JUDGMENT; ACTIONS CONDUCTED PARTIALLY AS CLASS ACTIONS.

(1) As soon as practicable after the commencement of an action brought as a class action, the court shall determine by order whether it is to be so maintained. An order under this subdivision may be conditional, and may be altered or amended before the decision on the merits.

(2) In any class action maintained under subdivision (b)(3), the court shall direct to the members of the class the best notice practicable under the circumstances, including individual notice to all members who can be identified through reasonable effort. The notice shall advise each member that (A) the court will exclude him from the class if he so requests by a specified date; (B) the judgment, whether favorable or not, will include all members who do not request exclusion; and (C) any member who does not request exclusion may, if he desires, enter an appearance through his counsel.

(3) The judgment in an action maintained as a class action under subdivision (b)(1) or (b)(2), whether or not favorable to the class, shall include and describe those whom the court finds to be members of the class. The judgment in an action maintained as a class action under subdivision (b)(3), whether or not favorable to the class, shall include and specify or describe those to whom the notice provided in subdivision (c)(2) was directed, and who have not requested exclusion, and whom the court finds to be members of the class.

(4) When appropriate (A) an action may be brought or maintained as a class action with respect to particular issues, or (B) a class may be divided into subclasses and each subclass treated as a class, and the provisions of this rule shall then be construed and applied accordingly.

(d) ORDERS IN CONDUCT OF ACTIONS. In the conduct of actions to which this rule applies, the court may make appropriate orders: (1) determining the course of proceedings or prescribing measures to prevent undue repetition or complication in the presentation of evidence or argument; (2) requiring, for the protection of the members of the class or otherwise for the fair conduct of the action, that notice be given in such manner as the court may direct to some or all of the members of any step in the action, or of the proposed extent of the judgment, or of the opportunity of members to signify whether they consider the representation fair and adequate, to intervene and present claims or defenses, or otherwise to come into the action; (3) imposing conditions on the representative parties or on intervenors; (4) requiring that the pleadings be amended to eliminate therefrom allegations as to representation of absent persons, and that the action proceed accordingly; (5) dealing with similar procedural matters. The orders may be combined with an order under Rule 16, and may be altered or amended as may be desirable from time to time.

(e) DISMISSAL OR COMPROMISE. A class action shall not be dismissed or compromised without the approval of the court, and notice of the proposed dismissal or compromise shall be given to all members of the class in such manner as the court directs.

(As amended Feb. 28, 1966, eff. July 1, 1966.)

civil rights area,[3] antitrust liability suits[4] and in securities cases.[5] The plaintiffs in these actions are non-compulsory classes where the individual members may be easily excluded on their own motion. The difference between the old rule and the new rule in this kind of litigation is that the former required a positive act on the part of individual class members in coming together to form the class; the new rule permits the representative to define the class and requires a positive action on the part of the class member to exclude himself.[6] The change is primarily responsible for the increase in massive class actions where the recovery for the individual class member is not substantial. Under the previous rule, the individual, though perhaps suffering some damage, would have little interest or incentive to include himself in the class. Under the new rule, he has no reason to seek exclusion.

The new rule has been used to a far lesser extent in defendant class actions; most of the litigated cases are patent infringement suits.[7] The need for improved procedures for handling multiple defendant situations and the shift in focus from jural relations to pragmatic considerations of judicial administration will undoubtedly bring new procedural approaches to limiting relitigation, augmenting or supplanting the defendant class action. In fact, on the eve of publication of this edition of the *Journal,* the Supreme Court has handed down its decision in *Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation,*[8] which effects basic changes in the doctrine of *res judicata* and collateral estoppel in both patent cases and litigation in general. It is this doctrine which undergirds the whole class action mechanism as it applies to defendant classes. Like the

[3] Brooks v. Briley, 274 F. Supp. 538 (M.D. Tenn. 1967); Norwalk Core *v.* Norwalk Redev. Agency, 42 F.R.D. 617 (D. Conn. 1967); St. Augustine H.S. v. Louisiana H.S. Ath. Ass'n, 270 F. Supp. 767 (E.D. La. 1967); and Snyder v. Board of Trustees of Univ. of Illinois, 286 F. Supp. 927 (N.D. Ill. 1968).

[4] Caceres v. Int'l Air Transp. Ass'n, 46 F.R.D. 89 (S.D.N.Y. 1969); Philadelphia v. Morton Salt Co., 385 F.2d 122 (3d Cir. 1967) Knuth v. Erie-Crawford Dairy Coop. Ass'n, 395 F.2d 420 (3d Cir. 1968); Philadelphia Elec. Co. v. Anaconda Am. Brass Co., 43 F.R.D. 452 (E.D. Pa. 1968); and Siegel v. Chicken Delight, Inc., 271 F. Supp. 722 (N.D. Cal. 1967).

[5] Dolgow v. Anderson, 43 F.R.D. 472 (E.D.N.Y. 1968); Eisen v. Carlisle & Jacquelin, 391 F.2d 555 (2d Cir. 1968); Esplin v. Hirschi, 402 F.2d 94 (10th Cir. 1968); Herbst v. Able, 278 F. Supp. 664 (S.D.N.Y. 1967); and Hohmann v. Packard Instrument Co., 399 F.2d 711 (7th Cir. 1968).

[6] FED. R. CIV. P. 23(c)(2).

[7] Technograph Printed Circuits, Ltd. v. Methode Electronics, Inc., 285 F. Supp. 714 (N.D. Ill. 1968); Research Corp. v. Pfister Associated Growers, Inc., 301 F. Supp. 497 (N.D. Ill. 1969); Technitrol, Inc. v. Control Data Corp., 164 U.S.P.Q. 552 (D. Md. 1970); Northern Natural Gas Co. v. Grounds, 292 F. Supp. 619 (D. Kan. 1968); and Dorfmann v. Boozer, 13 F.R.S.2d, 23c.1, Case 1 (D.C. Cir. 1969). *See also* William & Harmon, *Class Actions: A Tool for Patent Enforcement,* presented at THE LAWYERS INSTITUTE OF THE JOHN MARSHALL LAW SCHOOL (1970).

[8] 39 U.S.L.W. 4506 (May 3, 1971).

1966 amendment to Rule 23, *Blonder-Tongue* shifts the entire emphasis from one of jural relations (Were the defendants in the first and second suits in privity?) to one of pragmatism:

> The broader question is whether it is any longer tenable to afford a litigant more than one full and fair opportunity for judicial resolution of the same issue. The question in these terms includes as part of the calculus the effect on judicial administration, but it also encompasses the concern exemplified by Bentham's reference to the gaming table in his attack on the principle of mutuality of estoppel.[9]

Taken together, the new rule and *Blonder-Tongue* cannot help but produce a marked shift in defendant class actions.

There are fundamental practical differences which call Rule 23 into effect in the plaintiff and defendant situations and, while the rule itself draws no distinction, the precedents and practical approaches which have been developed in the plaintiff class cases have little or no relation to the defendant class action. Pragmatically, the two are worlds apart. There is obviously a considerable difference, for example, between the unidentified consumer in a class action for antitrust damages[10] whose individual recovery may be hardly measurable, and a defendant in a patent infringement suit who may have a substantial interest in the outcome of the litigation; the future of his business may even hinge upon it. In this article we will discuss the defendant class action from the viewpoint of the defendants, both the named representatives and the individual class members. Because the patent infringement suit represents the only experience of defendant classes reported under the new rule, the discussion will center around that kind of litigation.

Essentials of a Defendant Class Action — The Patent Infringement Suit

The most essential element of any defendant class action is a large number of persons whose potential liability rests on a common set of issues. The distinctions which Rule 23 draws within this fundamental requirement lie principally in the degrees to which a judgment against one class member would affect another in the absence of the class action. If the judgment would have a binding effect from a practical or legal viewpoint, the case is a perfect candidate for a compulsory class action under Rule 23(b)(1) or (b)(2).[11] If, on the other hand, the judgment would leave the door open for further litigation, but there are common issues, the class action becomes more a ques-

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[9] *Id.*

[10] *See, e.g.*, Philadelphia Elec. Co. v. Anaconda Am. Brass Co., 43 F.R.D. 452 (E.D. Pa. 1968); and Eisen v. Carlisle & Jacquelin, 391 F.2d 555 (2d Cir. 1968).

[11] 3B J. MOORE, FEDERAL PRACTICE ¶¶23.35 [1] and [2].

tion of judicial efficiency and a matter of the judge's discretion under Rule 23(b)(3).[12]

At least superficially, a good many patent cases seem to fit the broad requirement of common issues; a large segment of industry may be using a process, for example, which a patent owner sees as an infringement. Whether a judgment as to one alleged infringer has the binding effect on others necessary to qualify it for a compulsory class was a debatable point before the Supreme Court's decision in *Blonder-Tongue*. While the Court dealt with the collateral estoppel effect of an invalidity determination in *Blonder-Tongue*, it by no means put an end to the argument over the propriety of compulsory class infringement actions. The estoppel announced in *Blonder-Tongue* is a unilateral estoppel in the sense that a validity determination will not be binding on non-parties, while an invalidity determination can benefit non-parties. In any event, the practical considerations involved in administrating the lawsuit may well lead to the conclusion that class action will result in a net saving of judicial time. The alternative is separate suits against all the recalcitrant infringers. While some of the cases might be consolidated, the special venue statute limits the effectiveness of that approach, at least for the trial stage.[13] (For pretrial, of course, transfer under 28 U.S.C. §1407 may be available.) The class action, therefore, may well seem a useful device to cut down the amount of time and the expense of trying the common issues. On the other hand, if the patent is held invalid in an early full and fair trial against a defendant and in a district of the patentee's own choosing, the new doctrine of collateral estoppel under the *Blonder-Tongue* decision may preclude relitigation.

While the patent infringement case may seem superficially appropriate for a class action, the task of fitting the facts of the case to one of the categories of Rule 23 is no easy matter. For maximum effectiveness, the class action should be a compulsory action under Rule 23(b)(1) or (b)(2). Yet, as mentioned earlier, it is open to serious question whether the plaintiff can institute a compulsory action under Rule 23(b)(1).[14] And Rule 23(b)(2) seems to require, by its terms, initiation by the defendant as a declaratory judgment plaintiff. However, the law in this area is quite obviously in its infancy and much remains

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[12] *Compare Technograph* and *Technitrol*, note 7 *supra*.

[13] Dist. Cts.; Venue Act, 28 U.S.C. §1400(b) (1964) limits venue in patent infringement actions to either the judicial district where the defendant resides or one where the defendant has committed acts of infringement and has a regular and established place of business. Schnell v. Peter Eckrich & Sons Inc., 365 U.S. 260 (1961); Hoffman v. Blaski, 363 U.S. 335 (1960); Fourco Glass Co. v. Transmirra Products Corp., 353 U.S. 222 (1957).

[14] See Technitrol, Inc. v. Control Data Corp., 164 U.S.P.Q. 552 (D. Md. 1970).

to be seen. It is fairly clear, however, that plaintiff and, in some cases, the judiciary,[15] will consider the class action appropriate. The question of this article is: Where does this leave the defendant and the class members?

VIEWPOINT OF REPRESENTATIVE DEFENDANT

Every class action needs at least one representative defendant, that is, a defendant whose case will stand for the class members not present in the courtroom. The representative defendant will usually find he has little to gain from his position in the class action. He can, of course, be assured of representation by counsel of his choice, but that assurance is obviously available to him without the necessity of a class action. On the other hand, the representative finds himself in a case which will prove to be more complex than the more usual infringement action. Unless the class action procedure is thoroughly considered between attorney and client at the outset, and unless some initial decisions are made concerning the representative's posture in the case, the representative may not understand his attorney's procedural involvements — and the incident fees — which are inevitable in class action procedures, but which may well seem unnecessary to the representative's immediate interests.

Assuming the class action is initiated by the plaintiff's original complaint, the first question the representative faces is whether to oppose the action *ab initio*. The particular facts of each case quite obviously control, but the attitude of the courts on the propriety of class action infringement suits in general is by no means uniform. A sharp difference in attitude is apparent, for example, between two cases in the district courts in Illinois, *Technograph Printed Circuits, Ltd. v. Methode Electronics*,[16] and *Research Corp. v. Pfister Associated Growers, Inc.*[17] on the one hand, and a case in the District of Maryland, *Technitrol, Inc. v. Control Data Corp.*,[18] on the other. All three cases were decided before *Blonder-Tongue*. In *Technograph*, the District Court concluded that the requirements of all three sections of Rule 23 were met; that is, a class action under §§ (b) (1), (b) (2) and (b) (3) was proper.[19] In *Technitrol*, on the other hand, the court said:

> . . . I doubt if the prerequisite requirements of Rule 23(a) have been met; even graver doubt as to (b)(1)(A) and (B); the definite conclusion that a class action cannot be maintained under (b)(2); and the definite conclusion that even if (b)(3) could be

[15] In *Technograph*, note 7 *supra* the initiative for the class action came from the court.

[16] *Technograph*, note 7 *supra*.

[17] *Research*, note 7 *supra*.

[18] *Technitrol*, note 7 *supra*.

[19] 285 F. Supp. at 722.

> met, the benefits would be insufficient to justify the risk of error in permitting a class action to be filed.[20]

The facts of the two cases were, of course, quite different, but the difference in attitude of the two courts is clear. Just as divisive a conflict exists in the two courts' decisions on the question of whether the special venue requirements of 28 U.S.C. §1400(b) limit the expansiveness of the class. In *Technograph,* the court avoided the venue problem.[21] In *Technitrol,* the court said:

> . . . I think that it is highly questionable that Rule 23 was intended to cross-out the specific venue provisions of 28 U.S.C. §1400(b) . . . .[22]

Perhaps the most interesting aspect of the *Technitrol* decision is the consideration of balancing "the risk of error" on the one hand and "the benefits" of judicial economy which might result on the other. Here is expression of what may well be the overriding consideration in most decisions on the propriety of the class action, at least in the lower courts. If the benefits are great enough, the class action is at least worth the effort, even if there might be some procedural flaw or even error in the formation. In fact, the "error" may well be only ephemeral — if the defendant class wins, the class members will never raise the question; if the defendant class loses, the question can be decided in the collateral action for infringement against the class member. This seems quite a revolutionary approach and perhaps an excessively pragmatic approach to decision making in the lower courts.

In any event, the preceding discussion should indicate some of the issues which may be presented at the outset of the litigation by the representative party. The more overriding practical question, however, is: should the class action be opposed at all and, if not, should the representative take full control of the action on behalf of the class or should he limit his activities solely to the substantive elements of his own defense? By taking full control, the defendant will obviously increase his total activity in the action and without some kind of financing arrangement with other class members may well increase attorney fees by substantial amounts. On the other hand, if he decides to limit his activity to his substantive defenses, he may be putting the plaintiff in control of procedural aspects which may be significant in the substantive trial of the case, framing the common issues to be tried, for example, a matter in which the plaintiff and defendant will not usually be in complete harmony. These problems

[20] 164 U.S.P.Q. at 552.
[21] 285 F. Supp. at 725.
[22] 164 U.S.P.Q. at 552.

are generally compounded if the plaintiff or the court designates multiple representatives who then must endeavor to resolve these matters among themselves.

The representative's initial decisions, therefore, are not easy ones to make. In order to shed some light on the practical dynamics of the action, we offer the following discussion of three more important problems which are involved in defendant class actions and which should be considered by the representative party at the outset: (1) the procedural details in establishing the class action; (2) the problems which are likely to be incurred with settlement proposals; and (3) financing the defense.

Establishing the Class Action

The two basic and related procedural issues of any class action are (1) what substantive issues will be adjudicated, and (2) who is in the class?

In the patent infringement situation, the invalidity or unenforceability defenses are usually common to all those persons who come within the scope of plaintiff's construction of his claims. The infringement issue, on the other hand, is more individual and unique to each person interested in the validity of the patent. However, it is certainly not unusual for the defendant to raise the question of invalidity "if construed to cover my use."[23] The representative defendant may have a substantial interest in seeing that this kind of defense is properly raised. Obviously, there is a good deal of room for creativity in framing this kind of common issue, but two possibilities are: (1) to put in issue an alleged infringement which can be considered representative of the class members, or (2) to put in issue an alleged infringement as to the named representative. On the other hand, it may be in the representative's interest to leave the issue for the possible subsequent infringement suit; if the question of "invalid if construed" is not decided in the class action, it may well be a defense later on. The possibility of this kind of defense being raised in subsequent suits may well render the class action entirely ineffective or at least impractical from the viewpoint of saving judicial effort.

If infringement issues are out of the case entirely, the question of class identity presents some definitional problems; ideally all the persons using the alleged invention should be class members, but a class definition to that effect comes very close to begging the question. Consider, for example, a case where the plaintiff is successful in the class action and subsequently brings suit against a class member. If the class were composed of "all in-

[23] 3 A. DELLER, WALKER ON PATENTS, §476 (1937) and cases collected therein.

fringers," the alleged class member could raise the infringement issue and *a priori* the validity issue; by denying infringement, he is denying membership in the class against whom the validity adjudication is binding.

In the *Technograph* litigation, the problem was approached by defining the class in terms of persons who actually received a notification by the plaintiff; this then described a group of identifiable persons.[24] In addition, the class action order included all persons who practiced the process of certain representative claims; the members of this group were not specifically identified but the language, nevertheless, attempted to bring in any other persons who should be entitled to any favorable decision which the court might reach.[25] A similar notification approach was employed in *Research.*[26]

One of the practical problems which should be mentioned in connection with class definitions is the mechanism of notification. While each case must be considered on its own facts, an official notification mailed to each identifiable class member should be sufficient in most cases.[27] Where the names or some class members are not known, publication should also be employed.[28]

Settlement Possibilities

To return to the plaintiff class action for the sake of a comparison, that kind of proceeding facilitates face-to-face settlement negotiations by placing the defendant who is willing to concede liability on one side of the table and the plaintiff class as an entity on the other. The defendant decides what a settlement is worth, and the representatives, perhaps with counsel or control from the class or the court, work out a distribution of the recovery.

In the defendant class action for patent infringement, on the other hand, the question of liability for infringement is not in issue and a complete settlement cannot be achieved simply between the plaintiff and the class representative. The representative is usually unaware of the exposure of the class members to possible liability and is thus in no position to negotiate on their behalf. Nevertheless, the possibility of settlement certainly should be an element of any lawsuit and some procedure should at least be possible.

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[24] See the descriptions of subclasses 4, 5 and 6, 285 F. Supp. at 726-27.

[25] This might well include existing licensees, for example, as well as alleged infringer. See subclasses 1, 2 and 3, 285 F. Supp. at 725-26.

[26] Research Corp. v. Pfister Associated Growers, Inc., 301 F. Supp. 497 (N.D. Ill. 1969).

[27] This approach was taken in *Research.*

[28] Both devices were employed in *Technograph.*

Unfortunately, throwing defendants together in the class does not necessarily encourage intercommunications which might lead to a group settlement proposal. The *Manual*[29] suggests close supervision of any class intercommunication, at least when it involves attorneys,[30] and actually proposes a local rule preventing such communication without prior court approval.[31] The attitude expressed in the *Manual* and in the proposed local rule, part of which is set out in the margin,[32] certainly has to create a chilling effect on settlement communications between class members. Yet it is doubtful that this was its intended purpose. It may well be that some of the policy considerations behind this attitude are the result of courts' experiences in plaintiff class cases; but the restrictions on communication seem misplaced in the defendant class action and should be re-examined, in the authors' view, at least as applied to the defendant patent infringement situation.

Accepting the restriction on communications for present purposes, what are some possible procedures for settling the lawsuit?

> (1) settlement strictly between the plaintiff and the representatives without regard to settlement as to non-party class members;
>
> (2) settlements on individual bases between the plaintiff and the individual class members;
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> (3) settlement negotiations for the entire class conducted by the representatives under court direction.

In considering any of these or other approaches, it must be remembered that under Rule 23(e) the court has to approve any settlement arrangement.[33]

The first proposal, while perhaps most practical for the unwilling representatives, who may very rightly feel they owe no special duty to the other class members, has a distinct disadvantage from the viewpoint of judicial administration. The only

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[29] MANUAL FOR COMPLEX AND MULTIDISTRICT LITIGATION [for use with C. WRIGHT and A. MILLER, FEDERAL PRACTICE AND PROCEDURE (1969)].

[30] *Id.*, Part I, §1.61.

[31] *Id.*, Part II, §1.61.

[32] *1.61 Suggested Local Rule No. 7 — Prevention of Potential Abuses of Class Actions.*

> In every potential and actual class action under Rule 23, F.R.Civ.P., all parties thereto and their counsel are hereby forbidden, directly or indirectly, orally or in writing, to communicate concerning such action with any potential or actual class member not a formal party to the action without the consent of and approval of the communication by order of the Court. Any such proposed communication shall be presented to the Court in writing with a designation of or description of all addressees and with a motion and proposed order for prior approval by the Court of the proposed communication and proposed addressees.

Id., Part II, §1.61 at 110.

[33] Note 2 *supra.*

real justification for any class action of this kind is economy of judicial effort. If the court puts substantial amounts of effort in setting up the class and going through discovery and even a trial, it would hardly be consistent with the fundamental policy to settle one class action and begin another with a new representative. The result is a net increase in judicial time rather than economy. The propriety of this kind of settlement has not, to the authors' knowledge, been put before a court. When it is, we expect the court's enthusiasm will be in inverse relation to the amount of time devoted to getting the class action under way. Yet, the unwilling representative should certainly have the complete right to settle his own differences.

Of course, if the representative parties can arrive at some settlement agreement acceptable to them, then the proposal should be made available on equal terms to all class members under court direction. Any class member who does not wish to settle on the proposed basis might be invited to come in and take over the defense as a representative party. This might prove very expensive for a non-representative class member who would consider it coercive and improperly imposed upon him by counsel not of his choosing.

Similarly, under the second alternative, the individual class members should certainly be allowed to settle their own disputes. The problem here is the extensive amount of time required of the court and the parties in considering individual settlement proposals. Any individual settlement considered by the court necessarily invites a response from the representatives; indeed, it may compel a response where the defense involves charges of misuse or fraud in the procurement. It has been suggested, for example, by a Justice Department attorney that settlement in the latter situation might well involve antitrust implications, if not a violation.[34] While this may represent the view of the Justice Department, it will probably fair less well in courts interested in settling lawsuits; it did not curtail the one instance of individual settlement in the *Technograph* litigation.[35] The point is, however, that the individual settlement proposals have a tendency to delay the action.

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[34] I suggest that, if a defendant has a substantial and reasonable basis for believing that the plaintiff's patent has been procured by fraud, the defendant cannot thereafter settle that infringement suit either by taking a license under the patent or by admitting its validity in any manner.
Wilson, *The Legitimate & Illegitimate in Patent and Know-How Licensing*, a paper presented at THE LAWYERS INSTITUTE OF THE JOHN MARSHALL LAW SCHOOL (February 20, 1970).

[35] On the eve of trial, one member agreed to pay a six-figure sum for settlement. The court subsequently approved the settlement.

The third alternative of class settlement through the representatives requires a willingness on the part of the representatives to undertake the additional effort required, and a willingness on the part of the court to recognize that some intercommunication between the representatives and the class members is required if any group proposal is to result. In most cases, the degree of court supervision should require no more than periodic reports by counsel on the progress of the negotiations. To prevent any abuse which might be of concern, the court can establish guidelines at an early pretrial conference. There should be no need, however, for the court to overview the communications between the representative attorneys and the class members; and, absent some real evidence of abuse, such communications should be accorded the usual attorney-client immunities.

Financing the Defense

But, who should pay the attorney's fees for all the procedural involvements which a class action inevitably generates? It is neither healthy from the viewpoint of promoting friendly relations between the public and the judiciary, nor indeed fair, to saddle the unwilling representative defendant with costs and attorney's fees incurred for protecting class members but not necessary for protecting his own interests. Some such fees can be expected, however, and must be incurred if adequacy of representation is to be a meaningful element of the action. Financing the action, therefore, should be a first order concern to the representative defendant and to the court in order to avoid any problems of inadequacy of representation which might subsequently develop after the class action has proceeded well down the road to conclusion. The texts and digests on federal practice have given the subject some attention and recognition, but only as it involves the attorneys' fees of a successful plaintiff class or a fund held by the plaintiff for the benefit of a defendant class.[36]

The philosophy expressed in granting recovery of costs and attorneys' fees in plaintiff class actions seems equally applicable to defendant classes and their representatives if an appropriate mechanism can be developed for accomplishing this end.[37]

While there appears to be no federal precedent for an award of attorneys' fees to a successful defendant class from a fund held by plaintiff, the state courts have used this equitable ap-

[36] 3B J. MOORE, FEDERAL PRACTICE ¶23.91 (2d ed. 1969); 2 W. BARRON & A. HOLTZOFF, FEDERAL PRACTICE AND PROCEDURE §570.1 (C. Wright ed. 1961); C. WRIGHT, HANDBOOK OF THE LAW OF FEDERAL COURTS §72 (2d ed. 1963); Annot., 8 L. Ed. 2d 894.

[37] The court in Hobbs v. McLean, 117 U.S. 567 (1886) said:

> When many persons have a common interest in a trust property or fund, and one of them, for the benefit of all and at his own cost and expense, brings a suit for its preservation or administration, the court

proach.[38] In federal practice, "the equitable principle underlying such awards by the courts is still expanding."[39]

In making the required determination of adequacy of representation,[40] the court will undoubtedly consider the financial resources of the representative defendants, their size and standing relative to the class, the make-up of the class, and the extent of the exposure to liability by the representative defendants.[41] But, in addition to these "adequacy" considerations, some consideration should be given to the possibilities of interparty financing.

The financing problem is not simply a matter of the representative defendant soliciting the other class members. The Judicial Panel on Multidistrict Litigation has recognized a potential for abuse in the solicitation of class members for funds or agreements to pay fees and expenses. Thus, the *Manual* states:

> In absence of some preventive action by the Court, formal parties to the action or counsel for the formal parties may directly or indirectly, without knowledge or consent of the Court, solicit from the potential or actual members of the class (or subclasses) who are not formal parties, funds for attorneys' fees and expenses, or agreements to pay fees and expenses. The solicitation may be direct or indirect. To the party solicited, solicitation may appear to be an authorized activity approved by the Court, simply by reference to the title of the Court, the style of the action, the name of the judge, and to official processes. Such unapproved solicitation may be of doubtful ethical propriety and may result in well founded dissatisfaction with the judicial management of the action.[42]

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of equity in which the suit is brought will order that the plaintiff be reimbursed his outlay from the property of the trust, or by proportional contribution from those who accept the benefits of his efforts.

Id. at 582.

The court in Burden Cen. Sugar Ref. Co. v. Ferris Sugar Mfg. Co., 87 F. 810 (1898) said:

> It is a familiar and well-established doctrine of equity that, where a suit has been instituted and carried on for the benefit of many, all who come in to avail themselves of the benefits of the decree obtained under the litigation shall bear their proportion of the expense. The bill in this case was filed, not only in behalf of the complainant, but of all other creditors of the defendant corporation who might join in the suit and contribute to the expense thereof. The exceptors to the master's report intervened in this case, and were admitted upon that condition, and therefore must pay their proportionate share of the expense of the litigation. One jointly interested with others in a common fund, who in good faith maintains the necessary litigation to save it from waste, and secures its proper application, is entitled in equity to the reimbursement of his costs, as between the solicitor and the client, either out of the fund itself, or by proportionate contributions from those who received the benefits of the litigation.

Id. at 811-12.

[38] German Evangelical St. Marcus Congregation v. Archambault, 404 S.W.2d 705 (S. Ct. Mo. 1966), where the court awarded attorney fees to representative of defendant class out of perpetual care fund held by plaintiff.

[39] Judge Rifkind speaking in Paris v. Metropolitan Life Ins. Co., 94 F. Supp. 792, 795 (S.D.N.Y. 1947).

[40] Fed. R. Civ. P. 23(a)(4).

[41] See *Technograph*, 285 F. Supp. at 721.

[42] MANUAL FOR COMPLEX AND MULTIDISTRICT LITIGATION, [for use with

As mentioned above in connection with settlement, the potential for abuse here may be greater in the plaintiff class situation than in the defendant class action.

The need for restrictions on financing procedures certainly seems less necessary in the case of the presumably sophisticated class members in a patent infringement situation than it might be, for example, in a consumer plaintiff class action. A representative infringement defendant, therefore, might well persuade the court that the restrictions should not apply. On the other hand, the need for freedom within the defendant class to organize some broad financial support for an adequate defense seems more necessary than in the plaintiff class.

The *Manual*, however, makes no exception for the defendant class and the representative may expect to receive some indication of the court's concern in this area. How then can the defense be financed?

(1) Solicitation under direction of the court to prevent abuse is one possibility. The question here is the degree of supervision. While there may be some justification for the court's reviewing a blanket solicitation of class members, there should be no need for reviewing every communication between class members and the representatives. All that would seem necessary is an initial notification to class members, perhaps in the class action notice itself, that the court is not approving or disapproving any financing arrangements. At the least, this should prevent the kind of misconception which caused the concern expressed in the "passage" quoted above.

(2) A large number of representative parties, as in *Research*, may at least appear to be one solution to the problem.[43] While there can be some decrease in expenses with multiple representatives, the number of such parties is limited by venue considerations.[44] Moreover, the fortuitousness of being subject to suit in the district where the class action is brought is no reason for being subjected to the sometimes overwhelming expenses of the litigation. In any event, in most cases, this will not be a complete answer to the financing problem. Furthermore, it appears that the greater the number of active representatives, the greater are the problems of class coordination.

(3) Taxing the defined class members by court order is another possibility. This certainly would be a departure from the general American policy against taxing attorneys' fees.

C. WRIGHT and A. MILLER, FEDERAL PRACTICE AND PROCEDURE (1969)] (1970) §1.61.

[43] Research Corp. v. Pfister Associated Growers, Inc., 301 F. Supp. 497 (N.D. Ill. 1969). In this case there were nineteen named representative defendants.

[44] 3B J. MOORE, FEDERAL PRACTICE ¶23.96 (2d ed. 1969).

Nevertheless, at least with respect to some costs, it may well be a necessity where all else fails.[45] Here again, the power of the court to tax all class members and concomitant venue and process questions become paramount.

These various approaches to financing are discussed only as possibilities under the developing law. The important point is that the occasional expression of concern for abuse should not curtail discussion of the real need for some kind of interclass financing.

VIEWPOINT OF THE NON-PARTY CLASS MEMBER

The non-party class member is usually in a far more enviable position than his representative. If he is a compulsory class member,[46] he can sit back and watch the action proceed. If the representatives are successful, he has had virtually a free ride. If the representatives are unsuccessful, he will still have saved substantial attorney fees, and he can always challenge the adequacy of representation[47] when the plaintiff seeks to adjudicate the infringement issue in a subsequent action.

There are, however, some exceptions to this apparent state of Utopia. If the class member's exposure is great enough, he may be less than content at not being in control of his destiny, and at being "foreclosed by" the ideas of other class members who are participating representatives. This is true, though he may subsequently raise various defenses in a later personal phase of the litigation. A class member in this position may seek exclusion if the Class Action Order permits it; he may challenge the entire proceeding as it relates to him on various grounds, although his arguments may well be rejected as premature; or he may seek intervention, thereby becoming a representative party.

In considering the possibility of intervention, the class member has to consider the waiver of any defense which might result from his participation. If he actively participates, for example, he can hardly complain at a subsequent date that he was not adequately represented. In the *Technograph* litigation, the dilemma was resolved to some extent by permitting class members to come in and participate without waiver of any rights to challenge the class action.[48]

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[45] 3B J. MOORE, FEDERAL PRACTICE ¶23.91 (2d ed. 1969).

[46] The great majority of class members in *Technograph* were compulsory class members. See Technograph Printed Circuits, Ltd. v. Methode Electronics, 285 F. Supp. 714 (N.D. Ill. 1968).

[47] Adequacy of representation is a constitutional right under the "due process" clause. See Hansberry v. Lee, 311 U.S. 32 (1940).

[48] 285 F. Supp. at 719.

The member of a non-compulsory class, that is, a (b) (3) class, has to decide whether to accept the representation or exclude himself. The former has the advantage of providing what should be a high-quality defense at little or no cost. The latter will permit the class member to conduct his own defense in a subsequent lawsuit.

CONCLUSION

There has been a recognized need for means to limit relitigation. The abandonment of the old concepts of mutuality of estoppel and the invoking of the doctrines of *res judicata* and collateral estoppel have offered some relief in various areas of the law and the new class action under Rule 23 has provided still another mechanism, especially for a plaintiff class.

New Rule 23 and its recent application to defendant class actions demonstrates the need for special considerations for this kind of litigation. Both the formal parties and the court should consider these special elements from the outset of the litigation if the process is to accomplish its desired ends.

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