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Historic Mandamus Petition May Reduce Size of E.D. Tex. Patent Docket: *In re TC Heartland LLC*, Case No. 16-105 (Fed Cir. 2015)

Almost half the new patent cases filed in the 94 federal judicial districts in the United States in 2015 were filed in the Eastern District of Texas. The next most popular district, the District of Delaware, saw about one fourth as many cases. A petition for a writ of mandamus filed with the Federal Circuit is poised to alter this landscape significantly if the Petitioner is successful.

Background

Petitioner TC Heartland LLC seeks to remove an ongoing patent suit related to liquid water sweeteners filed by Respondent Kraft Foods Group Brands LLC from the District of Delaware to the Southern District of Indiana, where it is based. Respondent is a Delaware corporation. Petitioner had moved for the district court to dismiss or transfer the case, and it filed a writ of mandamus with the Federal Circuit when the district court denied its motion. Highlighting the petition's importance is the fact that several major technology firms have filed *amicus* curiae briefs. The central question is whether 28 U.S.C. § 1400(b) precludes the district court from hearing a patent infringement case in a district other than those where defendants are incorporated or where they have a regular and established place of business. Should Petitioner succeed, proper venue in patent suits in the Eastern District of Texas would be much more difficult to establish. Meanwhile, other districts such as the District of Delaware or the Northern District of California would likely see a marked increase in patent cases on their dockets.

The text of 28 U.S.C. § 1400(b) states that "Any 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." At issue is the proper interpretation of the term "resides."

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INSIDE

Stephen Neuwirth Named an "Antitrust Trailblazer" by *The National Law Journal*

Stephen Neuwirth was named an "Antitrust Trailblazer" by *The National Law Journal*. This honor is given to "leading practitioners who moved the needle in antitrust law," are "innovative thinkers," and achieved "extraordinary accomplishments." Mr. Neuwirth was recognized for his recent representation of the class of direct purchasers in the Polyurethane Foam Antitrust Litigation, which resulted in settlements of over $430 million. He was also recognized for his success on both the plaintiff and defense sides of antitrust litigation, a unique feature of his practice. Q

Star Litigators Join Quinn Emanuel's Washington, D.C. Office

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Law360 Names Quinn Emanuel 2015 "Practice Group of the Year" in Five Categories

Quinn Emanuel was named 2015 "Practice Group of the Year" by *Law360* in five categories: Appellate, Banking, Class Actions, Product Liability, and White Collar. This award series recognizes firms that secured wins in the most important matters of the year. Q

28 U.S.C. § 1391(c) defines the term to include both the district in which a defendant is domiciled as well as any district in which the defendant is subject to the court's personal jurisdiction with respect to the civil action in question.

Competing Interpretations

Petitioner argues that the broad definition of "resides" advanced in § 1391(c) does not supplement the language in § 1400(b). The Supreme Court reached the same conclusion in *Fourco Glass Co. v. Transmirra Products Corp.*, 353 U.S. 222 (1957). However, Congress amended § 1391(c) in 1988, which provided the basis for the Federal Circuit in *VE Holding Corp. v. Johnson Gas Appliance Co.* to determine that Congress had overturned *Fourco* by adding language indicating that the provision supplied the residency definition "for the purposes of venue under this chapter," which would have included § 1400(b). 917 F.2d 1574 (Fed. Cir. 1990). In 2011 Congress again amended § 1391, but this time it removed the language the Federal Circuit had relied upon in *VE Holding* and replaced it with language stating that § 1391 governed venue in all civil actions brought in district courts of the United States "except as otherwise provided by law." In light of this history, Petitioner argues that because § 1400(b) provides venue requirements separately from § 1391, the 2011 amendments exclude it from the "resides" definition of § 1391(c). Alternatively, Petitioner argues that the Federal Circuit's holding in *VE Holding* was a mistaken interpretation of the 1988 amendments to § 1391(c), which Congress never intended to have the effect of overturning *Fourco*, and the Federal Circuit should revisit the question *en banc.* Because the Federal Circuit may only overturn its own precedent *en banc*, Petitioner would first need to convince the Federal Circuit to hear the petition *en banc* before it could ultimately succeed on the basis of the *VE Holding* argument in front of the entire Federal Circuit bench. Finally, Petitioner also advances a third argument that district courts lack specific jurisdiction over acts of infringement that occurred outside of the forum, so defendants would not "reside" within the forum under either interpretation of § 1391(c) for the purposes of such acts of infringement.

Respondent argues in response that the 2011 amendments to § 1391 actually broadened the ambit of the provision by extending it from one specific chapter to all venue statutes in the U.S. Code, so interpreting these amendments as limiting its effect on § 1400(b) would be misguided. Further, Respondent challenges the applicability of the "except as otherwise provided by law" language in § 1391, arguing that § 1400(b) does not actually provide a separate definition of corporate residence as § 1391(c) does. Respondent also makes a separation of powers argument that the Federal Circuit should not disrupt Congress's intent by drastically altering venue law and overturning *VE Holding en banc*. Finally, Respondent contends that Petitioner's personal jurisdiction arguments disregard existing precedent and the language of The Patent Act authorizing redress for acts of infringement regardless of where they occurred.

Amici

An *amicus* brief filed by many frequent defendants argued that the current state of patent venue law has empowered forum shopping. Though *Amici* did not name the Eastern District of Texas directly, the brief refers to a "single district" where "40 percent of patent suits are filed." They argued that patent owners with "questionable patents" purposely filed suit in districts that would favor them strategically because they were "least likely to promptly stay a patent suit pending patent office review proceedings, least likely to grant an early motion to dismiss under Section 101 of the Patent Act, and least likely to allow an early summary judgment motion of noninfringement or invalidity." They contend that this situation runs "plainly contrary to Congress's intent in enacting laws about venue." The brief went on to argue that such a regime "shields the weakest patents from the necessary scrutiny" and discourages negotiation as an alternative to filing suit. They also argue, like Petitioner, that the Federal Circuit's holding in *VE Holding* was an incorrect interpretation of the changes to the venue statutes.

Another *amicus* brief filed by patent licensors and inventors argued against granting the petition on the basis that it would lead to "absurd results." The brief suggested that Petitioner's proposed interpretation would work a *de facto* grant of immunity for foreign defendants against patent infringement claims, as plaintiffs would be left without any venue in which to sue such defendants not incorporated in the United States. *Amici* also contend that Petitioner's reliance on *Fourco* is misplaced, as there the Supreme Court relied heavily for its definition of corporate "residency" on *Shaw v. Quincy Mining*, which had been decided in 1892. They contend that, at the very least, Congress had overturned these decisions when it enacted its 2011 amendments broadening the definition of "residency." They also attacked the arguments advanced in the opposing *amici* about forum shopping as having "falsely accused U.S. Courts of corruption," and calling such accusations "highly inappropriate and inflammatory." Finally they contend that such efficiency arguments do not withstand scrutiny as defendants often "seek to make the matter less efficient and more burdensome to patent holders" by endeavoring to have their cases transferred. Should the Federal Circuit grant rehearing *en banc*, it is expected that many other companies would use the longer briefing period to file their own *amicus* briefs in support or opposition to the petition.

Coming Resolution

Oral argument was held on March 11, 2016. Opening its oral argument, Petitioner argued that "This case turns on the meaning of six words: 'Except as otherwise provided by law.'" The judicial panel hearing the case was composed of Judge Kimberly A. Moore, Judge Evan J. Wallach, and Judge Richard Linn. The panel asked pointed questions during Petitioner's argument, suggesting that they may not be sympathetic to the arguments in favor of granting the writ. At one point Judge Moore asked, without giving an opinion on the merits of the effects of the current patent venue regime, whether this was a decision better left to the legislature rather than the Federal Circuit. When she went on to express suspicion about Petitioner's statutory arguments, pointing to the recent failure of several patent reform bills, Petitioner responded that the Supreme Court had found "congressional inaction is to be given very little weight in the interpretive process." Judge Wallach questioned why a writ of mandamus was necessary absent some showing of irreparable harm that Petitioner could not cure through a standard appeal. Drawing on this suggestion, Respondent pointed out that it was the only party who would be harmed by litigating in Delaware, because when it sought a stay of the case pending IPR proceedings, TC Heartland pushed for the Delaware case to proceed. Respondent also argued that, if the central problem is a surfeit of patent litigation in the Eastern District of Texas, then the Federal Circuit should not decide this issue in a case originating in the District of Delaware. Instead, the Federal Circuit should wait to decide this question until a litigant had suffered injury in virtue of a case which had been brought in that venue. The panel was less active during Respondent's oral argument than it had been during that of Petitioner.

Even if Petitioner is unsuccessful before the three-judge panel who heard oral arguments on March 11th, the Federal Circuit may still decide to hear the case *en banc*, where it would be able to overturn its decision in *VE Holding*. It is possible that such a panel would be willing to revisit the standard, as the Federal Circuit has seen significant turnover in recent years. Over half of the 12 judges currently on the bench have been appointed since 2010—twenty years after the Federal Circuit first announced the rule in *VE Holding*.

Congress may step in to resolve this question on its own. A bill currently under consideration, Innovation Act, H.R. 9, would make it so that patent cases could only be filed in districts where the Defendant has its principal place of business, a party has a facility related to the infringement—such as a research or manufacturing facility related to the patented invention—or districts where the inventor named on the patent conducted research or development. This would effectively overturn the Federal Circuit's precedent in *VE Holding*. The House Judiciary Committee voted 24-8 to approve the bill in June of 2015. Committee Chairman Bob Goodlatte, R-Va., then announced, "Today in this committee, we are taking a pivotal step toward eliminating the abuses of our patent system, discouraging frivolous patent litigation and keeping U.S. patent laws up to date." Most recently, the Senate Committee on Small Business and Entrepreneurship held hearings on the bill in February along with a related Senate bill, Patent Act, S.1137. Opponents of the bill argue that it would weaken intellectual property rights and make it more difficult for legitimate patent owners to protect their inventions. However, it may be difficult for Congress to pass significant patent litigation during an election year in any case. Perhaps sensing this and instead attempting to enact piecemeal legislation, Senators Jeff Flake, R-AZ, and Cory Gardner, R-CO, recently teased plans to introduce a bill titled "Venue Equity and Non-Uniformity Elimination Act of 2016," which is limited to the venue issue, adopts a construction similar to that of the Innovation Act, and explicitly allows for mandamus relief for any "clearly and indisputably erroneous denial" of a motion to dismiss or transfer in light of improper venue. Senators Flake and Gardner promise that they have arranged for bipartisan co-sponsorship of the bill's introduction.

The Federal Circuit is likely to reach its decision before Congress enacts any reforms. Should the Federal Circuit grant the petition for writ of mandamus, it is clear that plaintiffs will have more difficulty availing themselves of proper venue in the Eastern District of Texas. This will significantly change the landscape of patent litigation. However, if the appellate court denies Petitioners their requested relief, it is unlikely to seriously consider this issue again in the near future as the structure adopted in *VE Holding* will have been explicitly adopted following Congress's 2011 amendments, and the issues were ably and cogently briefed by all parties.

Ninth Circuit Adopts California Rule Voiding Arbitration Provisions Barring Certain Representative Claims

In recent decisions, both the Court of Appeals for the Ninth Circuit and the California Supreme Court have held that arbitration clauses barring employees from pursuing class actions in arbitration are unenforceable with respect to certain types of claims. Specifically, employment agreements cannot bar employees from pursuing through arbitration representative claims pursuant to the California Labor Code Private Attorney General Act.

California's **Iskanian** ***Rule***

In *Iskanian v. CLS Transportation Los Angeles, LLC*, the California Supreme Court held that an arbitration agreement that required an employee to forfeit the right to pursue representative claims pursuant to the California's Labor Code Private Attorneys General Act (PAGA) was contrary to public policy and unenforceable as a matter of state law. 327 P.3d 129, 149 (Cal. 2014), *cert. denied*, 135 S. Ct. 1155 (2015). The PAGA provides an employee the right to act as a private attorney general to recover civil penalties for Labor Code violations affecting other employees, with the majority of any monetary award accruing to the State.

In reaching its decision, the California Supreme Court held that the Federal Arbitration Act did not preempt its rule prohibiting the waiver of representative PAGA claims. The California Supreme Court distinguished *AT&T Mobility LLC v. Concepcion*, wherein the United States Supreme Court held that the Federal Arbitration Act preempted a California Supreme Court rule providing that class arbitration waivers in consumer contracts are unconscionable. 563 U.S. 333, 352 (2011). In *Concepcion*, the United States Supreme Court reasoned that California's rule barring class arbitration waivers was inconsistent with the Federal Arbitration Act, because class arbitration is slower and more costly than bilateral arbitration. *Id.* at 348. In *Iskanian*, the California Supreme Court held that unlike in *Concepcion*, the Federal Arbitration Act did not have preemptive effect because the goal of the Act is to promote arbitration as a means of resolving *private* lawsuits, which does not preclude the Legislature from "deputizing employees to prosecute Labor Code violations on the state's behalf." *Iskanian*, 327 P.3d at 133, 149-150.

To support its holding that an employee's right to bring a representative PAGA claim may not be waived, the California Supreme Court also relied on California Civil Code Section 1668. That section states that "[a]greements whose object, directly or indirectly, is to exempt [their] parties from violation of the law are against public policy and may not be enforced." The California Supreme Court also relied on California Civil Code Section 3513, which provides that "a law established for a public reason cannot be contravened by a private agreement." *Iskanian*, 327 P.3d at 148.

Thus, pursuant to the *Iskanian* rule, an employee's right to pursue a representative PAGA claim in any forum may not be waived pursuant to an employment contract. *Id.* at 133.

Holding in **Sakkab v. Luxottica Retail North America, Inc.**

In *Sakkab v. Luxottica Retail North America, Inc.*, a 2-1 panel majority in the U.S. Court of Appeals for the Ninth Circuit held that the Federal Arbitration Act does not preempt the *Iskanian* rule. 803 F.3d 425, 439 (9th Cir. 2015). Applying different reasoning than the California Supreme Court, the Court of Appeals determined that the United States Supreme Court's holding in *Concepcion* was inapposite, reasoning that "[b]ecause a PAGA action is a statutory action for penalties brought as a proxy for the state, rather than a procedure for resolving the claims of other employees, there is no need to protect absent employees' due process rights in PAGA arbitrations. PAGA arbitrations therefore do not require the formal procedures of class arbitrations." *Id.* at 436 (internal citations omitted).

The Ninth Circuit subsequently reached the same conclusion in *Hopkins v. BCI Coca-Cola Bottling Co. of Los Angeles*, holding that "the Iskanian rule applies to the arbitration agreement . . . and [the plaintiff's] waiver of his right to bring a representative PAGA action is unenforceable." No. 13-56126, 2016 WL 685018, at *1 (9th Cir. Feb. 19, 2016). The *Hopkins* Court adopted the *Sakkab* Court's holding without further analysis.

The effect of the *Iskanian*, *Sakkab*, and *Hopkins* decisions is to permit an employee who has signed an employment contract barring representative action to nevertheless pursue representative claims for civil penalties pursuant to the California PAGA.

***The Merits of* Sakkab**

Luxottica (the defendant in *Sakkab*) unsuccessfully argued that the Federal Arbitration Act preempts the *Iskanian* rule because that rule interferes with the Federal Arbitration Act's objectives. The case turns on whether the facts in *Concepcion* and *Sakkab* (the former relating to class arbitration waivers and the latter pertaining to the arbitration of representative PAGA claims) are sufficiently analogous to render *Concepcion* controlling.

In *Concepcion*, the Supreme Court reasoned that a judicial rule invalidating class arbitration waivers interfered with the Federal Arbitration Act because (1) "the switch from bilateral to class arbitration sacrifices the principal advantage of arbitration—its informality—and makes the process slower, more costly, and more likely to generate procedural morass than final judgment"; (2) "class arbitration *requires* procedural formality"; and (3) "class arbitration greatly increases risks to defendants" due to the absence of review. 563 U.S. at 348-50 (emphasis in original). The panel majority in *Sakkab*, however, distinguished representative PAGA claims from class arbitration claims, reasoning that because a PAGA claim is not a procedure for resolving the claims of other employees, "there is no need to protect absent employees' due process rights." *Luxottica Retail N. Am., Inc.*, 803 F.3d at 435. The majority concluded that "PAGA arbitrations therefore do not require the formal procedures of class arbitrations," such as notice, opt-out, or class certification procedures. *Id.*

The dissenting judge, however, reasoned that "[t]he *Iskanian* rule burdens arbitration in the same three ways identified in *Concepcion*." *Id.* at 444. He noted that pursuant to California's Labor Code, "an arbitrator overseeing a representative PAGA claim would have to make specific factual determinations regarding (1) the number of other employees affected by the labor code violations, and (2) the number of pay periods that *each* of the affected employees worked." *Id.* at 445 (emphasis in original). The dissenting judge argued that the arbitration of representative claims, when compared to the arbitration of individual claims, is (1) "certainly more likely to make the process slower, substantially more costly, and more likely to generate procedural morass"; (2) "certainly more procedurally complex"; and (3) "greatly increases the risk to employers." *Id.* at 446-48. He concluded that because the *Iskanian* rule conflicts with the purpose of the Federal Arbitration Act by burdening arbitration, it is therefore preempted by the Federal Arbitration Act pursuant to *Concepcion*.

The *Sakkab* majority decision rests on a narrow reading of *Concepcion* in conjunction with a distinction between class arbitration and the arbitration of representative PAGA claims. Prior to the Court of Appeals' decision in *Sakkab*, the majority of federal district courts to consider the issue had determined that the *Iskanian* rule *was* preempted by the FAA: nine district courts found preemption compared to three which did not. (All of the District Court decisions were within the Ninth Circuit and therefore either affirmed or overruled by *Sakkab*.)

In recent years, the United States Supreme Court has twice rejected arguments that class arbitration waivers are unenforceable under California law. Both times, the Supreme Court held that the Federal Arbitration Act preempts conflicting state law and that class arbitration waivers must be enforced:

- *AT&T Mobility v. Concepcion*, 563 U.S. 333, 352 (2011) (overruling California Supreme Court and holding that the Federal Arbitration Act preempted California law providing that class action waivers in certain consumer contracts were unconscionable and unenforceable).
- *DirecTV v. Imburgia*, 136 S. Ct. 463, 471 (Dec. 15, 2015) (overruling California Court of Appeal and holding that the Federal Arbitration Act requires enforcement of a waiver of class arbitration despite the Court of Appeal finding that class action waivers are unenforceable under California law).

The *Sakkab* case has some similarities to both the *Concepcion* and *Imburgia* cases, but comes out a different way. The defendant in *Sakkab* petitioned the Court of Appeals for the Ninth Circuit for rehearing *en banc*, but that petition was denied. Luxottica has 90 days from the date of the denial—until May 2, 2016—to file a petition for a writ of certiorari before the United States Supreme Court. U.S. Supreme Court Rule 13.

The United State Supreme Court has previously declined to review the *Iskanian* rule three times. *CLS Transp. Los Angeles, LLC v. Iskanian*, 135 S. Ct. 1155 (2015); *Bridgestone Retail Operations, LLC v. Brown*, 135 S. Ct. 2377 (2015); *CarMax Auto Superstores California, LLC v. Areso*, No. 15-236, 2015 WL 5005244 (2015). But in doing so the Supreme Court has provided some commentary. Specifically, when the Supreme Court issued its decision in *DirecTV v. Imburgia*—the same day that it declined to review the

Iskanian rule in *CarMax Auto Superstores California, LLC*—the Supreme Court stated:

> Lower court judges are certainly free to note their disagreement with a decision of this Court. But the Supremacy Clause forbids state courts to dissociate themselves from federal law because of disagreement with its content or a refusal to recognize the superior authority of its source. The Federal Arbitration Act is a law of the United States, and *Concepcion* is an authoritative interpretation of that Act. Consequently, the judges of every State must follow it.

136 S. Ct. 463, 468 (2015) (internal quotations and citations omitted).

PRACTICE AREA NOTES

Insurance Litigation Update

Insurance Coverage for Liability Under the Telephone Consumer Protection Act. The Telephone Consumer Protection Act ("TCPA"), enacted in 1991, prohibits certain telephone solicitations conducted with automated systems. 47 U.S.C. § 227. Spurred by advances in automated systems such as artificial voices, and by the FCC's June 2015 order (FCC 15-72) strengthening TCPA protections, TCPA claims have surged and can result in significant legal fees and costly settlements or judgments. For example, in 2015, Capital One and its co-defendants paid more than $75,000,000 to settle a TCPA class action. Vulnerable companies are eager to confirm that their insurance will cover TCPA claims, but, as discussed in this article, that question is not easily answered and depends on the coverage available.

In determining coverage under commercial general liability ("CGL") insurance policies, courts are split on whether coverage for "personal and advertising injury" extends to TCPA claims. The type of injury TCPA claims may fall within is usually defined as "oral or written publication, in any manner, of material that violates a person's right to privacy." One question raised is whether contacting a consumer can count as "publication." The majority of courts have held it can. However, one recent opinion disagreed based on the reasoning that "publication requires dissemination to the public at large." *OneBeacon America Ins. Co. v. Urban Outfitters, Inc.*, 625 Fed. Appx. 177, 180 (3d Cir. September 15, 2015). *OneBeacon* focused on dictionary definitions of "publication," but the Eleventh Circuit pointed out that texts and faxes fit within dictionary definitions of "publication" such as "to produce or release for publication; specif[ically]: print." *Hooters of Augusta, Inc. v. American Global Ins. Co.*, 157 Fed. Appx. 201, 208 (11th Cir. 2005). Another question raised by CGL policies is whether unauthorized solicitations violate a right to privacy given that they do not divulge personal information. The Seventh Circuit distinguished between the right to secrecy (*i.e.* the right to protection of personal information) and the right to seclusion, holding that the "right to privacy" in the TCPA context includes only the latter. *American States Ins. Co. v. Capital Assoc. of Jackson County, Inc.,* 392 F.3d 939, 943 (7th Cir. 2004). However, the majority of courts have interpreted "right to privacy" to include a right to seclusion. *See, e.g., Penzer v. Transp. Ins. Co.,* 29 So. 3d 1000, 1006-07 (Fla. 2010).

Courts also differ as to whether the TCPA is penal and therefore falls into a commonly used exclusion for willful violations of a penal statute. In *US Fax Law Center, Inc. v. iHire, Inc.*, 362 F. Supp 2d 1248 (D. Colo. 2005), the court classified the TCPA as penal because it authorizes recovery in excess of actual damages ("actual damages . . . or . . . $500" and treble damages for willful violation) and serves the public interest through a deterrent effect. *Id.* at 1250, 1253. However, the majority of courts to consider this have held that the TCPA is not penal. *See, e.g., Terra Nova Ins. Co. v. Fray-Witzer,* 869 N.E.2d 565, 420 (Mass. 2007) (holding that the TCPA is remedial based on legislative intent and the fact that the "remedy flows directly to the private consumer who suffered the injury, rather than to the government").

Professional liability insurance may also cover TCPA violations. Coverage, however, varies depending on the wording of the contract and the type of profession. In *BCS Ins. Co. v. Big Thyme Enterprises, Inc.* 2013 WL 594858 (D. S.C. 2013), the insured argued that "advertising is an integral component of an insurance agent's livelihood" and requires specialized skill, but the court held that "sending unsolicited faxes to potential clients is neither the rendering nor the failure to render Professional Services." *Id.* at *3. Based on different contract language, the court in *Landmark American Ins. Co. v. NIP Group, Inc.*, 962 N.E.2d 562, 576 (Ill. App. Ct. 2011) held that a professional liability policy could cover an insurance company's TCPA violations because that policy expressly excluded some types of advertising without mentioning the TCPA.

In response to increasing litigation and persisting uncertainty about coverage, it has become increasingly common for insurers to simply exclude coverage for TCPA claims. The effect of such exclusions can be wide, as illustrated by *Illinois Cas. Co. v. West Dundee China Palace Restaurant, Inc.*, 2015 WL 9437903 (Ill. App. 2 Dist. December 23, 2015), a recent case holding that an exclusion of liabilities "arising from" the TCPA excluded coverage not just for a claim citing the TCPA but also for claims based on the same facts as the TCPA claim, such as a claim for common law conversion of fax toner. *Id.* at *4-5; *see also State Farm Fire & Cas. Co. v. Easy PC Solutions, LLC*, 2015 WL 8215533, at *2 (Wis. App. 2015).

Due to the complex, still-evolving law regarding TCPA coverage, the changes being made by insurers to exclude coverage for TCPA liability, and the high potential liability untethered to a requirement to show actual damages, companies that call, fax, or text consumers, and the companies that insure them, should carefully analyze whether their policies will cover TCPA violations.

EU Litigation Update

Asserting Standard Essential Patents (SEP) in Europe After the European Court of Justice's* Huawei v. ZTE *Decision. In its *Huawei v. ZTE* decision (C-170/13) of July 16, 2015, the European Court of Justice (ECJ) set out a new framework under which the owner of a standard essential patent (SEP) can seek injunctive relief against an infringer without abusing a dominant position under Art. 102 TFEU. To balance the parties' interests, the ECJ established a six-step approach:

1. The patentee must first notify the defendant of the alleged infringement;
2. The defendant then must show its willingness to license on FRAND terms;
3. The patentee must make a specific, written offer for a license on FRAND terms;
4. The defendant must diligently respond to that offer in accordance with recognized commercial practices in the field and without delaying tactics;
5. If the defendant rejects the patentee's offer, it must make a counter-offer on FRAND terms; and
6. If the patentee rejects the counter-offer, the defendant must provide appropriate security (including for past use) and be able to render an account of its acts of use.

By setting out these six steps, the ECJ brought much needed clarification for the assertion of SEPs and also the defense against such assertions after the Commission had indicated in earlier statements that it would not follow the approach the German courts had practiced after the German Supreme Court's *Orange Book* decision in 2009. Half a year after the ECJ's judgment, the first decisions of the German courts implementing the new rules have been handed down.

In its judgment, the ECJ had already indicated that the aforementioned rules would not apply to claims for damages. This view was shared by the District Court Mannheim in a recent case, in which the plaintiff sought a declaratory judgment confirming the defendant's liability for damages (District Court Mannheim, judgment of February 26, 2016, case no. 7 O 38/14).

In *Sisvel v. Haier*, the District Court Düsseldorf (judgments of November 3, 2015, case nos. 4a O 93/14 and 4a O 144/14) rejected the defendants' FRAND defense and granted an injunction because it found that the defendants had not met their obligations as set forth by the ECJ. In detail, the defendants had rejected the patentee's license offer for allegedly not meeting the FRAND requirements. The defendants made several counter-offers that were all rejected by the patentee for various reasons, for example because it wanted to license the parent company including all subsidiaries and not just one of the subsidiaries (step 5). The Düsseldorf court did not find it relevant whether or not the initial offer made by the patentee was on FRAND terms (step 3). Instead, the court held that a defendant must make a counter offer on FRAND terms in any event, *i.e.* even if it was entitled to reject the patentee's offer for not being FRAND. Additionally, the court held that the defendant would have to comply with the requirements of step 6 from the time the plaintiff rejects its counteroffers.

On appeal, the Düsseldorf Court of Appeals stayed the enforcement of the injunction because it found that the District Court's decision was not in line with the principles set out by the ECJ. According to the Court of Appeals, the steps laid out in *Huawei v. ZTE* are strictly sequential. The alleged infringer is only called on to satisfy the conditions imposed on it once the SEP owner has first satisfied its own obligations. The District Court's failure to consider the question of whether the SEP-owner's first license offer was compliant with FRAND principles meant that it had applied the ruling of the ECJ in *Huawei v. ZTE* incorrectly.

A few weeks after the decision of the District Court Düsseldorf, the District Court Mannheim also issued an injunction in favor of an SEP owner rejecting the defendant's FRAND defense because it did not show its willingness to take a license on FRAND terms (*Saint Lawrence Communications (SLC) v. Deutsche Telekom*, judgments of November 27, 2015, case nos. 2 O 106/14, 2 O 107/14, 2 O 108/14). The court found it to be irrelevant that the plaintiff only informed the defendant of the alleged infringement (step 1) after the complaint had already been filed but not yet served. It held that in any event the defendant could have shown its willingness to license during the proceedings, but failed to do so and therefore did not meet the requirements set out by the ECJ. More specifically, the defendant could not just refer to the willingness of its suppliers to take a license but had to show that it itself was willing to take a license, especially if there is doubt as to whether the suppliers conform to the ECJ's requirements for a willing licensee. Indicating the willingness to take a license three months after notification of the infringement was deemed too late. In addition, the Mannheim Court agreed with the Düsseldorf District Court that it did not matter whether the patentees first offer was, in fact, a FRAND offer. The appeal is pending.

The decisions so far show that the German courts have not yet found a consistent approach in applying the principles established by the ECJ in *Huawei v. ZTE*. It is not settled whether or not the six steps established by the ECJ are strictly sequential, such that an obligation for a party to take a certain step only arises once the other party has complied with its duties as sequentially set out in the six step approach. Different from the German Supreme Court's approach under the *Orange Book* regime, the ECJ has burdened both parties equally.

Thus, it is not only critical for the owner of an SEP to develop a strategy in order to show compliance with the ECJ's requirements, but also for the defendant.

ITC Litigation Update

The Federal Circuit Considers Another Issue Relating to ITC Jurisdiction in Section 337 Investigations. Less than three months after its *en banc* decision in *Suprema, Inc. v. Int'l Trade Comm'n*, 796 F.3d 1338 (Fed. Cir. 2015), the Federal Circuit handed down another ruling directly implicating the United States International Trade Commission's ("ITC") jurisdiction in Section 337 investigations. The panel's decision in *ClearCorrect Operating, LLC v. Int'l Trade Comm'n*, 810 F.3d 1283, 1286 (Fed. Cir. 2015), again circumscribes the ITC's jurisdiction and rejects the ITC's interpretation of Section 337. The ITC has requested that the Federal Circuit review the panel's decision *en banc* and vacate that decision as the Federal Circuit did in *Suprema*.

Section 337 of the Tariff Act of 1930 authorizes the ITC to block the importation into the United States of "articles" that either violate a valid and enforceable intellectual property right held in the United States or otherwise involve unfair methods of competition. When there is no importation of "articles," there can be no unfair act and thus nothing for the ITC to remedy. The ITC has traditionally interpreted the definition of "articles" to include electronic transmission of digital data. *See, e.g., Certain Hardware Logic*, Comm'n Op. on Remedy, the Public Interest, and Bonding, 1998 WL 307240, at *11 (Mar. 1, 1998) (establishing that "the Commission has the legal authority to cover electronic importations"); *Certain Incremental Dental Positioning Adjustment Appliances*, Inv. No. 337-TA-562, Comm'n Op. at 7 (Jan. 23, 2013) (enforcement action confirming that an electronic transmission is an article subject to the ITC's jurisdiction). This interpretation was reviewed by the Federal Circuit in *ClearCorrect*. On November 10, 2015, the majority of a divided Federal Circuit panel issued a precedential opinion reversing the ITC's interpretation of "articles" as that term pertains to the electronic transmission of digital data. *ClearCorrect*, 810 F.3d at 1286. According to the majority, under the text of Section 337, "articles" means "materials things" and thus does not include electronic transmissions.

The underlying ITC investigation in *ClearCorrect* (Inv. No. 337-TA-833) was based on a patent infringement complaint filed by Align Technology, Inc. ("Align") against ClearCorrect Operating, LLC ("ClearCorrect USA") and Clear Correct Pakistan (Private), Ltd. ("ClearCorrect Pakistan") (collectively, "ClearCorrect"). The asserted patents covered the production of particular orthodontic appliances, also known as aligners. As part of that manufacturing process, ClearCorrect USA and ClearCorrect Pakistan exchanged digital models of a patient's teeth. Physical models based on the digital versions were ultimately manufactured in the United States by ClearCorrect USA. Because the physical models were made in the U.S. and thus not subject to the ITC's jurisdiction, the accused "articles" under Section 337 were the digital models transmitted from Pakistan to the U.S. The ITC found that it had jurisdiction over those electronically imported digital models.

The majority in *ClearCorrect* disagreed. Chief Judge Prost, writing for the majority, noted that although the term "articles" is not defined by statute, the literal text of the term, the context in which the text is found within Section 337, and the statutory scheme all indicate that Congress intended "articles" to mean "material things" and not to extend to electronic transmissions of digital data. 810 F.3d at 1299. The majority further reasoned that although "electronic transmissions have some physical properties—for example an electron's invariant mass is a known quantity—[ ] commonsense dictates that there is a fundamental difference between electronic transmissions and 'material things.'" *Id.* at 1286.

In a strong dissent, Judge Newman argued that not only had Congress vested the ITC "with broad enforcement authority to remedy unfair trade acts" so that its authority under Section 337 would be "broad enough to prevent every type and form of unfair practice," but that the majority's ruling also contravenes "decades of precedent concerned with digital data, electronic transmission, and infringing importation." *Id.* at 1305-06, 1312. The dissent thus reasoned that Section 337 is "not limited to the kinds of technology that existed in 1922 or 1930"; that the term "articles" is "all-encompassing" and covers all infringing imported "articles of commerce"; and that the "importation of infringing articles is not restricted to specific kinds of carriers or modes of entry." *Id.* at 1306-09. The dissent further added that because digital information is patentable and potentially infringing subject matter, there is no basis for excluding it from Section 337 because that statute covers "imported infringing subject matter . . . whatever the form of the subject matter." *Id.* at 1306.

On January 27, 2016, the ITC and Align filed separate petitions for *en banc* rehearing. On January 28, the Federal Circuit invited ClearCorrect and *amici curiae* to file responses to the petitions for rehearing *en banc*, which they did in February. Because of the importance of this issue, the Federal Circuit may well issue two *en banc* decisions in a year concerning the ITC's jurisdictional reach. Q

Star Litigators Join Quinn Emanuel's Washington, D.C. Office

Tara Lee and Debbie Shon have joined Quinn Emanuel as partners in the firm's Washington, D.C. office. Ms. Lee, formerly Co-Chair of the DLA Piper's Global Investigations practice and Global Chair of the firm's Cross Border Litigation practice, is a veteran trial lawyer with particular expertise in international and transnational investigations. Her investigations and litigation practice includes some of the highest profile FCPA and FCA cases brought by the Department of Justice, and substantial experience conducting investigations in unstable political environments, including Africa, the Middle East (including Iraq and Afghanistan), and Eastern Europe. She is a graduate of the U.S. Naval Academy and University of San Diego School of Law, and has been named a Pioneer and Trailblazer in Litigation by *The National Law Journal*, and a Female Powerbroker by *Law360*, among other accolades.

Ms. Shon, formerly Vice President of International Law & Global Public Policy for U.S. Steel Corporation, chairs the firm's International Trade Group. Before joining U.S. Steel, Ms. Shon was the managing director and general counsel of a media and real estate investment company. She also served as a legal and commercial strategic consultant to Fortune 500 companies on market entry and WTO issues throughout the Asia Pacific region, and advised the Organization of American States (OAS) and the Economic Community of Western African States (ECOWAS) on international trade matters. Ms. Shon was appointed by President Clinton as the Assistant U.S. Trade Representative for Intergovernmental Affairs and Public Liaison and served as an adjunct professor at the University of Southern California Law School. She received her J.D. from Georgetown University Law Center. Q

Appellate Victory Concerning the Stolichnaya Trademarks

The firm recently obtained a crucial appellate victory in its long-standing fight on behalf of Federal Treasury Enterprise Sojuzplodoimport ("FTE"), a Russian government agency that is seeking to recover ownership of the world-famous Stolichnaya trademarks.

The STOLI trademarks were fraudulently privatized and stolen from the Russian people amidst the collapse of the Soviet Union. A Russian businessman named Yuri Shefler eventually gained control over the marks and maneuvered them out of Russia to corporations in Switzerland, Cyprus, and elsewhere. Several years later, while investigating a company controlled by an associate of Shefler, the Russian government discovered that the STOLI marks had not been properly privatized, and began its effort to recover the STOLI marks around the world. In rulings confirmed by the European Court of Human Rights, the Russian Federation established in the Russian courts that the marks were not properly privatized and that they belonged to the Russian Federation as the successor of the Soviet. FTE was then organized and tasked with, among other things, establishing the Russian Federation's rights over the STOLI trademarks in other countries, including the United States, the second largest market in the world for STOLI vodka.

FTE first filed suit in the United States in 2004, asserting trademark infringement and other claims against Shefler, his companies, and various distributors. After several years of preliminary litigation and failed attempts at a global settlement, this suit was dismissed, primarily on the ground that the Russian Federation had retained too great of an interest in the trademarks to permit FTE to qualify as an owner under the Lanham Act, and therefore FTE lacked standing under the Act.

After the Second Circuit affirmed that ruling, the Russian Federation executed an assignment transferring all right, title, and interest in the STOLI trademarks to FTE, and FTE filed a new suit, claiming standing based on this assignment. The district court once again dismissed FTE's claims. In addition to finding that some subsidiary claims were barred by res judicata and laches, the district court held that the Russian Federation's assignment failed to confer standing on FTE because the assignment was invalid under *Russian* law. In so doing, the district court resolved a question of first impression against FTE and the Russian Federation based upon its assessment of expert testimony on Russian law.

On appeal, FTE persuaded the Court of Appeals that the district court erred in even considering whether the Russian Federation's had violated its own law in making the assignment to FTE. The Second Circuit unanimously ruled that principles of international comity and the Act of State doctrine barred the district court from judging the validity of a foreign government's conduct under foreign law. Accordingly, the Second Circuit reversed the district court's standing holding and reinstated FTE's primary claims for trademark infringement.

As a result, after more than a decade of litigation, FTE's claims are now ready to be considered on their merits.

Iran Prisoner Swap Victory

At 4:46 am on January 16, 2016, the firm's client, Khosrow Afghahi, was released from the Federal Detention Center in Houston, Texas—one of seven Iranian-Americans freed in U.S.-Iran nuclear and prisoner negotiations announced just the day before. Mr. Afghahi received a full Presidential pardon.

The case began nine months earlier when the client was accused in Houston federal court of the crime of making and selling goods in Iran—in his case, surge protectors similar to those sold at an office supply store. The business had existed since before the 1978 Revolution, but the client had become a U.S. citizen only more recently, to visit family more often. Discovery was impaired because (1) he was detained in jail pending trial, and (2) it is terribly difficult to get materials located in Iran. However, it became clear that the client might soon be included in a rumored "prisoner swap." On the night of Friday, January 15th, the firm was told to appear at the warden's office at 5:30 am on Saturday when a pardon and swap would quickly occur. Every 30 minutes, the warden received a message that they were "close… except for one more glitch." Twenty-three hours later, it finally took place, and the firm's client was happily reunited with his wife and son.

Complete Patent Defense Jury Trial Victory in the Eastern District of Texas

On behalf of defendants Alcatel Lucent, AT&T, Verizon, and Sprint, the firm recently won a complete victory before a jury in a patent infringement lawsuit in the Eastern District of Texas. Although the case included three network carrier customers of the client, Alcatel Lucent, the firm handled all aspects of the presentation during trial. The case involved allegations of infringement against use of Alcatel Lucent's LTE base stations in each of the networks.

Plaintiff, Adaptix, Inc., is a subsidiary of Acacia Research Corporation and the predecessor of a company called Broadstorm Telecommunications, Inc., which was founded in 2000 by a former professor at the University of Washington. Although Broadstorm had not been successful in the marketplace, the company developed a patent portfolio, which has grown to include over 130 patents worldwide. Acacia acquired Adaptix in 2012 for $160 million, and has since filed approximately sixty lawsuits against numerous LTE base station manufacturers, handset manufacturers, and network providers. Acacia had previously obtained over $100 million in licensing revenue from the Adaptix portfolio.

Adaptix originally asserted five patents in this case, but after development of strong non-infringement and invalidity defenses, Adaptix narrowed down its case to three claims from one patent for trial. Adaptix sought $100 million in damages for the remaining patent, which Adaptix claimed was "front and center" in prior negotiations with its licensees and was the most valuable patent in its portfolio. At trial, the firm presented focused non-infringement theories, as well as strong invalidity theories based on anticipation, obviousness, and lack of written description.

Ultimately, the jury found for the defendants on all claims, finding that the patent was not infringed and was invalid on all of the bases the firm asserted at trial. Shortly after the verdict on a Friday afternoon, Acacia's stock fell 20%, which was followed by the resignation of Acacia's CEO the following Monday and withdrawal of Adaptix's trial counsel in the following weeks.

Plaintiffs Seeking $1.4 Billion Take Nothing from Our Clients

The firm recently obtained an important victory for its client, American Electric Power, Inc., zeroing out the plaintiffs after three years of litigation in which the plaintiffs sought to recover over $1.4 billion dollars. On March 28, 2016, an Ohio federal judge dismissed the majority of claims brought against American Electric Power, Inc.'s subsidiaries, in a suit brought by the owners of a coal-fired generating station located in Rockport, Indiana, seeking more than $1.4 billion in damages and declaratory and injunctive relief. Three days after the decision, plaintiffs moved to dismiss their remaining claims with prejudice, thereby disposing of the case in its entirety, with plaintiffs taking nothing.

In July 2013, Wilmington Trust Company—on behalf of Rockport Plant (Unit 2) beneficial owners Phillip Morris Capital Corporation, Verizon Capital Corporation, and Aircraft Services Corporation (an affiliate of General Electric Capital Corporation)—filed a complaint in federal court in the Southern District of New York against AEP Generating Company ("AEG") and Indiana Michigan Power Company ("I&M"). The breach of contract and indemnification case alleged approximately $1.4 billion in damages for breaches of certain contracts structuring a sale leaseback transaction with plaintiffs. Plaintiffs alleged that defendants breached those contracts by entering into a Consent Decree that settled environmental litigation brought by the EPA against I&M and its affiliates. The plaintiffs alleged that the terms of the Consent Decree (as modified in 2013) require installation of environmental control equipment or shutdown of the unit in 2025 or 2028, after the expiration of I&M and AEG's current lease of the facility from plaintiffs. The case was subsequently transferred to the Southern District of Ohio, where AEP is headquartered.

On March 28, 2016, U.S. District Chief Judge Edmund A. Sargus, Jr., granted I&M and AEG's motions to dismiss and for judgment on the pleadings, and denied plaintiffs' dueling motion for summary judgment. The Court rejected plaintiffs' claims that I&M's entry into the Consent Decree unlawfully burdened plaintiffs' ownership interests in Rockport Unit 2, finding that the Consent Decree was expressly permitted by the parties' contracts. The Court also dismissed plaintiffs' claims for indemnification and breach of the implied covenant of good faith and fair dealing. Q

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- When we represent defendants, our trial experience gets us better settlements or defense verdicts.
- When representing plaintiffs, our lawyers have garnered over $50 billion in judgments and settlements.
- We have won five 9-figure jury verdicts.
- We have also obtained twenty-four 9-figure settlements and twelve 10-figure settlements.

Prior results do not guarantee a similar outcome.

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