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Common-Interest Doctrine—A Tool to Prevent Waiver of Attorney-Client Privilege in Intellectual Property Transactions

It is easy to waive attorney-client privilege inadvertently while negotiating intellectual property ("IP") transactions. For example, when an IP owner seeks to sell a patented product, potential buyers often ask for any opinions of counsel that concern the patent. The IP owner must decide whether or not to disclose the privileged opinions to the potential buyer. Such opinions might be essential to the deal itself. Many potential buyers request IP opinions in order to assess both the value and the strength of the seller's IP portfolio. Without these opinions, a potential buyer might simply walk away from a deal—not knowing sufficient information to make an informed decision regarding the propriety of the transaction. However, while potentially essential to the transaction, such a disclosure of an opinion of counsel can waive the attorney-client privilege. This creates a tension between a need to disclose the opinions to further the business transaction and a need to maintain attorney-client privilege over the opinions of counsel.

As discussed below, if the disclosure of the privileged material is done carefully, it *is* possible to both disclose the privileged material to a potential business partner and maintain the attorney-client privilege. We first discuss a recent case where Quinn Emanuel successfully upheld the attorney-client privilege despite disclosure of opinions of counsel to several potential deal partners.

Quinn Emanuel Upholds Attorney-Client Privilege Under Common-Interest Doctrine

Quinn Emanuel recently encountered this issue in a case before Judge Stark in the District of Delaware. The firm's client, in the course of due diligence preceding a potential business transaction, disclosed validity and freedom-to-operate opinions to a select set of potential buyers. In defending against a claim of

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Quinn Emanuel Recognized as a "2013 Go-To Law Firm for Top 500 Companies"

American Lawyer Media (ALM) has named Quinn Emanuel to its list of "2013 Go-To Law Firms for the Top 500 Companies." The list identifies firms that have done "exceptional work" for Fortune 500 companies based on interviews with general counsel at Fortune 500 companies. ALM specifically recognized Quinn Emanuel for its intellectual property work for Barnes & Noble Inc. and EMC Corporation, as well as for its contract and torts work for Colgate-Palmolive Co. Q

Quinn Emanuel Named *Law360* Class Action Practice Group of the Year

The firm has been selected by *Law360* as one of five "Class Action Practice Groups of the Year" for 2012. *Law360* editors received nearly 550 "Practice Group of the Year" nominations submitted by almost 100 law firms. Quinn Emanuel was selected based on the significance, size, complexity, and number of its class action representations. *Law360* recognized Quinn Emanuel for its "major class action victories" in antitrust litigation against U.S. "railroad giants" and, on the defense side, its representation of IBM in a data disclosure suit. The publication also recognized the firm's representation of Hyundai Motor America in numerous class actions relating to car fuel economy estimates. Quinn Emanuel also defended The Coca-Cola Co., Colgate-Palmolive Co., Barnes & Noble Inc., Charles Schwab & Co. Inc., Epson America, Inc, among others, in major class actions. Q

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waiver, Quinn Emanuel explained to Judge Stark that this was not a case where our client had voluntarily disclosed privileged information without concern for retaining its confidentiality. To the contrary, our client had been involved in discussions with a large number of potential suitors but disclosed the privileged information to only a few prospective buyers after they had conducted a series of negotiations and due diligence exchanges. In addition to being in a position where the deal was largely "locked up," our client also had strict confidentiality agreements in place with each potential buyer. Moreover, the privileged documents were provided with an understanding that they were to be used to further the common legal interest both parties had in valid and enforceable patents should they choose to complete the transaction.

Perhaps most importantly, Quinn Emanuel argued the negative policy implications that would have followed if Judge Stark had found a waiver of the attorney-client privilege. After Quinn Emanuel argued that business transactions involving intellectual property would not occur absent such protection, Judge Stark frankly asked opposing counsel to explain the effects on negotiations if he were to rule against preserving our client's privilege. Opposing counsel was largely speechless in its reply, and we summed it up quite readily—the negotiations simply would not occur. Heeding the caution of other courts, Judge Stark agreed with Quinn Emanuel's position that waiver would chill similar business negotiations and upheld our client's privilege under the common-interest doctrine.

Next, we provide an overview of the common-interest doctrine and discuss the factors that go into an analysis of whether the common-interest doctrine will prevent a waiver of the attorney-client privilege.

The Common-Interest Doctrine as Applied to Business Transactions

Courts focus on five factors in determining whether or not to uphold the privilege based on the common-interest doctrine. Those factors are: (1) the nature of the shared interest; (2) whether the privilege holder disclosed the information under an expectation of confidentiality; (3) whether the privilege holder and third party can reasonably anticipate joint litigation; (4) the stage of the diligence proceedings when the privileged information was disclosed; and (5) the policy considerations concerning the consequences that accompany waiver.

***1. Nature of the Interest*:** The nature of the interest each party has during the due diligence and negotiations that surround a potential transaction is perhaps the most compelling factor in the common-interest analysis. As originally applied, the common-interest doctrine required that "the nature of the [parties'] interest be <u>identical</u>, not similar, and be legal, not solely commercial." *Libbey Glass, Inc. v. Oneida, Ltd.*, 197 F.R.D. 342, 348 (N.D. Ohio 1999). This principle has been relaxed in some jurisdictions—requiring only a "substantially identical" or "substantially similar" interest. *See e.g.*, *In re Teleglobe Commcn's Corp.*, 493 F.3d 345, 365 (3d Cir. 2007); *In re Regents of Univ. of California*, 101 F.3d 1386, 1390 (Fed. Cir. 1996).

The motivating factor behind the relaxed standard derives from the acknowledgement by some courts that pre-deal diligence involving intellectual property will necessarily involve both a business and legal component. For example, parties arguing that disclosure of privileged advice during an IP transaction waived attorney-client privilege often rely upon the business component of the disclosure—that the disclosure was made to increase the value of the transaction or to entice the other party to complete the transaction. This might help contribute to closing the deal or aid in negotiating a purchase price that is more favorable to the seller. The privilege-holder seeking protection will vigorously fight to rebut this view because in jurisdictions that require the nature of the parties' interest to be <u>identical</u>, the existence of the business component of the transaction will weigh in favor of a finding of waiver of the attorney-client privilege. Indeed, the privilege holder will most likely argue that the materials were disclosed solely in support of a "shared legal interest" between the buyer and seller in valid and enforceable patents.

Many courts have struggled with the issue of whether the parties to the negotiations have a "shared legal interest." To address that issue, it is often necessary to make a prediction as to what would happen should the potential transaction come to a head. If the deal were to close, then both parties could potentially have concurrent rights in the intellectual property, *i.e.,* in the case of a merger. Another possibility is that the seller of the intellectual property and the potential buyer could face joint litigation in the future if the products covered by the IP infringed another's patent. The seller would face liability based on its rights before the sale, and the buyer based on its right subsequent the sale. *See e.g.*, *Hewlett-Packard Co. v. Bausch & Lomb, Inc.*, 115 F.R.D. 308, 310 (N.D. Cal 1987).

This leaves open the question of what happens when the seller extinguishes all its rights in its intellectual property portfolio upon completion of the business transaction. In such circumstances, some courts have still been inclined to uphold privilege assertions.

For example, in *Fresenius Med. Care Holdings, Inc. v. Roxane Labs., Inc.*, No. 05-889, 2007 WL 895059, at *4 (S.D. Ohio Mar. 21, 2007), the district court held that the common-interest doctrine survived an asset purchase agreement where the seller disclosed privileged information to the buyer in connection with the sale of the asset.

Based on the case law, therefore, privileged information should only be disclosed in potential transactions when both parties have a common legal interest in obtaining, maintaining, protecting, and enforcing valid and enforceable patents.

***2. Expectation of Confidentiality*:** Confidentiality is a key component in any privilege analysis. This issue often turns on whether a confidential disclosure agreement was in place before the privileged information was disclosed. If confidentiality is not maintained, courts have often found the privilege to be waived. In cases of due diligence associated with IP transactions, however, where parties voluntarily disclose privileged information, but do not intend to cause a waiver, courts have determined that they must investigate the "explicit or implicit undertaking by the recipient of the information to hold [the disclosed information] in confidence." *Hewlett-Packard*, 115 F.R.D. at 311. This is not to say that the responsibility for protecting against waiver falls solely upon the potential buyer receiving the privileged information. The seller must take steps of its own to impress upon the potential buyer the confidential nature of the information. *Id.*

For example, in *Hewlett-Packard*, the court found that voluntary disclosure of privileged information did not vitiate the attorney-client privilege. In particular, the court found that Bausch & Lomb did everything it reasonably could to protect the confidentiality of the legal opinion it disclosed to GEC. Specifically, "[o]nly two copies of the [opinion] letter were transmitted to GEC; GEC was instructed that no further copies were to be made; both copies were returned to [B&L's] counsel; and the letter was not disclosed to others." *Id.* at 311. Indeed, leading cases denying application of the common-interest doctrine take care to specifically point out that the disclosing party did nothing to protect the alleged confidentiality of the disclosed privileged documents. *See, e.g.*, *Net2Phone, Inc. v. Ebay, Inc.*, No. 06-2469, 2008 WL 8183817, at *9 (D.N.J. June 26, 2008) (distinguishing *Hewlett-Packard* on the ground that the parties in that case were under a confidentiality agreement). Thus, a confidentiality agreement weighs in favor of common-interest applicability.

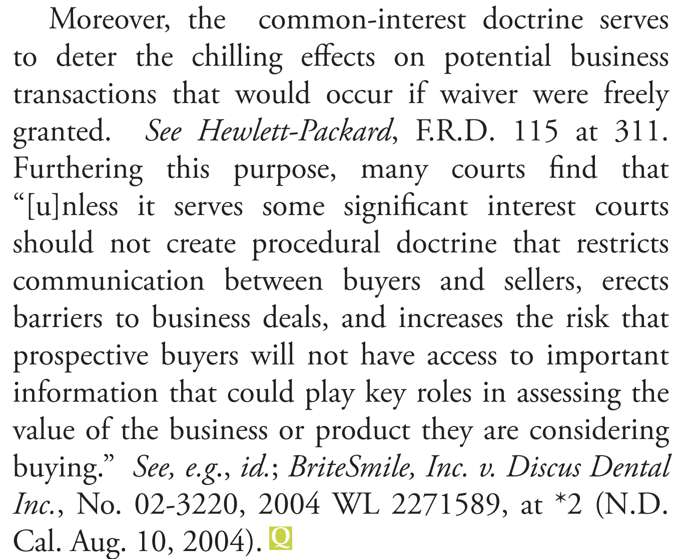
***3. Anticipation of Litigation*:** There is considerable disagreement between courts regarding whether or not the common-interest doctrine applies when there is no anticipation of joint litigation in situations where legal and business interests are intertwined. For example, a more relaxed approach only considers whether there is some substantially identical legal interest accompanying an identical business interest, irrespective of whether or not the parties will embark on a joint litigation. *See, e.g.*, *In re Regents*, 101 F.3d at 1390 (Fed. Cir. 1996) (the common interest doctrine "is not limited to joint litigation preparation efforts"); *Fresenius Med.*, 2007 WL 895059, at *3 (S.D. Ohio Mar. 21, 2007) ("[T]he community of interest doctrine is not limited to joint litigation situations, but may also apply in connection with patent rights."). On the other hand, some courts have expressly disclaimed the use of the common-interest doctrine as a shield to waiver of the attorney-client privilege when there is no anticipation of joint litigation. *See e.g.*, *Net2Phone*, 2008 WL 8183817, at *7 (D.N.J. June 26, 2008) (no common-interest "where the third-party's interest does not appear to be that of a potential co-defendant"); *Nidec Corp. v. Victor Co. of Japan*, 249 F.R.D. 575, 579-80 (N.D. Cal. 2007) (distinguishing *Hewlett-Packard* on the grounds that there was "a common legal interest because of anticipated joint litigation").

***4. Stage of Diligence*:** Where there is a potential business transaction, "the common interest doctrine protects privileged and work-product materials even if there is no 'final' agreement or if the parties do not ultimately unite in a deal." *Katz v. AT&T Corp.*, 191 F.R.D. 433, 437 (E.D. Pa. 2000). However, the common-interest doctrine will not likely be upheld if the privilege-holder freely conducts pre-deal discussions regarding its privileged materials with a host of potential suitors. The decision to disclose information, therefore, must be carefully made and only undertaken when a deal is nearing its final steps. *See e.g.*, *Morvil Tech., LLC v. Ablation Frontiers, Inc.*, No. 10-2088, 2012 WL 760603, at *3 (S.D. Cal. Mar. 8, 2012) (upholding the party's privilege and noting that "both parties were committed to the transaction and working towards its successful completion").

This factor is intertwined with the expectation of confidentiality. If a party freely discloses information to a large number of potential buyers early in the diligence process, the privilege-holder is likely to be viewed as not having taken adequate steps to protect the confidentiality of its materials. Accordingly, voluntary disclosure of privileged materials should be undertaken only near the completion of a transaction, when the parties are ready to move towards consummation.

***5. Policy Considerations*:** There can be no doubt that opposing counsel has a great interest and desire

in gaining access to an adversary's privileged and confidential information, especially when it concerns IP that is the subject of an ongoing lawsuit. Application of the common-interest doctrine in the context of due diligence aids in deterring "the tendency of some lawyers, especially in intellectual property cases, to spend an inordinate amount of time attempting to gain an advantage in the litigation by making use of the adversary *attorney's* words and opinions." *Hewlett-Packard*, 115 F.R.D. at 311. As the court in *Hewlett-Packard* observed, it is important to keep the focus of the court's infringement and invalidity analysis "on the real world, on the similarity of the products involved in the dispute and on the history of relevant inventions and commercial conduct." *Id.* Freely granting waiver based on disclosures made in the course of negotiating IP transactions would undoubtedly invite the expenditure of time and judicial resources litigating collateral privilege issues.



Moreover, the common-interest doctrine serves to deter the chilling effects on potential business transactions that would occur if waiver were freely granted. *See Hewlett-Packard*, F.R.D. 115 at 311. Furthering this purpose, many courts find that "[u]nless it serves some significant interest courts should not create procedural doctrine that restricts communication between buyers and sellers, erects barriers to business deals, and increases the risk that prospective buyers will not have access to important information that could play key roles in assessing the value of the business or product they are considering buying." *See, e.g.*, *id.*; *BriteSmile, Inc. v. Discus Dental Inc.*, No. 02-3220, 2004 WL 2271589, at *2 (N.D. Cal. Aug. 10, 2004). Q

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CHOOSING, DRAFTING & MANAGING INTERNATIONAL ARBITRATION

We are pleased to welcome in-house counsel to our upcoming seminar, "Choosing, Drafting and Managing International Arbitration." The seminar will focus on the advantages of international arbitration, its perceived problems and criticisms, the arbitration clause, the seat of the arbitration, choosing arbitration rules, third party funders, documents and "discovery," remedies and enforcement, and finally, the cast of players: counsel, arbitrators, witnesses and experts.

Our three presenters are international arbitration specialists who are ranked among the top advocates in the world. Collectively, they have worked on hundreds of arbitrations. Stephen Jagusch is a partner in Quinn Emanuel's London office and the Global Chair of the firm's International Arbitration Practice. Before joining Quinn Emanuel, he held the same position at Allen & Overy. Anthony Sinclair, also a London-based partner, specializes in international commercial arbitration, investment treaty arbitration, and public international law. Philippe Pinsolle, who joined the firm from Shearman & Sterling (Paris), is the Managing Partner of Quinn Emanuel's new Paris office, which focuses primarily on international arbitration. An overview of our growing international arbitration practice and the introduction of the presenters will be made by Los Angeles partner, Fred Bennett, who also heads the firm's International and Domestic Arbitration practice.

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Standard Essential Patents Come Under Scrutiny of the DOJ, FTC, and PTO

Introduction

Increased public and regulatory attention has been recently given to litigation remedies available to standard essential patent ("SEP") holders who have committed to offer patent licenses on fair, reasonable and non-discriminatory ("FRAND") terms. In cases where SEP holders and technical standard implementers have been unable to agree on patent licensing terms, SEP holders have on occasion filed infringement suits, seeking remedies for infringement including injunctive relief.

Over the last several months, the Federal Trade Commission ("FTC"), and separately, in a joint policy statement, the U.S. Department of Justice, Antitrust Division ("DOJ"), and the U.S. Patent & Trademark Office ("USPTO"), provided their respective views on the remedies available to SEP holders. At present, it appears that these agencies are taking a nuanced market approach on this issue, avoiding per se rules on whether SEP holders are allowed to obtain injunctive relief on their patents. Both the FTC and DOJ/USPTO have focused on the circumstances surrounding the negotiations between the SEP holder and the accused infringer.

Standard Setting Organizations and Voluntary Consensus Standards

Technical standards are often developed by voluntary organizations commonly known as standard setting organizations ("SSOs"). SSOs publish technical standards which, if adopted widely, ensure interoperability between products and services offered by different businesses. For example, the popular 802.11 wireless standard, developed and published by the Institute of Electrical and Electronics Engineers ("IEEE") and its member organizations, allows individuals to connect to WiFi hotspots, whether at home, work, a coffee shop, or even on an airplane. The individuals and organizations that are involved in collaborative standard setting environments frequently own patents that cover the standard at issue, known as SEPs. By definition, practice of SEPs is technically necessary in order to comply with the requirements of a standard. Defendants in SEP infringement suits have contended via counterclaims that SEP holders, by way of their involvement in the standards, are subject to a commitment to license any essential patents on FRAND terms.

Increased media and regulatory attention has been given to cases where companies have been unable to successfully negotiate the terms of a SEP portfolio license prior to litigation initiated either before the International Trade Commission (ITC), federal district court or both. SEP portfolio holders have filed actions both in the district court and before the ITC, seeking damages and/or injunctive relief. Implementers, in turn, have sought declaratory judgments from courts that the terms of the licenses sought by the SEP holders have not been FRAND. The FTC, DOJ, and USPTO have recently provided some insight on their respective policy positions related to the propriety of obtaining injunctive relief on SEPs in such cases.

FTC Addresses SEPs and Injunctive Relief

In November 2012, as part of its investigation of the proposed acquisition of SPX Services Solutions by Robert Bosch GmbH, the FTC issued for public comment a Complaint and Order against Bosch. As part of its Statement related to the Decision and Order, the FTC stated that it would be inconsistent with FRAND licensing commitments for an SEP holder to "seek[] injunctions against willing licensees of . . . SEPs." Statement of the Federal Trade Commission, *In the Matter of Robert Bosch GmbH*, at 1, FTC File Number 121-0081 (Nov. 26, 2012). The FTC added that the pursuit of injunctive relief on SEPs "can also lead to excessive royalties that can be passed along to consumers in the form of higher prices." *Id.* at 2. Even still, the FTC appears to have adopted a circumstance-specific approach to its policy on injunctive relief, clarifying its position that the SEP holder should still be entitled to obtain injunctive relief against unwilling licensees. *See id.*

In the context of *In the Matter of Google Inc.*, FTC File No. 121-0120, the FTC again offered insight into its current position on the availability of injunctive relief to SEP holders who have made FRAND commitments. The FTC took the position that the threat of injunctive relief on SEP patents can potentially impair competition and increase consumer prices. However, the FTC limited its position as applying only to "willing licensees" and "any company that wants to license" SEPs. Statement of the Federal Trade Commission, *In the Matter of Google Inc.*, at 1, FTC file No. 121-0120 (Jan. 3, 2013). As part of the proposed consent order with Google, the FTC provided a procedural framework and conditions under which Google-subsidiary Motorola Mobility would be permitted to obtain injunctive relief on SEPs subject to a FRAND commitment.

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White Collar Litigation Update

Second Circuit Declines to Apply Short-Swing Profit Rule to Transactions Involving Different Types of Stock. In a case of first impression, *Gibbons v. Malone*, No. 11–3620–cv, 2013 WL 57844 (2d Cir. Jan. 7, 2013), the Second Circuit held that an insider's purchase and sale of *different* stock types in the same company does not trigger liability under Section 16(b) of the Securities Exchange Act of 1934. Specifically, the court held transactions involving separately traded, nonconvertible stocks with different voting rights fall outside the purview of Section 16(b).

Congress enacted Section 16(b) of the Securities Exchange Act, more commonly known as the "short-swing profit rule," for the disgorgement of profits obtained by insiders who use their nonpublic knowledge when trading in a company's securities. The statute allows for the issuing company to recover an insider's profits from any paired purchase and sale or sale and purchase of any equity security occurring within less than a six-month period.

At issue in *Gibbons* was whether the profits obtained from sales and purchases of different types of stock by the defendant, John Malone, a director and shareholder of Discovery Communications, Inc., were recoverable by plaintiff shareholder Michael Gibbons under Section 16(b). Over the course of about two weeks in December 2008, Malone had made nine sales of Discovery's "Series C" stock totaling 953,506 shares and ten purchases of Discovery's "Series A" stock totaling 632,700 shares. *Gibbons v. Malone*, 2013 WL 57844, at *1. Discovery's Series A and C stock are different equity securities, separately registered and traded on the NASDAQ stock exchange, and not convertible into each other. In addition, the Series A stock comes with voting rights while the Series C stock does not.

Alleging that Malone realized illicit profits of at least $313,573 from his sales of Series C stock and purchases of Series A stock, Gibbons brought a derivative suit seeking disgorgement of Malone's profits under Section 16(b). *Id*. The United States District Court for the Southern District of New York dismissed Gibbons' complaint for failure to state a Section 16(b) claim, finding that the statute's use of the singular term "any equity security" undermined the plaintiff's theory which "requires the purchase and sale of any equity *securities*, rather than of one equity security," while the statute prohibits a paired purchase and sale or sale and purchase of only the latter, not the former. *Gibbons v. Malone,* 801 F.Supp.2d 243, 247 (S.D.N.Y. 2011).

On appeal, the Second Circuit upheld the District Court's dismissal, finding that Malone's sales of Series C stock and purchases of Series A stock are not within the scope of Section 16(b). *Gibbons v. Malone*, 2013 WL 57844, at *2. First, the court found that Malone's sales and purchases failed to form the requisite "pair" of securities transactions constituting the "type of insider activity that Section 16(b) was designed to prevent." *Id*. at *3. In particular, upon examining the statutory text, the court determined that "Congress's use of the singular term 'any equity security' supports an inference that transactions involving *different* equity securities cannot be 'paired' under § 16(b)." *Id*. Because the statutory terms "purchase and sale" and "sale and purchase" are both directed at the same singular object – i.e., the same equity security—Malone's purchase and sale of *different* equity securities fell outside of the scope of the statute.

Second, while the Second Circuit noted that "§ 16(b) could apply to transactions where the securities at issue are not meaningfully distinguishable," this was not the case here where the difference in voting rights readily distinguishes Series A stock from Series C stock, rendering the two securities "distinct not merely in name but also in substance." *Id*. at *4. Accordingly, the court concluded, "[a]n insider could easily prefer one over the other for reasons not related to short-swing profits." *Id.*

Third, the court refused to apply the principle of "economic equivalence" to the stocks at issue, reasoning that the principle had "developed in the context of fixed-ratio convertible instruments, particularly with respect to whether exercising conversion rights is a 'purchase' or 'sale within the meaning of § 16(b)." *Id.* In this case, "two nonconvertible securities" such as Discovery's Series A and Series C stocks, "whose prices fluctuate relative to one another," are not "economically equivalent" and therefore do not fall under the scope of § 16(b) on this basis. *Id*. at *5.

Finally, the Second Circuit refused to find liability based on the plaintiff's request "to enter uncharted territory by holding that the two securities are sufficiently 'similar' to be paired under § 16(b)." *Id.* Acknowledging that such a broad interpretation might be plausible, the court nevertheless determined that a "substantial similarity" standard would be at odds with both the plain text and fundamental purpose of the statute. The court noted that the "statutory text appears to require sameness, not similarity." Moreover, citing the Supreme Court, the Second Circuit explained that Congress intended § 16(b) to establish "mechanical requirements" through "a relatively arbitrary rule capable of easy administration," as opposed to one

that "reach[es] every transaction in which an investor actually relies on inside information." *Id.* Accordingly, the court concluded that § 16(b) was designed to establish rules that can be mechanically applied as opposed to standards that must be assessed on a case-by-case basis.

The Second Circuit's affirmation in *Gibbons* establishes that § 16(b) liability does not extend to unpaired transactions involving the trading of different types of stock in the same company that are "meaningfully distinguishable" or that are "distinct not merely in name but also in substance." *Id.* at *4. Absent further guidance from the Securities and Exchange Commission ("SEC"), we can expect that the Second Circuit will not venture into "unchartered territory" beyond the plain meaning of the statutory text, but instead will adhere to the "strict form of liability" offered by Section 16(b)'s "'prophylactic' remedy of disgorgement."

Appellate Update—The Appellate Timetable

When faced with the prospect of an appeal, the most common question asked by clients, no matter whether they won or lost below, is "how long is the appeal going to take?" The most current data available from the Administrative Office of the United States Courts shows that the median time it takes in the United States Courts of Appeals to resolve an appeal is eleven months from the filing of the notice of appeal to final disposition. That simple figure, however, masks a number of differences between the regional circuits.

The Ninth Circuit, which has by far the largest docket of any of the circuits, has a median decision time from notice of appeal to disposition of nearly eighteen months. But the relationship between docket size and time to decide a case does not hold for all of the circuits. For example, the Sixth Circuit, which has just over a third of the docket size as the Ninth, has a median time of more than fifteen months to issue a disposition. The Second Circuit has a median decision time of just over a year, while the D.C. Circuit is a couple of months faster, having a median disposition time of approximately ten months. The Eighth Circuit is the fastest, with a median disposition time of under seven months.

Clients are often concerned more specifically in two sub-periods of the appellate process, the time from conclusion of briefing to oral argument, and the time from oral argument to final disposition. Again, there are differences between the circuits. For example, given the Sixth and Ninth Circuits take nine and eight months, respectively, to hold oral argument after receiving the final brief, while the median time from conclusion of briefing to oral argument in both the Second and D.C. Circuits is less than three months.

Interestingly, some of the circuits that are slower to hold oral argument after the conclusion of briefing are quicker in issuing a decision after holding oral argument. For example, while it may take the Ninth Circuit a median time of eight months to schedule oral argument, it takes only a month and a half (the third fastest in the country) to issue a decision. The Second Circuit, already speedy in scheduling oral argument following the conclusion of briefing, leads the circuits in the time between oral argument and decision, with a median rate of just a half month. It is important to note, however, that this median rate includes cases disposed of by summary order *and* cases disposed of by published decision; whereas the former often occurs within weeks of oral argument, the latter can take several months.

Data on the Federal Circuit is somewhat more sparse than data for the other circuits, but it suggests that the Federal Circuit's median disposition time is in line with many of the other circuits, at just under ten months. This median time varies, however, depending upon the type of appeal. While an appeal from a district court takes nearly twelve months, an appeal from the International Trade Commission (ITC) takes over sixteen. Indeed, ITC cases have traditionally been among the slowest of cases at the Federal Circuit, suggesting that both the complexity and form of ITC cases causes the Federal Circuit to take its time disposing of such appeals.

Cases before the Supreme Court of the United States operate on an entirely different schedule. Although the certiorari-petition and merits-briefing phases of a Supreme Court case often can span two Terms, the Supreme Court almost always decides all cases argued in a given Term (which begins the first Monday in October) before the Court's summer recess, which usually begins on the first day of July. With few exceptions, this tradition results in a firm deadline for the Court to issue all decisions from cases argued that Term by June 30. And while the Court normally takes, on average, slightly over three months from oral argument to issue a decision, that time varies directly on where a case appears in a Term. Thus, if a case is heard early in a Term, such as in October, it takes the Court nearly four months to issue a decision, whereas if a case is heard late in the Term, such as April, the Court's average time to issue a decision is under two months. The data reveals that litigants who have their cases argued in October are also the parties who are most likely to have waited the longest, in contrast to

those parties who have their cases argued in April.

The above figures for the circuits are, importantly, only median figures, and it is worth noting that several circuits provide the opportunity for litigants to request expedited treatment of their appeal. The local rules of many Circuits, including the Second, Ninth, and D.C. Circuits, allow parties to file formal motions to expedite an appeal, though these rules require a showing of some form of irreparable harm to justify such a motion.

Russia Litigation Update

Jurisdictional conflicts between courts of different countries are an unavoidable consequence of developed global trade. This has led to an increase in multi-national forum shopping. Some Russian courts however, view the adjudication of Russian-related disputes in foreign courts as a direct threat to Russian state sovereignty.

Background. Recently, there has been a large increase in litigation between Russian businessmen in foreign jurisdictions. For example, between 2008 and 2012, the number of Russia-related cases litigated or arbitrated in London tripled. These include a high profile dispute in the London High Court between Russian ex-business partners Boris Berezovsky and Roman Abramovich. Russian President, Vladimir Putin, commented on this lawsuit, stating that Messrs. Berezovsky and Abramovich should have met in a Russian court instead. "That would be more honest—for them and for our country," Mr. Putin said. "The money was made and stolen here—let them divvy it up here too." President Putin's comment reflects a growing sentiment that Russian-related disputes should be adjudicated in Russian, not in foreign jurisdictions.

In May 2012, more than 2,000 representatives from 51 countries took part in the 2nd Saint Petersburg International Legal Forum to discuss issues concerning global legal policy in the 21st century. This supposed threat to Russian state sovereignty by court decisions and arbitration awards rendered in other countries was a central issue in the discussions. Anton Ivanov, the Chairman of the Russian Federation Supreme Commercial Court, delivered a noteworthy speech openly criticizing foreign litigation and arbitration proceedings involving Russian parties and assets.

Key Points of Mr. Ivanov's Speech. Mr. Ivanov stated that Russia must protect its citizens and companies from being unfairly prejudiced in foreign judicial systems. Mr. Ivanov addressed the issue of "dragging" a dispute from one jurisdiction to another, particularly where the parties use allegedly far-fetched pretexts to establish jurisdiction in the desired court.

As specific examples, Mr. Ivanov cited an injunction issued by the High Court in London in favor of BNP Paribas S.A. against the Basel Group company, Russian Machines, in support of LCIA arbitration (*BNP Paribas SA v. Open Joint Stock Company Russian Machines and another [2011] EWHC 308 (Comm)*) and a damages award granted under the Germany-USSR BIT in a Stockholm arbitration, subsequently enforced in Germany, and resulting in the seizure of real estate previously used by the KGB. Mr. Ivanov said these cases exemplify violations of basic human rights and freedoms, particularly the right to have a dispute considered by a competent court. He added that they breach the principle of legal certainty and also encroach on sovereign immunity.

Mr. Ivanov made proposals to prevent forum shopping for Russian-related disputes by "guarantee[ing] its citizens and entities protection from the unfair competition of foreign jurisdictions." These proposals include giving Russian judges the right to set aside foreign judgments and arbitration awards if they feel that Russian parties are unfairly prejudiced in any way, taking punitive measures against those who interfere with Russian interests abroad, and in extreme cases, denying entry into Russia and freezing assets of foreigners involved in rendering unlawful judgments. Mr. Ivanov's proposals are designed to create a disincentive for foreign courts to hear Russian-related cases. The sanctions are designed to create a disincentive for international law firms with offices in Russia to bring disputes to foreign courts because punitive sanctions—such as possible assets confiscation—would apply to them directly, the Chairman added. Russian Prime-Minister, Dmitry Medvedev, speaking at the same forum endorsed Mr. Ivanov's suggestions, describing them as "civilized means of resolving issues".

Reflection. It is yet unclear how Mr. Ivanov's proposals will affect Russian legislation and commercial courts' practice. One might expect that more claims in Russian-related disputes would be brought in Russian courts and that Russian courts will issue anti-suit injunctions against parties pursuing foreign litigations or arbitrations. It is worrisome that Russian courts appear intent on issuing legislation to prevent anyone from litigating Russian-related disputes outside the boundaries of Russia.

This is not a new issue. Russia has long struggled with the sentiment that forum shopping through

international arbitrations was competing with the Russian court system. More than ten years ago, the Russian courts addressed the question of whether it was necessary to recognize arbitration agreements. At an educational program for judges, a Supreme Commercial Court judge urged that all disputes be litigated in Russian courts regardless of arbitration clauses. Some judges formed an "anti-arbitration" party, however, it was unable to change the law and state courts took a more reasonable approach to international arbitration and awards.

Mr. Ivanov's proposals appear to be a troubling resurgence of the "anti-arbitration" sentiment. There are established procedures in place to resolve conflict between the sovereign interests of diverse jurisdictions and to counter attempts to initiate proceedings in improper jurisdictions. These procedures have existed for decades and are sufficient to prevent the alleged evils raised by Mr. Ivanov.

Class Action Litigation Update

Defeating Nationwide Class Actions: Mind Your Burden or Get Burned. Last year, the Ninth Circuit issued a decision that many interpreted as a death-knell for multistate consumer class actions. In *Mazza v. American Honda Motor Co.*, the Ninth Circuit decertified a class of automobile buyers in a false advertising lawsuit, based in part on the finding that differences in state laws precluded certification of a nationwide class.

The underlying *Mazza* suit alleged that Honda violated California law by disseminating advertisements that misrepresented the Collision Mitigating Braking System sold with certain Acura automobiles by concealing information about the limitations of that system. The district court certified a nationwide consumer class, concluding that California law could apply to all class members because Honda had failed to show how differences in the various states' laws were material, that other states had an interest in applying their own laws, or how those interests were implicated. The district court further concluded that California, which was the forum state and the headquarters of Honda's U.S. operations, had sufficient contacts to the claims to ensure application of California law would not be arbitrary or unfair to nonresident class members.

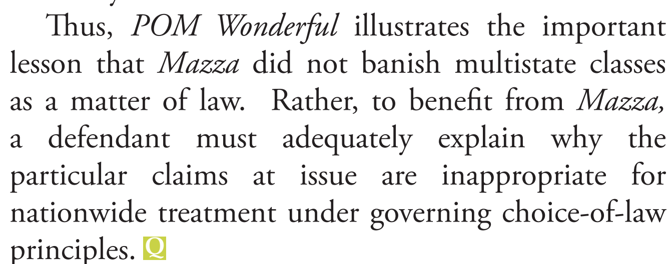
On appeal, the Ninth Circuit reversed. Pointing to varying scienter and reliance requirements, the court held that such differences "are not trivial or wholly immaterial," because these elements "will spell the difference between the success and failure of the claim." The Ninth Circuit further held that the district court failed to consider adequately the interests of other states in having their consumer protection laws applied to claims brought on behalf of their residents, and erroneously concluded that California's interests in having its law applied outweighed the interests of states with different consumer protection laws.

Following *Mazza,* it initially appeared that the decision precluded nationwide consumer classes as a matter of law. For example, in *Kowalsky v. Hewlett-Packard Co*., a purported nationwide class involving the marketing of allegedly defective printers, the court denied certification of a nationwide class, concluding that "*Mazza* controls and forecloses the certification of the proposed nationwide class." Other district courts reached similar conclusions.

However, one district court recently issued a sobering reminder that *Mazza* did not establish a per se rule, and that the defendant still retains the burden to show that application of a single state's law would be inappropriate under the governing choice-of-law rules. Specifically, a Central District of California court ruled in *In re POM Wonderful LLC Marketing and Sales Practices Litigation*, that a nationwide class was appropriate because the defendant had failed to demonstrate potentially outcome-determinative differences among the various states' consumer protection laws.

The plaintiffs in *POM Wonderful* alleged that Pom misleadingly claimed that its juice products provide certain health-related benefits. Relying on *Mazza,* the defendant argued that California law could not apply to consumers nationwide. It supported this contention with a chart that summarized each state's consumer protection laws, including elements such as scienter, reliance and limitations periods, as well as remedies and defenses. The *POM Wonderful* court found this showing insufficient, and distinguished *Mazza* because the defendant there had "met its burden to demonstrate material differences in state law and show that other states' interests outweighed California's." In contrast, the district court held that "nowhere does Pom apply the facts of this case to those laws or attempt to demonstrate, beyond citation to *Mazza*, that a true conflict exists," and thus failed to carry its burden with respect to California's choice-of-law analysis.

Thus, *POM Wonderful* illustrates the important lesson that *Mazza* did not banish multistate classes as a matter of law. Rather, to benefit from *Mazza,* a defendant must adequately explain why the particular claims at issue are inappropriate for nationwide treatment under governing choice-of-law principles.



Ninth Circuit Victory for Mattel in Long-Running MGA Dispute

On behalf of Mattel, Inc., the firm recently won in the U.S. Court of Appeals for the Ninth Circuit a complete reversal of a $172.5 million judgment for trade secret misappropriation from rival toy company MGA Entertainment, Inc., maker of the "Bratz" line of dolls. Mattel had previously sued MGA for infringing its own intellectual property rights in Bratz and had won those claims in an earlier trial. On appeal to the Ninth Circuit, with another firm arguing the appeal for Mattel, that victory was reversed. On remand, a second jury disagreed with the first jury and found for MGA on Mattel's claims. While rejecting the majority of MGA's trade secret claims against Mattel for supposedly stealing MGA's product information from "toy fair" showrooms, the second jury found for MGA on approximately 25 alleged trade secrets and awarded damages. Mattel appealed the resulting $172.5 million judgment to the Ninth Circuit.

Quinn Emanuel argued for Mattel on this second appeal, which returned to the same panel of the Ninth Circuit that decided the first appeal. This time, the panel ruled resoundingly for Mattel. The panel agreed with Mattel that the trade secret claims "should not have reached this jury" because they did not "arise[] out of the transaction or occurrence that is the subject matter of [Mattel's] claim" and therefore were not a "compulsory" response to any claim Mattel had raised. Because MGA's trade-secrets claim should not have reached the jury in the first place, the Ninth Circuit vacated the appealed portion of the jury's trade secret verdict for MGA in its entirety, vacated the entirety of the $172.5 million judgment and remanded the claim to the district court with instructions that it be dismissed without prejudice on remand.

Fashion Industry Settlement Victory

The firm secured a favorable settlement for clients J. Christopher Burch and C. Wonder LLC in a high stakes and well-publicized dispute in the fashion world. The litigation arose out of Mr. Burch's attempts to sell a portion of his interest in Tory Burch LLC, the preppy-chic fashion brand that he co-founded with his ex-wife, Tory Burch. When the Company blocked that sale effort by tying approval of the sale to Mr. Burch's giving up certain rights in his independent fashion brand, C. Wonder, the clients retained Quinn Emanuel. Quinn Emanuel quickly brought pressure to bear by filing a complaint in the Delaware Court of Chancery against Tory Burch, the Company, and certain directors for breach of the Company's LLC Agreement (which expressly granted shareholders the right to compete against the Company), breach of fiduciary duty, and tortious interference with business relationships. The complaint alleged that Ms. Burch and her co-defendants' wrongful interference was an improper attempt to hold up the sale as leverage to force Mr. Burch to relinquish valuable rights in C. Wonder. For relief, Quinn Emanuel sought, among other things, a declaration that Mr. Burch had the right to compete by operating C. Wonder and an injunction directing Tory Burch LLC to approve the sale of Mr. Burch's interests in that Company. The Company countersued, claiming unfair competition and misappropriation of trade secrets by Mr. Burch and C. Wonder. Over the Company's opposition, Quinn Emanuel won a motion for expedited proceedings, which put the case on track for trial within six months before Chancellor Leo Strine.

Quinn Emanuel's aggressive and effective pursuit of the action for Mr. Burch led to an early, successful resolution. Less than four months after Quinn Emanuel was initially retained, the parties entered into a settlement that both permitted Mr. Burch to sell a substantial portion of his stake in Tory Burch LLC and allowed him to continue to operate his C. Wonder brand. On December 31, 2012, the parties announced a sale transaction in which Mr. Burch and others sold certain of their interests in the Company to private equity investors, BDT Capital and General Atlantic. (Terms of the settlement and sale transaction are confidential).

Ninth Circuit Victory for Shell in Arctic Drilling Case

Quinn Emanuel recently obtained the third of three consecutive wins in the U.S. Court of Appeals for the Ninth Circuit for Shell Oil and its subsidiaries in Shell's $4 billion effort to explore for oil and gas resources in the Arctic waters off the Alaskan coast. While earlier firm wins upheld federal government approvals of Shell's exploration plans for the drilling (*Native Vill. of Point Hope v. Salazar*, 378 Fed. App'x 747 (9th Cir. 2010); *Native Vill. of Point Hope v. Salazar*, 680 F.3d 1123 (9th Cir. 2012), the latest victory In *REDOIL v. EPA*, No. 12-70518, upheld air permits the Environmental Protection Agency and the Environmental Appeals Board (EAB) had approved for Shell's operation of the *Noble Discoverer* drillship against environmental groups' challenge under the Clean Air Act.

The Ninth Circuit's unanimous published opinion, authored by Judge McKeown and joined by Judges Hawkins and Bea, held that Shell need not apply

"best available control technology" to support vessels that run back and forth to the drillship so long as it applied that technology to the drillship itself while tethered to the ocean floor. In clarifying statutory provisions at issue that were previously ambiguous, this holding made new Ninth Circuit law by ruling that EAB proceedings are "formal adjudications" entitled to *Chevron* deference. The court held further that the drillship was not subject to "ambient air" rules within a safety zone established by the Coast Guard around its operations, finding it reasonable to treat such a safety zone as the equivalent of a "fence" at sea designed to keep members of the public generally away from any emissions.

Quinn Emanuel's successful defense of the Clean Air Act permit approvals removes a significant obstacle to future exploration activities, which is especially important given the years and resources that Shell has invested in its exploration of the Alaskan Outer Continental Shelf. Q

(Noted With Interest continued from page 5)

DOJ and PTO Issue Rare Joint Policy Statement

Separately, on January 8, 2013, the DOJ and USPTO issued a joint policy statement regarding the availability of remedies, particularly injunctive relief, for patents subject to a FRAND commitment ("DOJ/PTO Policy Statement").

The DOJ and USPTO "recognize[d] that the right of a patent holder to exclude others from practicing patented inventions is fundamental." DOJ/PTO Policy Statement, at 2. The DOJ and USPTO also acknowledged that voluntary consensus standard setting "promot[es] efficient resource allocation and production by facilitating interoperability among complementary products." *Id.* at 3. However, the DOJ and USPTO noted that there may be instances where an injunction or exclusion order on SEPs may harm competition, be inconsistent with a FRAND commitment, and/or not satisfy the equitable factors set forth in *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006). The DOJ/PTO Policy Statement identified certain circumstances under which injunctive relief may be appropriate:

> [I]f a putative licensee refuses to pay what has been determined to be a F/RAND royalty, or refuses to engage in a negotiation to determine F/RAND terms, an exclusion order could be appropriate. Such a refusal could take the form of a constructive refusal to negotiate, such as by insisting on terms clearly outside the bounds of what could reasonably be considered to be F/RAND terms in an attempt to evade the putative licensee's obligation to fairly compensate the patent holder.

Id. at 7.

The DOJ/PTO Policy Statement addresses the policy considerations that can impact injunctive relief in actions against unwilling licensees as well as circumstances that may constitute an unwillingness to take a license on FRAND terms. It does not make reference to any particular SEP holder or FRAND commitment.

Conclusion

Standard essential patents and FRAND commitments continue to be the subject of intense public debate and regulatory interest. While it remains to be seen how the recent investigations and policy statements by the DOJ, FTC, and USPTO will impact future patent litigation, it appears that these agencies are focused on determining whether and to what extent the potential licensee is willing to take a license on FRAND terms and avoiding categorical (or "per se") rules on the availability of injunctive relief. While the grant of injunctive relief (as in any other patent case) is not an automatic remedy in federal district court under current precedent, the DOJ, FTC, and USPTO have expressed policies regarding injunctive relief in SEP cases subject to FRAND commitments that require inquiry into the circumstances of negotiations between the litigants to determine whether the parties are willing licensors and licensees respectively. Q

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