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Equitable Defenses in Patent Cases After *SCA Hygiene*

On March 21, 2017, the U.S. Supreme Court issued its highly anticipated opinion in *SCA Hygiene Products Aktiebolag v. First Quality Baby Products, LLC*, 580 U.S. ___, No. 15-927, slip op. (Mar. 21, 2017), eliminating the equitable defense of laches to a claim of damages for patent infringement. In doing so, the Court clarified the framework of equitable defenses available to an accused infringer. Equitable estoppel, often pled and proven alongside laches, will likely continue to be an available defense where the parties had a preexisting relationship that can give rise to an inference of the patentee's authorization by a patentee of an accused infringer's conduct.

Laches Is No Longer Available as a Defense to Patent Damages

The Court's decision in *SCA Hygiene* eliminated laches as a defense in patent cases. The Court held that laches is not available as a defense against a claim for patent damages brought within the six-year damages capture period prescribed by 35 U.S.C. § 286. *SCA Hygiene*, slip op. at 16. In reaching this decision, the Court followed the reasoning in *Petrella v. Metro-Goldwin-Mayer, Inc.*, 572 U.S. ___ , 134 S. Ct. 1962 (2014), in which the Court held that laches cannot preclude a claim for copyright damages. The Court reasoned in *Petrella* that the Copyright Act's three-year limitation period "necessarily reflects a congressional decision that the timeliness of covered claims is better judged on the basis of a generally hard and fast rule" rather than a case-specific laches determination. *SCA Hygiene,* slip op. at 4 (citing *Petrella*, slip op. at 14). Applying laches in such cases "would give judges a 'legislation-overriding' role that is beyond the Judiciary's power." *Id.* Applying the same reasoning, the Court in *SCA Hygiene* found that the Patent Act's provision that "'no recovery shall be had for any infringement committed more than six years prior to filing of the complaint or counterclaim,'" represented a "judgment by Congress that a patentee may recover damages for any

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State Solicitor for Western Australia Paul Evans has Joined Quinn Emanuel's New Perth Office

Paul D. Evans has joined the firm as a partner based in the new Perth office. Paul was previously the State Solicitor for Western Australia, a position he held for five years in which he was responsible for the Government of Australia's civil and regulatory legal practice. Prior to working in the government, Paul was a partner at Freehills (now Herbert Smith Freehills). He has over 30 years of experience litigating complex disputes of all kinds. In 2007, Paul was appointed an Adjunct Professor of Law at Murdoch University Law School where he has taught corporations law and corporate governance and is a frequent speaker at seminars on contract, corporations, and competition law issues.

Leading International Arbitration Attorney Michael Young QC Joins Paris Office

Michael Young QC has joined the firm as a partner in Paris. Michael joins from Allen & Overy, where he was global co-head of the arbitration practice. Michael has represented companies in all industry and market sectors, with a particular focus on energy, chemicals, and natural resources disputes involving the Middle East, North America, Europe, and Africa (both Anglophone and Francophone). He acts regularly as advocate before both arbitral tribunals and experts, and has been on the Executive Committee of the Federation for International Arbitration Advocacy since its inception. He is a Vice-President of the ICC Court of Arbitration.

infringement committed within six years of filing of the claim." *Id.* at 6. Therefore, the Court held that laches cannot be used as a defense in a patent case against a claim for damages within the six-year period of Section 286. *Id.* at 4, 16.

The Doctrine of Equitable Estoppel

Although laches is no longer available, equitable estoppel is a potential defense to claims of patent infringement and is closely related to laches. The Court in *SCA Hygiene* expressly notes that equitable estoppel, unlike laches, remains a defense that also protects against the problem of patentees inducing accused infringers to invest in arguably infringing products. *SCA Hygiene*, slip op. at 16. Although delay is often a part of equitable estoppel, the focus is on misleading conduct and reliance by the accused infringer on such conduct.

Equitable estoppel has often been asserted hand-in-hand with the laches defense, but the elements and the effects of the two defenses differ. Prior to *SCA Hygiene*, the laches defense in patent cases required only an unreasonable and inexcusable delay by patentee in bringing suit and material prejudice to the accused infringer from the delay. *A.C. Aukerman Co. v. R.L. Chaides Const. Co.*, 960 F.2d 1020, 1028 (Fed. Cir. 1992). Laches bars only pre-suit damages. *Id.*

In contrast, equitable estoppel requires more than delay and prejudice. It requires that: (a) a patentee through misleading conduct (or silence) leads the alleged infringer to reasonably infer that the patentee does not intend to enforce its patent; (b) reliance by the alleged infringer on the patentee's conduct; and (c) materially prejudice if the patentee is allowed to proceed with its claim. *Id*. Thus, unlike laches, equitable estoppel requires some conduct on the part of the patentee. If established, equitable estoppel bars all relief on the claim, not just pre-suit damages. *Id.* at 1028, 1041.

Equitable Estoppel in Practice

Because the focus of equitable estoppel is not timeliness, but rather whether the conduct of the patentee suggests that the patentee would not enforce its patent, the focus of the inquiry is often the relationship between the patentee and accused infringer.

An overt threat of enforcement of a patent followed by a long period of silence may raise equitable estoppel. For example, if a patentee provides notice of alleged infringement of multiple patents but only follows up on a subset of those patents, it may be reasonable for the accused infringer to infer that the patentee does not intend to pursue the omitted patents. In *Aspex Eyewear Inc. v. Clariti Eyewear, Inc.*, 605 F.3d 1305 (Fed. Cir. 2010), the patentee sent a letter to the accused infringer asserting that "some" of accused infringer's products "may" be covered by four of patentee's patents. *Id.* at 1308. Within days, *Aspex* sent a similar letter identifying a fifth patent, also without any specificity as to which products it contended may infringe which claims. *Id.* at 1309. The accused infringer responded with a request for more information, including the claims patentee contended applied and the products, by model number, the patentee accused. Patentee then identified claims from only two of the five patents identified in the original correspondence, which the accused infringer addressed in subsequent correspondence. *Id.* There was no further contact for more than three years, at which point patentee raised alleged infringement of only one of the three previously unaddressed patents from three years before. *Id.* The court found that this sequence of events could be viewed as a tacit withdrawal of the patent from which it was reasonable for the accused infringer to infer that patentee would not enforce the patent. *Id.* at 1311. In *Radio Systems v. Lalor*, 709 F.3d 1124 (Fed. Cir. 2013), the court affirmed a finding of equitable estoppel where a patentee was silent for over four and a half years after the accused infringer responded to an initial demand letter. 709 F.3d at 1125, 1130.

A patentee's course of conduct in connection with an ongoing relationship with the accused infringer also can support a finding of equitable estoppel. In *High Point Sarl v. Sprint Nextel Corp.*, 817 F.3d 1325 (Fed. Cir. 2016), the court affirmed summary judgment of equitable estoppel where a patentee's predecessors in interest in the patents worked with Sprint to developed the accused CDMA network without ever raising infringement concerns on its patents. Defendant Sprint entered licenses and supply agreements with Lucent, the prior owner of the patents, concerning developing with other vendors interoperability standards for Sprint's CDMA network. Over a decade, the Sprint network grew and used unlicensed equipment supplied by multiple vendors without challenge by the patent owners. Indeed, patent holders were "not only silent as to infringement concerns, they were actively involved in licensing arrangements involving the patents, discussing interoperability with other potentially infringing vendors, and continuing business relationships." 817 F.3d at 1331. This silence with respect to the patents while at the same time actively helping to build, and profiting from the creation of, the Sprint network was misleading conduct sufficient to support a finding of equitable estoppel.

Similarly, in *Mass Engineered Design, Inc. v. Ergotron*, 633 F. Supp. 2d 361, 386 (E.D. Tex. 2009), the court found a six-year course of dealing between the patentee and the accused infringer concerning an accused product

sufficient to support a finding of equitable estoppel. There, the patentee sold accused infringer's products for six years without mentioning or asserting its patent, and even encouraged the accused infringer to sell the accused products through others. *Id.* at 386. Patentee's encouragement of sales of the accused products was sufficient affirmative conduct to lead the accused infringer to believe that patentee would not assert its patent rights. *Id.*

One interesting approach for an accused infringer in litigation is to present the patentee with a sample product during negotiations, and to inform the patentee that the new product would be considered non-infringing unless the patentee advised them otherwise. *See Scholle Corp. v. Blackhawk Molding Co., Inc.*, 133 F.3d 1468 (Fed. Cir 1998). In *Scholle*, after litigation commenced about a predecessor product, the accused infringer presented samples of its new design to patentee, along with the assertion that, absent disagreement from the patentee, the new design would be considered non-infringing. *Id.* at 1470. Patentee did not respond to the statements concerning the new product, while the parties continued to have contact about other matters, including concerning the ongoing litigation about the predecessor product. The Court found that this cooperative behavior, particularly in light of previous threats, created a reasonable inference that the patentee would not sue based on the design-around product. *Id.* at 1470-71; *see also John Bean Techs. Corp. v. Morris & Assoc.*, 2016 WL 7974654 (E.D. Ark. Dec. 14, 2016) (granting summary judgment to accused infringer who proactively sent a letter to patentee who was writing to accused infringer's customers threatening suit, explaining why it believed the claims were not valid; patentee never responded but sued nearly twelve years later).

The reasonable inference that a patentee will not pursue a particular patent or patent claims alone is not enough to establish equitable estoppel. An accused infringer must also show that it relied on patentee's misleading conduct. Facts supporting reliance may include expanded promotion of the accused products, expanded sales of the accused products, expanded product lines using the accused technology, and/or increased expenditures such as building plants or hiring employees to produce, promote and sell the accused products, provided that these activities were undertaken, at least in part, based on the understanding that patentee would not sue. As with the misleading conduct element, the parties course of conduct may be persuasive with respect to reliance. For example, in the *Aspex* case discussed above, the same patentee had previously sued on other patents, and the accused infringer responded by agreeing to an injunction and withdrawing those products from the market. The accused infringer testified that it likely would have withdrawn its products if patentee had filed suit, rather than remaining silent for three years after the initial letter concerning alleged infringement. *Aspex*, 605 F.3d at 1312.

Finally, a company that has acquired an existing product line that is later accused of infringement should explore the course of dealings between its predecessor and the patentee. Equitable estoppel applies to successors-in-interest where privity has been established. *See Radio Sys. Corp. v. Lalor*, 709 F.3d 1124, 1131 (Fed. Cir. 2013). Accordingly, a patentee cannot defeat an otherwise valid defense of equitable estoppel by arguing that the successor company did not know of the demand letter and did not rely on silence after the demand letter. *Id.* at 1130-31.

Although laches does not require a showing of affirmative conduct by the patentee and merely requires unexcused delay, in practice, unless there was a substantial delay the additional evidence to prove equitable estoppel is often important to prevailing on laches. Thus, although laches is no longer a viable defense to a claim for patent damages, the impact on discovery for these equitable defenses will not likely change. The same facts that one would develop prior to *SCA Hygiene* to support a laches defense will likely continue to be the focus of discovery for equitable estoppel.

The Patentee's Perspective

During the course of business dealings and while policing the market for potential infringement, patentees should carefully consider whether their conduct can be construed as creating a false sense that the patentee does not intend to assert its patent rights against a particular entity. If the patentee receives a response asserting non-infringement or invalidity, the patentee should respond or commence suit.

For example, even if, despite having initiated contact with a demand letter, the patentee determines it does not want to pursue litigation at that time, it should consider a simple follow up, at least stating that it disagrees with the accused infringer's response and reserving all rights to pursue infringement in the future. If an accused infringer responds by asserting that its sales are *de minimis* and not worth pursuing, the patentee may choose to expressly respond that it is refraining from suit based on that representation but that it reserves all rights if circumstances change. It is also worth noting that, even if a patentee does not further respond to an assertion of *de minimis* sales, an infringer might not ultimately be able to reasonably rely on the ensuing silence as any indication with respect to future conduct if circumstances change.

A patent holder might also choose to be proactive in warning a potential competitor in advance, where, for instance, a competitor that is not yet in the market is thought to be bidding on a project that would employ infringing technology. Indeed, continued warnings of potential infringement are "precisely the opposite of the sort of conduct needed to give rise to equitable estoppel." *See Vanderlande Indus. Nederland BV v. ITC*, 366 F.3d 1311, 1325 (Fed. Cir. 2004).

One important consideration for patentees is whether and how to raise patent rights and potential infringement during the course of a profitable business relationship with the potential infringer. To the extent that a patentee wants to retain the ability to assert patent rights in the future, it cannot appear to acquiesce to or encourage continued known infringement. In *Sprint Communications Co. v. Time Warner Cable, Inc.*, 2017 WL 978107 (D. Kan., March 14, 2017), the court found that the extended course of dealings between the patentee and accused infringer would not mislead the accused infringer because the contracts between the parties "expressly provided that no intellectual property rights were being given to" the accused infringer and the court also found no evidence that patentee indicated to the accused infringer that it would never enforce the patents. *Id.* at *4. Similarly, in *Robertson Transformer Co. v. General Electric Co.*, 191 F. Supp. 3d 826 (N.D. Ill. 2016), the court denied summary judgment and found no equitable estoppel because "every communication of record" between patentee and accused infringer concerning the parties' joint project "explicitly mentioned a royalty arrangement between the parties." *Id.* at 834. It is also possible for the parties to acknowledge the potential infringement dispute and agree to toll the limitations period to preserve the right to damages as a compromise.

It is worth noting that a patentee who has acquired existing patents must explore any past relationship between prior owners and the potential infringer. The effect of equitable estoppel is a license to use the invention that extends throughout the life of the patent. *See High Point Sarl*, 817 F.3d at 1331 Accordingly, a subsequent purchaser of the patent rights may be equitably estopped from recovering from an accused infringer that reasonably relied on a predecessor owner's misleading conduct to its detriment.

Lesson: Always Follow Up

As a practical matter, for both patentees and accused infringers, the focus is on the relationship and communications between the parties to identify any conduct or facts that support (or refute) an inference that a patentee is not going to enforce its patent. As a result, it is important to investigate and develop facts such as:

The relationship between the parties for the technology that is the general subject matter of the patents. Should the patentee be in a position to know about potential infringement and to comment on it to the accused infringer?

What interactions may have taken place involving predecessors in ownership of the patent or the accused product line?

The specific communications between the patentee and the accused infringer regarding the patent. Has the patentee identified the patent, specific claims, specific assertions against an accused product to suggest that the patentee is aware of the alleged infringement?

The overt communication from the accused infringer responding to notice of infringement. What has the accused infringer told the patentee about the assertions?

How has the patentee responded to the accused infringer? Has there been silence with respect to the allegations as opposed to other business that the two parties may have with each other?

What actions has the accused infringer taken during the time since the patentee last communicated with the accused infringer about the allegations? This evidence should be cataloged carefully to support not only actual reliance but also the extent of the reliance to help demonstrate prejudice.

Equitable estoppel is a fact specific defense that does not fit into any precise formula. It will be important for both accused infringers and patentees to thoroughly marshal the facts relating to the conduct of all patent owners and how that conduct is perceived by the accused infringer and its privities, how the accused infringer relied on such conduct to its detriment and quantifying the extent of prejudice, both economic and evidentiary. Often, the facts will depend on who last responded and what was the length of silence or inaction with respect to the specific allegations. In many cases, it will be a question of who spoke last on the issue of potential infringement.

Courts May Not Depart from the Bankruptcy Priority Rule in Chapter 11 Structured Dismissals

For more than a century, a cornerstone of federal bankruptcy law has been the absolute priority rule, which ensures that a debtor estate's assets are distributed to senior and special classes of creditors over junior creditors. From the inception of this rule, parties have looked for ways to avoid its consequences, the most current of which was the use of a "structured dismissal." In March of this year, the Supreme Court put an end to the use of structured dismissals as a means of bypassing absolute priority rules over the objection of an affected creditor, even in the "rarest" of cases. *See Czyzewski v. Jevic Holding Corp.* 137 S. Ct. 973, 978 (2017).

Legal Background

A business may file for bankruptcy under either Chapter 7 or Chapter 11 of the United States Bankruptcy Code. In a Chapter 7 bankruptcy, a trustee liquidates the debtor's assets and distributes them to creditors. *Czyzewski v. Jevic Holding Corp.*, 137 S.Ct. 973, 978 (2017) (citing 11 U.S.C. § 701 *et seq.*). In a Chapter 11 bankruptcy, a debtor business and its creditors negotiate a plan that will govern the distribution of the estate's assets, often keeping the business operating as a going concern. *Id.* (citing §§ 1121, 1123, 1129 and 1141).

There are three possible outcomes to a Chapter 11 filing. The first is a bankruptcy-court confirmed plan that may keep the business operating while, at the same time, providing for payments to creditors. *Id.* at 979 (citing §§ 1123, 1129 and 1141). The second possible outcome is conversion of the case to a Chapter 7 liquidation. *Id.* (citing §§ 1112(a), (b) and 726). The third possible outcome is dismissal of the case, which aims to restore the pre-petition financial status quo. *Id.* (citing §§ 1112(b) and 349(b)(3)). The Bankruptcy Code recognizes that, in such a Chapter 11 dismissal, a perfect restoration may be difficult or impossible. The Code therefore allows the court to, "for cause," alter the ordinary restorative consequences. *Id.* (citing § 349(b)). Such a dismissal is often referred to as a "structured dismissal," and operates as a hybrid dismissal and confirmation order. *Id.*

Under the absolute priority rule, the Bankruptcy Code sets forth a system of priority that ordinarily determines the order in which a court will distribute the assets of the debtor estate. Secured creditors are highest on the priority list, followed by special classes of creditors, and then low priority creditors, such as general unsecured creditors and equity holders. *Id.* (citing §§ 507, 725 and 726). This prescribed order must be followed in Chapter 7 liquidations but the affected parties may agree to a different order in the Chapter 11 setting, where more flexibility exists. *Id.* Pursuant to the Bankruptcy Code, however, a court may not confirm a plan that violates the prescribed priority distribution order over the objection of an impaired creditor class. *Id.* (citing §§ 1129(a)(7) and (b)(2)). The Bankruptcy Code does not explicitly state if a bankruptcy court may deviate from the prescribed order in a structured dismissal.

Czyzewski et al. v. Jevic Holding Corp. et al.

In *Czyzewski v. Jevic Holding Corp.*, Jevic, a trucking company, filed for bankruptcy under Chapter 11 after being purchased in a leveraged buyout. Following the bankruptcy, a court-authorized committee representing Jevic's unsecured creditors sued the company's senior secured creditors for fraudulent conveyance on behalf of the estate. The parties reached a settlement that called for a *pro rata* distribution of the estate's assets to the unsecured creditors and dismissal of the Chapter 11 bankruptcy. *Id.* at 981. A group of former truck-drivers who held a priority wage claim against Jevic for failing to provide proper notice prior to termination were omitted from the settlement. The truck-drivers and the U.S. Trustee objected to the settlement, arguing that it violated the Code's priority rules by paying general unsecured claims ahead of the truck-drivers' mid-level priority claim. *Id.* The bankruptcy court approved the settlement, despite agreeing that the settlement's distribution scheme failed to follow ordinary priority rules,. *Id.* at 981-82. The district court and the Third Circuit Court of Appeals affirmed. *Id.* at 982.

At the urging of the Solicitor General, who argued that the lower court was incorrect in approving the settlement, the Supreme Court agreed to hear the matter and, in a 6-2 opinion, reversed and remanded. In its ruling, the Court emphasized that the priority system applicable to Chapter 11 distributions is fundamental to the Bankruptcy Code's operation. The Court therefore reasoned that "if Congress actually meant to make structured dismissals a backdoor means to achieve the exact kind of nonconsensual priority-violating final distributions that the Code prohibits in Chapter 7 liquidations and Chapter 11 plans," it would expect to see some affirmative indication of intent from Congress. *Id.* at 984. The Court further reasoned that to the extent the dismissal sections of Chapter 11 foresee any transfer of assets, they seek a restoration of the pre-petition status. *Id.* (citing § 349 and H.R. Rep. No. 95-595).

While the Court acknowledged that § 349(b) of the Code provides that a bankruptcy court may, "for cause, order otherwise," it held that this provision appears

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International Arbitration Update

Focus on Damages: Arbitral Discretion to Determine Amount of Damages Requires Aggressive Strategy on Both Sides. International arbitration, in both the commercial and investment treaty contexts, has proven an effective forum for contracting parties to resolve disputes. International arbitration's fact-finding function plainly permits parties to determine whether a wrong has been committed and to assign responsibility for such wrongs. Although determining substantive rights is a key component of the process, in the vast majority of cases parties will not resort to arbitration unless there is a material claim for monetary compensation. For petitioners and respondents alike, damages are central to the arbitral process. A recent decision from the United States District Court for the District of Columbia, *Crystallex International Corp. v. Bolivarian Republic of Venezuela,* No. 1:16-cv-00661 (D.D.C. Mar. 25, 2017), confirms that arbitrators—confined only by the terms of the Federal Arbitration Act and the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards—have significant discretion in setting the amount of damages in an award and on determining how, based on evidence and expert modeling, that amount is calculated. The *Crystallex* decision demonstrates that arbitrating parties must aggressively pursue and oppose damages and valuation claims during the arbitration itself, without expectation that damages will be set aside or amended by subsequent judicial action.

The* Crystallex *Decision. Crystallex is a Canadian firm that invested in rights to gold deposits in Venezuela. Ultimately, Venezuela failed to issue mining permits and Crystallex brought claims under the Bilateral Investment Treaty between Canada and Venezuela. In 2016 the ICSID arbitral tribunal determined that Venezuela was liable for denying Crystallex's investment "fair and equitable treatment" and also for expropriation. Moreover, the tribunal awarded Crystallex $1.202 billion in damages. During the arbitration, Crystallex submitted *four* separate methods by which to calculate damages: the "stock market" method—assessing Crystallex's hypothetical stock price valuation but-for Venezuela's conduct; the "market multiples" method—comparing Crystallex to other market actors not impacted by the conduct; the "P/NAV" method—assessing hypothetical changes to Crystallex's value; and the "indirect sales comparison" method—comparing the firm's value to others with similar characteristics. The tribunal accepted the "stock market" and "market multiples" damages models, and reached its final damages conclusion by averaging the results of these two approaches.

In moving to vacate, Venezuela argued that the tribunal acted in "excess of powers" under Article V(1)(c) of the New York Convention by adopting these models. As to the "stock market" model, Venezuela contended that the tribunal improperly assessed actions prior to the technical date of expropriation. The court rejected this argument, finding the model appropriate but concluding that the standard of review for arbitral awards would not permit setting damages aside even if the tribunal had committed a "serious error." *Crystallex,* slip op. at 25 (citing *Stolt-Nielsen S.A. v. AnimalFeeds Int'l Corp.*, 559 U.S. 662, 671-72 (2010)). Although the court was less effusive about the potential merits of the "market multiples" model, the court similarly rejected Venezuela's vacatur arguments on grounds that "even a serious error is insufficient to permit" disturbing the arbitral award. *Id.* at 27. Notably, the court did not suggest any concern with the tribunal's decision to average disparate damages models in reaching its conclusion.

Implications for Petitioners. Petitioners in arbitration, as in litigation, bear the burden of proving claims, including damages. *Crystallex* demonstrates that, if appropriate, petitioners should consider asserting multiple damages theories in arbitration. Most institutional rules of arbitration provide arbitrators with significant discretion to admit evidence and expert reports. Petitioners in arbitration are well-advised to use these rules not only for entering evidence as to a respondent's liability, but also for calculating damages. Indeed, the *Crystallex* tribunal was presented with four discrete damages models and rendered its decision by averaging two of them, which it found were "largely consistent with each other." *Crystallex,* slip op. at 7. So long as different forms of damages analysis do not yield results that are materially divergent—*i.e.*, suggesting that the underlying facts in evidence do not credibly point to a common result—petitioners can and should submit multiple damages arguments. Arbitrators' ability to set the quantum of damages from multiple models, or an average of models, provides a petitioner with the opportunity to bolster its argument for compensation and insulate against potential defenses to a particular damages methodology. Indeed, while establishing damages calculations—and working with the consultants and experts necessary to assess and support those calculations—can be a significant line item in an arbitration budget, the outcome in *Crystallex* demonstrates that this expense can yield a heightened chance of recovery and will further provide insulation against an eventual judicial challenge to the arbitration award.

Implications for Respondents. *Crystallex* reinforces the importance of aggressively contesting damages arguments in arbitration. As noted by the *Crystallex* court, judicial inquires into how an arbitral tribunal derived the sum of damages are "clearly outside of our limited scope of review." *Crystallex,* slip op. at 20 (citing *Kanuth v. Prescott, Ball & Turben, Inc.*, 949 F.2d 1175, 1182 (D.C. Cir. 1991). Accordingly, respondents' best opportunity to eliminate or reduce the potential quantum of damages in an award remains in the arbitral forum itself. Respondents are well-advised to challenge each and every theory of damages presented by petitioners and, in the appropriate case, to consider submitting a competing methodology for measuring damages (provided to the tribunal for use in the hypothetical scenario that petitioner prevails on liability). Although, under most legal regimes, respondents do not have an affirmative duty to disprove damages, respondents must be cautious not to neglect damages arguments—even in cases where there is a likelihood of success in defeating arbitral jurisdiction or prevailing on the merits of a petitioner's substantive claims. Moreover, respondents should not limit arguments on damages to merits briefing and presentation at the hearing. Including damages arguments throughout the narrative arc of a case helps ensure that arbitrators are primed to hear and assess arguments at the appropriate time.

In many ways, the *Crystallex* decision is not remarkable: the court applied well-established precedents regarding arbitrators' competence to set damages in an award. The decision, however, like the underlying ICSID award, reflects the increasing sophistication with which damages arguments are treated in international arbitration. Now, more than ever, petitioners and respondents must aggressively include damages arguments in formulating an arbitration strategy.

Energy Litigation Update

New Administration Leads to Pause of Major Energy-Related Litigation. In March, President Trump signed an executive order directing the Environmental Protection Agency ("EPA") to "suspend, rescind, or revise" several Obama-era environmental regulations, including the Clean Power Plan and other greenhouse gas regulations for the power sector. Exec. Order No. 13,783, 82 Fed. Reg. 16,093 (Mar. 28, 2017). The order also directed the review of the government's use of the social cost of carbon, lifted the moratorium on federal land coal leasing activities, and rescinded six Obama-era climate-related presidential actions (including executive orders, memoranda, and reports). *Id.*

This change in climate policy has slowed litigation in four significant areas:. In April alone, the D.C. Circuit delayed challenges to; (1) smog standards; (2) emissions exemptions related to startup, shutdown, and malfunction events at power plants and other facilities; (3) regulations on mercury and other emissions from coal power plants; and (4) the Clean Power Plan. While existing litigation stalls as the Trump administration reconsiders Obama-era regulations, states may take a greater role in climate-related policies and litigation.

First, in late 2015, the EPA revised the national ambient air quality standards ("NAAQS") for ozone, reducing the limits on ozone—an ingredient in smog—from 75 to 70 parts per billion. *See* Fed. Reg. 65,291 (Oct. 26, 2015). Industry groups petitioned for review of the regulation. *See Murray Energy Corp. v. EPA*, No. 15-1385 (D.C. Cir.).

On April 7, 2017, "[i]n light of the recent change in administration," the EPA asked the court to delay oral arguments, which were scheduled for April 19, so it could "fully review the 2015 ozone NAAQS." The EPA noted that "the prior positions taken by the Agency with respect to the 2015 Rule may not necessarily reflect its ultimate conclusions after that review is complete." The D.C. Circuit granted the EPA's request on April 11, allowing the Trump administration more time to review the regulations, and directing the government to file status reports on its review process every 90 days.

Second, a few weeks later, the D.C. Circuit granted another request by the EPA to postpone oral arguments—this time, in *Walter Coke Inc. v. EPA*, No. 15-1166 (D.C. Cir.), which challenged an EPA regulation requiring 36 states to reconsider how their state implementation plans treat excess emissions during periods of startup, shutdown, or malfunction ("SSM") at power plants and other facilities. *See* 80 Fed. Reg. 33,840 (June 12, 2015).

The EPA requested "continuance of the oral argument to give the appropriate officials adequate time to fully review the SSM Action" on April 18, 2017, again "[i]n light of the recent change in administration." The D.C. Circuit granted the EPA's request on April 24, and—just as above—directed the government to file status reports on its review process every 90 days.

Third, three days later, on April 27, the D.C. Circuit delayed oral arguments over Obama-era regulations on mercury and other emissions from coal power plants. In 2016 Murray Energy Corporation petitioned for review of the EPA's findings regarding the cost of its Mercury and Air Toxics Standards ("MATS"). *See Murray Energy Corp. v. EPA*, No. 16-1127 (D.C. Cir.).

The EPA had prepared these findings in response to the Supreme Court's decision in *Michigan v. EPA*, 135 S. Ct. 2699 (2015), concluding that costs did not change their initial determination. *See* 81 Fed. Reg. 24,420 (Apr. 25, 2016).

On April 18, 2017, the EPA asked to delay oral arguments scheduled for May 18, and on April 27, the D.C. Circuit granted the request, again directing the EPA to file status reports on its review of the supplemental findings every 90 days.

Finally, the day after it delayed oral arguments over MATS, the D.C. Circuit granted the EPA's request for a pause in litigation on the Clean Power Plan. In August 2015, the EPA finalized a new set of standards, now known as the Clean Power Plan, aimed at cutting emissions from existing power plants 32% by 2030. Over two dozen states (and other affected parties, including several electric utilities) challenged the rule in *West Virginia v. EPA*, No. 15-1363 (D.C. Cir.), while eighteen states, including California and New York, intervened in support of the EPA. In January 2016, the Supreme Court, by a 5-4 vote, granted a stay, which immediately halted implementation of the Plan. *See West Virginia v. EPA*, 136 S. Ct. 1000 (2016).

On the same day President Trump issued his executive order, the EPA filed a motion with the D.C. Circuit to postpone proceedings in that court to allow for the review to take place, arguing that it "should be afforded the opportunity to fully review the Clean Power Plan and respond to the president's direction in a manner that is consistent with the terms of the executive order, the Clean Air Act, and the agency's inherent authority to reconsider past decisions." The state intervenors asked the court to deny the EPA's request, arguing that "nothing that EPA has proposed to do obviates the need for this Court's review," and in fact, "a decision from this Court will resolve critical live disputes over the scope of the Clean Air Act that will not only determine the enforcement of the Clean Power Plan, but also affect any reconsideration or revision of the Rule that EPA may undertake."

On April 28, the D.C. Circuit granted the EPA's motion, holding the case in abeyance for 60 days and ordering the parties to the litigation to file supplemental briefs "addressing whether the consolidated cases should be remanded to the agency rather than held in abeyance."

* * *

With existing litigation stalled as the Trump administration reconsiders Obama-era regulations, states may become increasingly active in climate-related policy and litigation, with New York and California at the forefront. For example, after the D.C. Circuit paused the Clean Power Plan challenge, New York's Attorney General said in a statement that the "temporary pause in the litigation does not relieve EPA of its legal obligation to limit carbon pollution from its largest source: fossil-fueled power plants." And he vowed to "continue to fight in court to ensure EPA fulfills its legal responsibility to New Yorkers' public health and environment." California's Attorney General likewise is preparing to oppose President Trump's climate-change policies to ensure, as he put it, that Californians can continue to "drink clean water and breathe clean air." It remains to be seen whether such litigation will have any effect on the new administration's policies.

Antitrust & Competition Update

DOJ Revises Answers to Frequently Asked Questions About Antitrust Division's Leniency Program. The Department of Justice's Leniency Program gives corporations and individuals the opportunity to self-report and cooperate in the Division's investigations in order to avoid criminal conviction, fines, and prison sentences. In November 2008, the Division issued "Frequently Asked Questions Regarding the Antitrust Division's Leniency Program and Model Leniency Letters" ("FAQs"), describing the Division's approach to several important topics, including how to apply for leniency; the criteria for leniency under both the corporate and individual policies; the issuance of conditional leniency letters and unconditional, final leniency letters; and confidentiality. On January 17, 2017, the Division issued an updated version of those FAQs. Frequently Asked Questions About the Antitrust Division's Leniency Program and Model Leniency Letters (Jan. 26, 2017), https://www.justice.gov/atr/page/file/926521/download.

The updated FAQs mark several important changes in the Division's approach to the Leniency Program and the benefits applicants can expect to receive as a result of their participation.

Non-Antitrust Crimes. There is a notable shift in the FAQs' description of the program's applicability to non-antitrust crimes. These standards apply to both corporate and individual leniency. While both FAQs state that the Leniency Program binds only the Antitrust Division, the updated FAQs describe a different standard. In 2008 the FAQs stated: "The grant of conditional leniency usually protects the applicant for any activity committed *in connection with* a criminal antitrust violation prior to the date of the conditional leniency letter." 2008 FAQs at 13

(emphasis added). The updated FAQs, on the other hand, state: "The grant of conditional leniency usually protects the applicant for any activity committed *in furtherance of* a criminal antitrust violation prior to the date of the conditional leniency letter." 2017 FAQs at 13 (emphasis added).

In another contrast, the 2008 FAQs stated that the Division will grant leniency "not only for a criminal antitrust violation, but also for other offenses committed *in connection with* the antitrust violation." 2008 FAQs at 7 (emphasis added). The updated FAQs raise the bar: "[T]he Antitrust Division commits to not prosecute a qualifying leniency applicant for the antitrust violation it reports or for acts or offenses *integral to* that violation." 2017 FAQs at 7 (emphasis added). These changes describe a narrower realm of protected activity and suggest that applicants may put themselves at some risk by disclosing non-antitrust crimes through the Program.

With regard to prosecution by other agencies, both FAQs provide some reassurance. The 2008 FAQs state that, "[t]o date . . . there have been no instances where a separate prosecuting agency has elected to prosecute [conduct usually integral to an antitrust violation] by a leniency applicant." 2008 FAQs at 7. The updated FAQs state that "[i]t has been the Antitrust Division's experience that other prosecuting agencies do not use other criminal statutes to do an end-run around leniency." 2017 FAQs at 7. The new FAQs go on to warn, however, that "applicants should not expect to use the Leniency Program to avoid accountability for non-antitrust crimes." *Id.*

Cooperation. The updated FAQs underline full cooperation with investigations. The 2017 version dedicates far more space to spelling out that representatives of a company under investigation may be carved out of the scope of the leniency letter if they fail to fully cooperate with the investigation or if they stop cooperating at any time. 2017 FAQs at 20.

The 2017 FAQs also include a more robust assertion of the Division's discretion in determining immunity for individuals whose companies apply for Type B Leniency, which may be granted even after the Division has received information about a company's illegal antitrust activity if the company meets certain criteria. The update emphasizes that "the Division has more discretion with regard to personnel of Type B Leniency applicants." *Id.* The 2008 FAQs had stated that, "[i]n practice . . . the Division ordinarily provides leniency to all qualifying current employees of Type B applicant in the same manner that it does for Type A applicants." 2008 FAQs at 20. The new FAQs offer only that the Division "often chooses to include protection for current directors, officers, and employees of Type B Leniency applicants" and specifically notes that the Division may exclude directors, officers, and employees who are determined to be "highly culpable." 2017 FAQs at 20–21.

The 2017 FAQs also take a harder line on the inclusion of company representatives in the scope of the protection: "Former directors, officers, and employees are presumptively excluded from any grant of corporate leniency." 2017 FAQs at 22. While the 2008 FAQs stated that the Division "often reaches [] agreements" to grant leniency to former representatives, 2008 FAQs at 18, the updated FAQs note that "such protections are only offered when the specific former directors, officers, and employees provide substantial, noncumulative cooperation . . . or when their cooperation is necessary for a leniency applicant to make a confession of criminal antitrust activity sufficient to be eligible for conditional leniency," 2017 FAQs at 22.

Though some of the changes may give potential applicants pause, the 2017 FAQs and the Division's practices still provide a number of incentives for applicants to cooperate fully. The 2008 "Amnesty Plus" policy, which encourages subjects of ongoing investigations to report involvement in a separate antitrust conspiracy, continues, now known as "Leniency Plus." 2017 FAQs at 9; 2008 FAQs at 8. Credit for cooperation under this policy is calculated the same way under both FAQs. 2017 FAQs at 10; 2008 FAQs at 9. The updated FAQs go further and feature a new question describing the Division's current approach to "Penalty Plus," the policy governing situations where a company pleads guilty to an antitrust offense but fails to report an additional antitrust crime in which it was also involved. 2017 FAQs at 11. Under Penalty Plus, a company that fails to report its involvement in a separate antitrust conspiracy does not only forego benefits under Leniency Plus, but also is subject to more severe punishment for the additional crime.

Conclusion. All companies should be familiar with the Leniency Program, the 2017 FAQs, and Division practice. The 2017 changes may cause corporations and individuals to make different decisions than they might have before the revisions.

VICTORIES

Jury Trial Victory in Patent Case

After a one week trial before the Honorable Marilyn Huff in the Southern District of California, the San Diego jury took just over two hours to return its verdict of no infringement on all seven Asserted Claims from four Asserted Patents in favor of Quinn Emanuel's clients.

In 2015, the firm was retained by Novatel Wireless, Verizon and AT&T, against claims that Novatel's MiFi wireless hotspots, made by Novatel and distributed by Verizon and AT&T, infringed six patents owned by Carucel Investments, LP. The MiFi wireless hotspot is a small portable device that creates a local WiFi network through which users can connect to the Internet wherever a connection to the cellular network is available. Novatel, who created the mobile wireless hotspot category of products, was initially sued with Verizon and AT&T in the Southern District of Florida by Florida-based Carucel, a patent assertion entity whose only assets were the asserted patents. The patents disclosed a cellular network infrastructure in which cellular base stations were constructed to move along the highway at a speed comparable to the speed of traffic so as to reduce the number of handoffs experienced by cell phone users in fast moving cars.

Carucel's principal, the son of the deceased inventor, was a patent attorney who, through a series of continuation patents, secured a number of claims that, on their face, appeared broad enough to cover any mobile repeater, including the accused MiFi devices. The scope of this case was significant for Verizon and AT&T because the accused mobile hotspot functionality is now present in most smartphones sold by AT&T and Verizon. Carucel's damages case was also a significant concern because the Court permitted Carucel to present a damages theory to the jury that relied heavily on revenue earned by Verizon and AT&T from the sales of their wireless data plans.

The firm's first move was to get the case transferred from Miami to San Diego, where Novatel would have a home court advantage. Next the firm sought a claim construction that would limit even the broadest claims to the disclosed system, convincing Judge Huff that the common specification contained a disclaimer limiting all claims to an apparatus that was "constructed to move with traffic at a rate of speed which is comparable to the speed of traffic." Carucel nevertheless embraced this construction and convinced Judge Huff that issues of fact related to Novatel's testing of the MiFi devices in cars precluded summary judgment of non-infringement.

At trial, Carucel knew it had to distance itself from the actual disclosure of its patents, so it presented a story crediting the inventor with a number of more significant innovations such as the soft-handoff functionality that is fundamental to CDMA. Unfortunately for Carucel, credit for most of those innovations, including soft-handoff , belong to local favorite Qualcomm. Carucel nevertheless doubled down against Qualcomm by arguing that Carucel had invented the entire mobile hotspot product while Qualcomm had merely invented the underlying CDMA signal processing technology. The Quinn team implored the jury to resist any comparison of Qualcomm and its legendary founders to patent assertion entity Carucel, its four now-expired patents, and the two law firms responsible for instigating this case. Throughout trial, the Quinn team was able to discredit the Carucel story while tying the asserted claims to the infrastructure system actually disclosed in the patents. In the end the jury was presented with a single non-infringement argument that applied to all seven asserted claims – the claims required a device constructed to move with traffic at a speed comparable to the speed of traffic, and this was not satisfied simply because the MiFi devices could operate in a moving car. The jurors were told that if they found no infringement, they should not find the patents invalid because the disclosed infrastructure system was not in the prior art. But, if they found the claims infringed, they should find them invalid based on a number of prior art references. The jury made the correct call with its unanimous verdict of no infringement.

Carucel sought to overturn that jury verdict in a post-trial motion for a judgment of infringement or, in the alternative, a new trial, arguing that Defendants' expert had mislead the jury into applying an incorrect claim construction. The Court rejected that motion, finding that "the jury's non-infringement verdict was supported by substantial evidence."

Trial Victory in Multi-Billion Dollar Fraudulent Transfer Trial

The firm recently obtained a trial victory in a closely-watched case that will have a significant impact on bankruptcy litigation.

In late 2007 the firm's client, Access Industries, sponsored the merger of Lyondell Chemical Company and Basell AF SCA to form LyondellBasell Industries, or "LBI," then the world's third largest chemical company. LBI struggled in late 2008 as a result of a confluence of events including the Great Recession, and it filed for bankruptcy in early 2009. A committee of unsecured creditors quickly filed a multi-billion dollar lawsuit

against Access, its founder Len Blavatnik, the banks that financed the merger, and various other officers, directors and affiliates of the pre-merger companies. A year later, the unsecured creditors' claims were transferred to a litigation trustee, who upped the ante by filing an amended complaint asserting that the merger was the result of a massive fraud.

As the judge noted, the trustee threw the "kitchen sink" at Access and the other defendants. The thrust of the trustee's allegations was that the financial projections used to support the merger were deliberately and massively inflated, meaning that LBI was insolvent and inadequately capitalized at its formation. On that basis, the trustee sought to use fraudulent transfer law to claw back billions of dollars that LBI paid to buy out the shareholders of Lyondell. This included amounts that were paid to Access on account of a "toehold" position it had acquired in Lyondell before the merger. The trustee also asserted claims relating to a credit facility that Access provided to LBI in 2008, claiming that LBI's repayment of a draw on that loan (of $300 million) just months before the bankruptcy was an illegal preference. The trustee also claimed that Access and Blavatnik breached their management obligations under the law of Luxembourg (where LBI was organized), resulting in billions of dollars in additional damages to creditors.

Over the eight-year course of the litigation, the firm obtained a number of crucial decisions that positioned Access for trial, including, in a rare feat, rebutting the legal presumption that LBI was insolvent in 2008 when it repaid $300 million under its credit facility with Access. This meant that a threshold element of one of the trustee's more significant claims could not simply be assumed but rather had to be proven.

Along the way, the other defendants settled with the trustee, leaving Access and Blavatnik to vindicate the merger at trial. Over 13 days in October and November 2016, the Bankruptcy Court heard from dozens of witnesses, including Access's most senior members and the parties' experts. In April, the court ruled overwhelmingly in Access's favor.

In a 173-page opinion, the court awarded judgment for Access on all but one claim (worth only $7.2 million out of the more than $3 billion the trustee sought against Access). The court cleared Access and Blavatnik of fraud, finding that they and others "fully appraised the merits of the merger based on droves of public and non-public information, and decades of industry experience." And, as to the trustee's case, the court concluded that the trial exposed "serious flaws with the Trustee's experts … rendering [their] testimony largely unreliable."

Fraudulent transfer claims are frequently turned to by creditors seeking an advantage in bankruptcy. Yet, few cases of this magnitude are ever decided at trial. Because the trial dealt with fundamental issues to these types of cases, the decision will no doubt be studied by bankruptcy practitioners for a long time.

(Noted with interest continued from page 5)

designed to give courts the flexibility to protect rights acquired in reliance on the bankruptcy case but not to allow an end-run around the basic principles of priority. *Id.* The word "cause," the Court held, is too weak to justify the allowance of a priority-deviating final distribution of estate assets. *Id.*

The Court also addressed and rejected the Third Circuit's finding that deviation from the prescribed priority rules may be appropriate in "rare" circumstances. The Court reasoned that allowing for any departures from the protections of the priority rules that Congress granted particular classes of creditors could have serious consequences, including changes in the bargaining power of different classes of creditors even in bankruptcies that do not end in structured dismissals, risks of collusion, and making settlement more difficult to achieve. *Id.* at 986-87.

In making its finding, the Court was careful to note that its decision was not contrary to any precedent from either the Court or from lower court decisions reflecting common bankruptcy practice. *Id.* at 985. It also distinguished the fact pattern in Jevic from those in other cases where lower courts had approved distributions that violated the ordinary priority rules, leaving intact decisions approving interim distributions such as first-day wage orders, critical vendor orders, and roll-ups, as well as the approval of a structured dismissal where no party with an economic stake objected to the dismissal. *Id.* at 985-86. Thus, while *Jevic* may mark the death knell of structured dismissals as a means of evading the priority rule over the objection of an affected party, the Court's decision is written narrowly enough to leave in place significant flexibility for courts and parties to use structured dismissals in general.

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