February 2012
quinn emanuel
quinn emanuel urquhart & sullivan, llp | business litigation report
los angeles | new york | san francisco | silicon valley | chicago | washington, d.c. | tokyo | london | mannheim | moscow

Dukes Is No Hazard: Eight Months On, District Courts Have Been Largely Unmoved by *Wal-Mart Stores, Inc. v. Dukes*

In June 2011, the Supreme Court handed down its decision in *Wal-Mart Stores, Inc. v. Dukes*, 131 S. Ct. 2541 (2011), provoking cries that the case was the "death knell" of the nationwide class action. Less dramatically, Justice Ginsburg, in her partial dissent, accused the majority of "elevat[ing] the [Rule 23](a)(2) inquiry so that it is no longer 'easily satisfied.'" *Id.* at 2565 (Ginsburg, J., concurring in part and dissenting in part). Yet eight months after *Dukes* was decided, an examination of district court decisions suggests that most courts have not been affected significantly by the controversial portions of *Dukes.* With few exceptions, district courts have continued to hew to their rulings issued prior to the Supreme Court's decision, as the unique circumstances in *Dukes* have allowed district courts to shrug their collective shoulders. Rather, the most dramatic effects of *Dukes* appear to be in the Court's lesser-known unanimous holding, concerning back pay claims. The recent case law also suggests that *Dukes* left unresolved the most contentious issue in the case: how to apply the standard from *Daubert v. Merrell Dow Pharmaceuticals, Inc.*, 509 U.S. 579 (1993), in a class action setting, an issue that has already created the beginnings of another circuit split, suggesting that the Court may see a *Dukes* sequel in the near future.

Dukes*' Two-and-a-Half Holdings*

The facts of the *Dukes* case are by now well known. Briefly, three named plaintiffs who had worked at Wal-Mart for many years alleged that they were subject to gender discrimination in violation of Title VII of the Civil Rights Act of 1964. *Dukes*, 131 S. Ct. at 2547-48. The named plaintiffs sought to represent a nationwide class of 1.5 million women who currently or had previously worked at any of Wal-Mart's approximately 3,400 stores. *Id.* at 2547. The putative class's theory of liability was not that Wal-Mart openly discriminated against women, but rather that Wal-Mart implemented a policy of giving "local managers[] discretion over pay and promotions," which was "exercised disproportionately in favor of men, leading to an unlawful disparate impact on female employees." *Id.* at 2548. The plaintiffs argued that this policy was prevalent across all of Wal-Mart's stores through "a strong and uniform 'corporate culture'" that "permitt[ed] bias against women to infect, perhaps subconsciously, the discretionary decision-making of each one of Wal-Mart's thousands of managers." *Id.*

(continued on page 2)

INSIDE

Quinn Emanuel Elects Eight New Partners

see page 3

Kathleen Sullivan, David Elsberg and Charles Verhoeven Recognized as Legal MVPs

Quinn Emanuel partners Kathleen Sullivan, David Elsberg and Charles Verhoeven have been named *Law360* "MVPs of the Year" for their appellate, securities and intellectual property litigation successes. This inaugural list honored five attorneys in a number of practice areas whose accomplishments raised the bar in corporate law. Kathleen Sullivan, constitutional law expert and Chair of the firm's appellate practice, was recognized for her work defending Wyeth in a Supreme Court victory holding that the National Childhood Vaccine Injury Act preempts state design-defect lawsuits against vaccine manufacturers. Ms. Sullivan was also recognized for obtaining a rare Second Circuit reversal of a criminal conviction for alleged violations of the Iranian trade embargo in *U.S. v. Banki*.

Charles Verhoeven, Co-Chair of the firm's IP Practice, was recognized for his ongoing involvement as lead counsel for Google, Samsung, HTC and Motorola

(continued on page 5)

(continued from cover)

Both the district court and the Ninth Circuit, sitting *en banc*, had approved the certification of this nationwide class under Fed. R. Civ. P. 23.

The Court's opinion in *Dukes* contained two holdings, and almost a third, about how to apply Fed. R. Civ. P. 23. In the second, unanimous holding, the Supreme Court examined the language of Rule 23(b)(2), which allows a class to be certified when "the party opposing the class has acted or refused to act on grounds that apply generally to the class, so that final injunctive relief or corresponding declaratory relief is appropriate respecting the class as a whole." The Ninth Circuit had held that such language allowed for a class action to seek monetary relief when such relief did not "predominate" over injunctive or declaratory relief. *Dukes v. Wal-Mart Stores, Inc.*, 603 F.3d 571, 617 (9th Cir. 2010) (*en banc*), *rev'd*, 131 S. Ct. 2541 (2011). The Supreme Court unanimously held that this was the wrong test: instead, class actions certified under Rule 23(b)(2) can seek monetary relief only when that relief is "incidental" to injunctive or declaratory relief, such that the monetary damages "flow directly from the liability to the class *as a whole*." *Dukes*, 131 S. Ct. at 2560 (quoting *Allison v. Citgo Petroleum Corp.*, 151 F.3d 402, 415 (5th Cir. 1998)). The Court noted that the putative class could never meet this test, because determining backpay claims for each member of the class would require individualized findings as to whether Wal-Mart had statutory defenses to individual claims. The Court, strongly criticizing the Ninth Circuit's "Trial by Formula" approach, held that these defenses must be individually litigated, rather than allowing a special master to select a random sample of class members from which to extrapolate total monetary damages.

Where the Court fractured along traditional lines was in its first holding, in which Justice Scalia's majority held that the *Dukes* class could not be certified because it failed to meet the "commonality" test of Rule 23(a)(2). Under that part of the Rule, a party seeking to certify a class must demonstrate that "there are questions of law or fact common to the class." The five-Justice majority emphasized that the focus was not so much on a common *question*, but on a common *answer*, such that at least one answer "will resolve an issue that is central to the validity of each one of the claims in one stroke." *Dukes*, 131 S. Ct. at 2551. The Court elaborated that in order to determine whether such a common answer existed, a "rigorous analysis" was required, in which it "may be necessary for the court to probe behind the pleadings." *Id*. Relying on a footnote from a 1982 case, the Court held that in the employment discrimination context, determining whether a "common answer" existed required "[s]ignificant proof that an employer operated under a general policy of discrimination." *Id.* at 2553 (quoting *General Tel. Co. of Sw. v. Falcon*, 457 U.S. 147, 159 n.15 (1982)). And in this case, that "significant proof" was lacking, the Court held, because the only "general policy" that the plaintiffs identified was a policy "*against having* uniform employment practices." *Id.* at 2554. This policy, even when buttressed with statistics showing gender pay disparities on a regional level, was insufficient to show that each of the 1.5 million members of the putative class had been discriminated against in a common way. *Id.* at 2555-56. Thus, the Court held, there was no "glue" that could hold together the alleged reasons for a particular employment decision across the nationwide class. *Id.* at 2552.

In the course of reaching this holding, the Court almost made a third. In attempting to offer the necessary "significant proof" of a general policy of discrimination across Wal-Mart's 3,400 stores, the plaintiffs had offered the expert testimony of a Dr. Bielby, who attempted to use a "social framework analysis" to prove that Wal-Mart's corporate culture was vulnerable to gender bias. *Dukes*, 131 S. Ct. at 2553. Though the parties raised the issue, the Court declined to address how *Daubert* applied in the class certification context. Instead, while expressing "doubt" about the district court's ruling that *Daubert* was inapplicable at the class certification stage, *id.* at 2553-44, the Court held that even accepting Dr. Bielby's testimony, his "social framework analysis" failed to meet the necessary "significant proof" bar. *Id.* at 2554.

The District Courts React…With A Yawn

It has been eight months since the Court decided *Dukes*, giving district courts a chance to issue opinions that grapple with the subtleties of the decision. Since that time, district courts have cited *Dukes* roughly 150 times, though usually as just the most recent restatement of the relevant parts of Rule 23. In several cases, however, the defendants have provided a kind of "natural experiment" to observe the effects of *Dukes* by filing motions for class *decertification* in light of the decision: if *Dukes* truly wrought a significant change in the way courts interpret Rule 23, one would expect to see numerous decisions decertifying classes. In fact, the opposite is true: of those post-*Dukes* decisions addressing a decertification motion, all but one has rejected such motions.

For example, in *Johnson v. General Mills, Inc.*, 276 F.R.D. 519 (C.D. Cal. 2011), Judge Carney denied a motion to decertify a class action asserting

(continued on page 8)

Quinn Emanuel Elects Eight New Partners

Six associates and two of counsel were elected to the Quinn Emanuel partnership, effective January 1, 2012. The new partners are:

William Adams, New York.
William is a member of the firm's appellate practice. Since joining the firm in 2005, he has worked on dozens of appeals and has argued before the Second Circuit and the New York Appellate Division. William also has experience in the U.S. Supreme Court, where he has drafted several successful petitions for certiorari. He received a B.S. in Industrial & Labor Relations *with honors* from Cornell University and a Juris Doctor *with distinction* from Stanford Law School, where he was a member of the Order of the Coif, a Note Editor of the *Stanford Law Review* and a Senior Editor of the *Stanford Law & Policy Review*.

James Baker, New York.
Jim's practice focuses on patent litigation. He has extensive experience litigating pharmaceutical and biotechnology patents, including numerous actions arising under the Hatch-Waxman Amendments to the Federal Food, Drug and Cosmetic Act. Jim received both a Bachelor of Science and a M.S. in Polymer & Textile Chemistry from the Georgia Institute of Technology and a Juris Doctor from the University of Georgia, where he was a member of the Managing and Editorial Boards of the *Journal of Intellectual Property Law*.

Dr. Johannes W. Bukow, Mannheim.
Johannes specializes in intellectual property litigation with a focus on patent litigation in the courts of Germany. He also represents clients in the European Patent office and the German PTO. He has extensive experience managing such matters for both plaintiffs and defendants and has particular expertise coordinating litigation strategy across multiple jurisdictions. Johannes obtained a law degree and Ph.D. from the University of Mannheim and an L.L.M. from the University of Edinburgh.

Patrick Curran, New York.
Patrick's practice focuses on complex business litigation and intellectual property disputes. He has represented clients in matters involving a variety of technologies and products, including web servers, cellular telephones, online advertising systems and operating systems. Patrick received a Bachelor's degree *magna cum laude* from Harvard University and a Juris Doctor *with high honors* from the University of Chicago Law School, where he was the Executive Topics & Comments Editor of the *University of Chicago Law Review*.

Joseph Paunovich, Los Angeles.
Joe's practice focuses on intellectual property matters with an emphasis on complex patent, trademark and copyright litigation. He has represented Fortune 500 companies, start-ups and individuals in both plaintiff and defense cases involving, *inter alia*, pharmaceuticals, medical devices, diagnostics, gene therapies, optical and ultrasonic imaging, web design, network distributed learning environments, cell phone applications, operating systems and data compression methods. Joe was a member of the University of Michigan B.S./M.D. Inteflex Program and obtained a B.S. in Microbiology before attending the University of Michigan Law School.

Mike Powell, Silicon Valley.
Mike's practice focuses on patent infringement and related complex commercial litigation. Mike received a B.A. in Chemistry and English from the University of California, Santa Barbara and an M.B.A. from the Stanford University Graduate School of Business. He obtained a Juris Doctor from the University of California, Berkeley School of Law (Boalt Hall).

Kevin Smith, San Francisco.
Kevin specializes in patent litigation and related antitrust issues. He has litigated patent cases in a variety of technology areas, including Internet services, computer routers, gaming machines and cellular telephones. He received his B.A. in Economics and Philosophy from the University of Michigan and a Juris Doctor *magna cum laude* from the University of Michigan Law School, where he was a member of the Order of the Coif, Executive Editor of the *Michigan Law Review* and Associate Editor of the *Michigan Journal of Race & Law.*

Dr. Anne Toker, New York.
Anne's practice focuses on patent litigation covering a wide range of technologies—from pharmaceuticals, medical devices and biotech to electronics and oil services. Anne received a B.A. in English *summa cum laude* from Yale College and a Ph.D. in Molecular Biophysics and Biochemistry from Yale Graduate School, after which she was a postdoctoral fellow at Columbia University in the laboratory of Nobel Prize winner Dr. Martin Chalfie. She received her Juris Doctor *magna cum laude* from Harvard Law School, where she was a Supervising Editor of the *Harvard Law Review*. Q

New York Clarifies that Private Securities Claims are Not Pre-empted by the Martin Act: Assured Guaranty (UK) Ltd. v. J.P. Morgan Investment, Management, Inc.

In a decision with far reaching implications for both private investors and the business community, New York's highest court recently ruled that an individual plaintiff's common-law causes of action for breach of fiduciary duty and negligence stemming from a bank's purported mismanagement of the plaintiff's investment account were not pre-empted by New York's "blue sky" law, the Martin Act. The unanimous decision in *Assured Guaranty (UK) Ltd. v. J.P. Morgan Investment, Management, Inc.*, 2011 WL 6338898, 2011 N.Y. Slip Op. 09162, settles a longstanding dispute among New York courts as to whether a private litigant may pursue claims that overlap with the enforcement powers granted to the New York Attorney General by the Martin Act**.** The Court of Appeals noted that allowing individual investors to pursue common law claims alongside those brought by the New York Attorney General provides greater protection for both individual investors and the marketplace and, in doing so, furthers the goals of the Martin Act.

The Martin Act, codified as New York General Business Law article 23-A, sections 352-353, was passed in 1921 and sought to afford the New York Attorney General greater powers to combat securities fraud. It "authorizes the Attorney General to investigate and enjoin fraudulent practices in the marketing of stocks, bonds and other securities within or from New York" *Assured Guaranty*, No. 227 at *4 (quoting *Kerusa Co. LLC v. W10Z/515 Real Estate Ltd. P'ship*, 12 N.Y.3d 236, 243 (2009)). Prior to the passage of the Martin Act, "the primary weapon afforded the Attorney General to combat securities fraud was that of injunctive relief." *Id.* at *4-5 (citing Mihaly and Kaufmann, Securities, Commodities and Other Investments, McKinney's Cons Laws of NY, Book 19, General Business Law art 23-A, at 13). To remedy this deficiency, the Act provided the Attorney General with the power to "investigat[e] and interven[e] at the first indication of possible securities fraud on the public and, thereafter, if appropriate, to commence civil or criminal prosecution." *Id.* (citing *CPC Int'l v. McKesson Corp.*, 70 N.Y.2d 268, 277 (1987); *Kralik v. 239 E. 79th St. Owners Corp.*, 5 N.Y.3d 54, 58-59 (2005)).

Over the past 85 years, the Legislature has repeatedly expanded the Attorney General's powers under the Act. In 1955 the Legislature added section 352-c, which broadened the Attorney General's powers by allowing for criminal charges to be brought against those engaging in fraudulent practices "even absent proof of scienter or intent." Slip Op. at *5 (citing *People v. Landes*, 84 N.Y.2d 655, 660 (1994)). Five years later, the Martin Act was again expanded to cover the real estate industry through the addition of section 352-e, which is aimed at preventing fraud in the sale of condominiums and cooperative apartments. This amendment made it "'illegal for a person to make or take part in a public offering of securities consisting of participation interests in real estate unless an offering statement is filed with the Attorney General' and numerous disclosures are made pursuant to the statute and its implementing regulations." *Id.* (citing *Kerusa*, 12 N.Y.3d at 243). The Martin Act was expanded again in 1976 when the Attorney General received authorization to seek monetary restitution on behalf of investors injured as a result of fraud.

Courts have long held that the Martin Act does not preempt fraud claims as the statue itself contains no requirement of deceitful intent. However, prior to the *Assured Guaranty* decision there was a distinct lack of clarity in how courts should treat the convergence of an individual plaintiff's common-law causes of action with the powers granted to the Attorney General under the Martin Act. In cases like *CPC International* and *Kerusa*, both relied upon by J.P. Morgan in *Assured Guaranty*, the Court of Appeals found claims to be preempted by the Martin Act. However, more recently courts began to trend against preemption. In cases like *CMMF LLC v. J.P. Morgan Investment Management,* 78 A.D.3d 562 (1st Dep't 2010), and *Anwar v. Fairfied Greenwich, Ltd.*, 728 F. Supp. 2d 354 (S.D.N.Y.), plaintiffs (including CMMF, represented by Quinn Emanuel) successfully argued that the Martin Act does not preclude non-fraud tort claims. The *Assured Guaranty* decision expressly acknowledged this divide and stated that latter cases such as *CMMF* and *Anwar* "represent the more accurate view" of the Martin Act's role. *Assured Guaranty*, at n.2.

The decision in *Assured Guaranty* stems from J.P. Morgan's purported mismanagement of funds belonging to its client, Orkney Re II p.l.c. ("Orkney"). Orkney retained J.P. Morgan as its investment manager for approximately $553 million of assets. The complaint alleges that rather than manage the account pursuant to the guidelines set forth in the parties' investment management agreement, J.P. Morgan heavily invested Orkney's assets in high-risk securities like subprime mortgage-backed securities. The complaint further alleges that J.P. Morgan failed to properly diversify the portfolio, failed to adequately advise Orkney of the true level of risk in the account and improperly made investment decisions in favor of J.P. Morgan's own client—and Orkney's largest equity holder—Scottish Re Group Ltd., rather than for the benefit of Orkney. As a result of this alleged mismanagement, Orkney suffered substantial financial loss. As guarantor of Orkney's investment and express third party beneficiary of the investment management agreement between Orkney and J.P. Morgan, Assured Guaranty was forced to pay for the loss. Assured Guaranty subsequently brought claims in New York state court against J.P. Morgan for breach of fiduciary duty, gross negligence and breach of contract.

J.P. Morgan moved to dismiss the complaint, arguing that the breach of fiduciary duty and gross negligence claims were preempted by the Martin Act. J.P. Morgan argued that the Martin Act vests the Attorney General with exclusive authority over fraudulent securities and investment practices addressed by the statute and it would be inconsistent to allow private investors to bring overlapping common-law claims.

The trial court granted the motion to dismiss, holding that the fiduciary duty and gross negligence claims fell "within the purview of the Martin Act and their prosecution by plaintiff would be inconsistent with the Attorney General's exclusive enforcement powers under the Act." On appeal, the First Department rejected the Supreme Court's ruling, holding that "there is nothing in the plain language of the Martin Act, its legislative history or appellate level decisions in this state that supports defendant's argument that the Act preempts otherwise validly pleaded common-law causes of action." 80 A.D.3d 292, 304 (1st Dep't 2010). In so holding, the Appellate Division reinstated Defendant's breach of fiduciary duty and gross negligence causes of action and part of its contract claim. *Id*.

Upon review, the Court of Appeals upheld the First Department's ruling and, for the first time, expressly held that private causes of action are not preempted by the Martin Act. In doing so, the Court of Appeals relied heavily on the plain language and legislative history of the Act. The Court noted that nothing in the language of the statute itself "expressly mention[s] or otherwise contemplate[s] the elimination of common-law claims….Certainly the Martin Act, as it was originally conceived in 1921 with its limited relief, did not evince any intent to displace all common-law claims in the securities field." Slip. Op. at *6. The Court also noted that nothing in the legislative history supports "a 'clear and specific' legislative mandate to abolish preexisting common-law claims that private parties would otherwise possess." *Id*. at *7. Moreover, the Court noted that the purpose of the Martin Act was best advanced through the permission of private claims alongside those brought by the Attorney General. "We agree with the Attorney General that the purpose of the Martin Act is not impaired by private common-law actions that have a legal basis independent of the statute because proceedings by the Attorney General and private actions further the same goal -- combating fraud and deception in securities transactions. Moreover, as [S.D.N.Y. District Court] Judge Marrero observed recently, to hold that the Martin Act precludes properly pleaded common-law actions would leave the marketplace 'less protected than it was before the Martin Act's passage, which can hardly have been the goal of its drafters.'" *Id*. at 10-11(citing *Anwar*, 728 F. Supp. 2d at 371).

The *Assured Guaranty* decision opens a significant door for private litigants' New York common-law securities claims, the validity of which was previously in doubt. In addition to widening the range of claims a private litigant can bring, the *Assured Guaranty* decision also increases the chances of obtaining settlements. As these common-law claims do not require the heightened pleading standards of fraud claims, defendants will have a more difficult time eliminating investors' claims at the pleading stage.

(Legal MVPs continued from cover)

in smartphone patent litigation against Apple and Microsoft in more than a dozen disputes venued in various district courts and in the ITC—including six ITC trials in 2011 alone. Mr. Verhoeven also obtained a trio of summary judgment rulings and two complete defense jury verdicts for Google in the plaintiff-friendly Eastern District of Texas.

David Elsberg was selected for his success in some of the biggest securities cases of the year, which included a nearly $80 million arbitration award—described as one of the largest investor arbitration awards ever issued by a FINRA arbitration panel—on behalf of Rosen Capital against Merrill Lynch and his work securing an approximately $6 billion settlement for Washington Mutual Inc. bondholders against JPMorgan Chase.

Patent Litigation Update

Congress Provides Litigation-Type Review of Patents

Signed into law by President Obama on September 16, 2011, the Leahy-Smith America Invents Act ("the Act") is the most sweeping change in U.S. patent law in more than a century. Over the course of the next year, the Act will introduce a number of changes, large and small, to established U.S. patent law. For those companies who find themselves frequent targets of patent infringement allegations but would prefer to avoid lengthy federal court litigation, the Act expands the currently available Patent Office procedures for post-grant review of issued patents.

Given the extent of the Act's changes to U.S. patent practice, the changes are being implemented in multiple phases. Some provisions of the Act significantly impact the course of federal litigation. For example, the Act eliminates a defendant's "best mode" defense to a charge of patent infringement, and significantly restricts a patent holder's ability to sue many defendants at once in a single patent infringement lawsuit. Both of these changes have been in effect for six months. The most sweeping of the Act's changes—those converting the United States from a patent system where patents are awarded to the first to *invent* to one where patents are awarded (under most circumstances) to the first to *file an application*—are set to go into effect with final implementation of the Act on February 16, 2013.

A second round of changes, set to go into effect on September 16, 2012, will include a new *inter partes* review process (to replace the current *inter partes* reexamination procedure), and a new post-grant review process. These two procedures provide new options for a party wanting to challenge the validity of a patent before the Patent Office in a relatively expeditious manner.

New Inter Partes Review Procedure

Over the years, *inter partes* reexamination has become increasingly popular among those wishing to challenge the validity of an issued patent. However, after September 16, 2012, *inter partes* reexamination will no longer be available, and its replacement with *inter partes* review will have a significant impact on future litigation and litigation strategy. For example, as a mechanism to prevent the Patent Office from becoming overwhelmed with new review petitions, during each of the first four years of this new program, the Act allows the Patent Office Director to limit the yearly number of *inter partes* reviews if that number exceeds the number of *inter partes* reexaminations petitions granted in the year before the new review scheme went into place. Thus, if *inter partes* review becomes popular, there may be a rush to file new review petitions at the beginning of each new one year period to avoid the possibility of being shut out of *inter partes* review.

The Act also has heightened the threshold for obtaining post-issuance review. Under the prior *inter partes* reexamination procedure, the petitioner needed to show that the petition raised a substantial new question of patentability. The Act changes the standard for initiating an *ex parte* reexamination, or new *inter partes* review, requiring the request to show a reasonable likelihood of success in invalidating or requiring a change with respect to at least one patent claim. While in theory this heightened standard may limit the number of *inter partes* review requests, early evidence appears to indicate that this new standard has not significantly changed the percentage of *inter partes* reexamination petitions granted by the Patent Office. However, even if this new standard decreases the percentage of review petitions the Patent Office grants, because the Act has not altered the Patent Office's standard for determining whether a claim, once in reexamination or review, is found to be invalid. Thus, although the total number of reviews granted may decrease, there could, in theory, be a concomitant increase in the success rate for invalidating patent claims.

The universe of patents that can be challenged via an *inter partes* review is greater than for *inter partes* reexamination. Under prior statute, a challenger could only seek *inter partes* reexamination of patents issued on applications filed after November 29, 1999. The Act removes this limitation, making *inter partes* review available for all issued patents. *Inter partes* review is not available, however, immediately upon issuance of a patent. Instead, an *inter partes* review cannot be initiated until the *later* of either (1) nine months after issuance of the patent or (2) completion of any post-grant review (another of the Act's patent review processes discussed in more detail below).

Recognizing the interplay between Patent Office review and possible invalidity challenges in federal court, in an effort to reduce duplication the Act imposes additional limitations on would-be challengers. First, *inter partes* is not available to any petitioner who has previously filed a civil action (such as a declaratory judgment action) challenging the validity of the patent. If the petitioner attempts to avoid this outcome by filing the petition for inter partes review first, the civil action will be automatically stayed. Counterclaims challenging the validity of a claim—raised, for example, in response to an infringement suit brought by the patent holder—would not prevent an *inter partes* review petition and would not trigger an automatic stay. However, the defendant cannot initiate *inter partes* review more than one year after being served with a patent infringement complaint.

The most substantial change wrought by the end of *inter partes* reexamination and the introduction of *inter partes* review is to the form of the proceeding. Former *inter partes* reexamination practice essentially followed a patent prosecution model: the examiner conducted the reexamination as with normal prosecution practice, but the challenger was allowed to respond. The new *inter partes* review abandons this model in favor of one that is decidedly more trial-like in approach. While the detailed proposed rules to implement the new procedures have only recently been published for comment, these new procedures will include limited staged discovery of relevant information (including depositions of witnesses submitting affidavits or declarations); the use of protective orders; the availability of sanctions for abuse of discovery; the right of either party to oral argument; a decision on whether or not to grant *inter partes* review and on what grounds within five months of the filing of a petition for review; and a final resolution of the matter within one year of the grant of the review petition (not including a possible additional six months upon showing of good cause). The entire process is to be conducted by a panel of at least three members of the newly created Patent Trial and Appeal Board, and panel decisions may be appealed to the Court of Appeals for the Federal Circuit. There is no right to any district court action challenging a panel's decision.

Finally, unlike present *inter partes* reexamination procedures where there is no way for a third party requestor to terminate the reexamination proceedings once it has begun, the new Act allows the parties to jointly request that Patent Office terminate its review based on a settlement of their dispute. The Patent Office may grant this request provided it has not already issued a decision on the merits. Any agreement or understanding between the patent owner and a petitioner has to be in writing and filed with the Patent Office before termination of the review. The parties may also request that the Patent Office treat any such agreement as confidential so that it will not become part of the patent file. While a requester is generally unable to assert the invalidity of a challenged claim in any future civil action or ITC proceeding on any ground that the requester raised (or could have raised) during the *inter partes* review, no estoppel attaches against any petitioner who successfully dismisses review of the patent.

New Post-Grant Review Procedure

As mentioned above, the Act also creates a new post-grant review process. While the effective date of the new post-grant review provisions is September 16, 2012, because this provision applies only to patents having an effective filing date after March 16, 2013, it will be some time before there are any patents for which post-grant review is available.

The Act's post-grant review parallels the *inter partes* review with two significant differences. First, post-grant review is only available for the first nine months after a patent has issued (or reissued). Any post-grant review petition must be filed within this window. Second, unlike *inter partes* review, which is limited to claims of invalidity based on printed publications or patents, a petitioner may base a post-grant review request on *any* ground of invalidity (except failure to disclose best mode). For example, post-grant review may be based on evidence of prior sales or offers to sell the invention.

Similar to *inter partes* review, the post-grant review (1) includes access to a limited number of discovery procedures, (2) the right of either party to oral argument, (3) is conducted in front of at least a three judge panel of the Patent Trial and Appeal Board, with appeals to the Court of Appeals for the Federal Circuit, (4) is intended to reach a final determination within one year of granting the post-grant review petition (with a possible six month extension upon showing of good cause), and (5) may be settled and dismissed.

Together, these two new (and some would say, improved) post-issuance procedures for challenging a patent's validity present substantial challenges, requiring companies to re-think long-standing practices regarding how best to protect itself from allegations of patent infringement. Although much will depend upon the implementation of the specific procedures, for which proposed rules have only recently been published, the availability of trial-like forum for presenting patent challenges to focused, patent-savvy judges—who are far more likely to be comfortable with complex patents and technologies—should increase the popularity of the Patent Office as venue for patent challenges. However, companies should be aware that the jump from an examination-like procedure to a trial-like procedure for challenging patent validity before the Patent Office significantly changes the landscape, requiring a sea-change in a company's strategic approach to defending itself from infringement attacks. Litigation, witness, and trial skills will be at a premium in this new environment, as any successful strategic and tactical approach will more closely mimic litigation practice than patent prosecution procedures.

(continued on page 8)

Life Science Litigation Update

Federal Circuit Vacates Preliminary Injunction in Pharmaceutical Case

In *Warner Chilcott Labs. Ireland Ltd. v. Mylan Pharms. Inc.*, No. 2011-1611 (Fed. Cir. Dec. 12, 2011), the Federal Circuit vacated a preliminary injunction entered by the U.S. District Court for the District of New Jersey to prevent Mylan from launching a generic version of 150 mg Doryx, which is the branded name for the doxycycline hyclate delayed-release tablets sold by plaintiffs Warner Chilcott and Mayne Pharma International (the "Plaintiffs"). Doryx is covered by United States Patent No. 6,958,161, which discloses a modified release coated form of doxycycline.

Upon approval of Mylan's ANDA, the Plaintiffs sued for infringement within the period prescribed by the Hatch-Waxman Act. Mylan responded that the '161 patent was not infringed, and was invalid and unenforceable. The question of infringement turned on whether Mylan's generic Doryx product included a "stabilizing coat" as required by the only asserted claim. In addition to pursuing an infringement claim against Mylan, Plaintiffs also moved for a preliminary injunction shortly before the FDA's thirty-month stay of final approval was set to expire. In particular, Plaintiffs argued that (1) they were likely to succeed in proving that Mylan's product infringed the '161 patent by incorporating a "stabilizing coat" in its capsule formulation; (2) they would suffer irreparable harm absent an injunction; (3) the balance of hardships favored Plaintiffs; and (4) public policy interests demanded that an injunction be entered. The district court agreed.

On appeal, Mylan challenged the district court's decision, arguing that the district court abused its discretion by entering a preliminary injunction preventing the FDA from granting final marketing approval to Mylan's generic Doryx product. The Federal Circuit ultimately agreed with Mylan, finding that the district court abused its discretion in two ways. Relying predominantly on Third Circuit authority, the Federal Circuit first determined that the district court failed to hold an evidentiary hearing despite acknowledging that the decision turned on disputed factual issues. At the preliminary injunction hearing, the court's primary focus was on the question of whether Mylan's ANDA product incorporated a "stabilizing coat"—i.e., whether Plaintiffs were likely to succeed on the merits of their infringement claim. Although recognizing that this question turned on a battle of the experts, the court refused to hold an evidentiary hearing or hear live testimony despite Mylan's request. Second, the district court failed to weigh any evidence or make any findings with respect to Mylan's claim that the '161 patent was invalid and unenforceable. Despite vacating the preliminary injunction, the Federal Circuit indicated that the district court may consider entering a temporary restraining order until a consolidated preliminary injunction hearing and bench trial on the merits can be held, assuming such a hearing can be held within the timeframe mandated by the Federal Rules of Civil Procedure. Q

(Lead Article continued from page 2)

misrepresentation claims related to the line of YoPlus yogurt products. Judge Carney noted that unlike the injury in *Dukes*, which was "discrimination … at the hands of different supervisors in different regions without the link of a common practice or policy," in the false advertising context, the entire class was asserting that its members "were misled by a common advertising campaign that had little to no variation." *Id.* at 521. *Johnson* further rejected the idea that *Dukes* "mandate[d] that every element of a cause of action must be common," instead noting that there will always be some issues that cannot be determined on a classwide basis. *Id.* at 522. Rather, there must be at least one "common core of salient facts," which the court found to be the case. *Id.* at 521-22.

Across the country, Judge McMahon likewise rejected a decertification motion in *Jermyn v. Best Buy Stores, Inc.*, 276 F.R.D. 167 (S.D.N.Y. 2011). After conducting a lengthy discussion of both the *Dukes* case and the case before her, a deceptive business practices case under New York law, Judge McMahon observed that if "the reader wonders exactly what *Dukes*' commonality analysis has to do with this case, s/he is likely not alone." *Id.* at 171. Judge McMahon conceived of *Dukes* "as a straightforward application of *Falcon*," in which the plaintiffs simply failed to come up with the requisite "significant proof" to justify their Title VII claim. *Id.* In contrast, in the *Jermyn* case, "[Class P]laintiffs have a theory that ties the class members to each other and to the Defendant: that Defendant maintains a [policy] illegal under New York [law]." *Id.* at 173.

Similarly, Judge Garaufis modified, but ultimately upheld, the certification of a class of minority firefighters in an employment discrimination class action against New York City. *United States of America v. City of New York*, 276 F.R.D. 22, 26-27 (E.D.N.Y. 2011). Judge Garaufis held that there were common liability questions that justified the use of a class action procedure: New York City's use of an allegedly biased testing procedure was sufficient to meet the commonality element that was lacking in *Dukes*. *Id.* at 43-44. And in *DL v. District of Columbia*, 277 F.R.D. 38 (D.D.C. 2011), Judge Lamberth denied a class decertification motion in an action under the Individuals with Disabilities and Education Act, holding that, unlike in *Dukes*, "[a]ll of the class members have suffered the same injury: denial of their statutory right to a free public education," even if the class members offered "differing ways in which defendants have caused class members' common injury." *Id.* at 45.

To date, the one exception is *Cruz v. Dollar Tree Stores, Inc.*, No. 07-2050 SC, 2011 WL 2682967 (N.D. Cal. July 8, 2011). In that wage denial case, Judge Conti, having previously viewed his own trial plan as a "questionable proposition," was convinced by both "[d]evelopments in this case and in the case law" to decertify even the limited class he had previously certified. *Id.* at *4. Judge Conti first noted that *Dukes* had done away with the "Trial by Formula" method of assessing class damages, on which the *Cruz* plaintiffs relied. *Id.* at *6. Second, the court highlighted class plaintiffs' recent admissions about the unreliable nature of the sole piece of evidence that would determine, on a class-wide basis, the class members' damages. *Id.* at *7. Without the necessary "'glue' that would allow a class-wide determination of how class members spent their time on a weekly basis," *id.* at *5, Judge Conti revoked his previous class certification, *id.* at *9.

These decisions demonstrate that the news of the class action's death has been greatly exaggerated. Rather, of the five decisions where district courts have had the opportunity to reconsider their decisions in light of *Dukes*, only one has decertified a class, and even in that case the court's previously-expressed reservations about the quality of the class-wide evidence were borne out by later developments. However, it is worth noting that none of these decisions involved nationwide classes like *Dukes*, suggesting that while the fate of the nationwide class action still remains unclear, jurisdiction-specific class actions have been unaffected. The first decisions that have grappled with *Dukes* have thus shown that as long as plaintiffs can make a convincing showing of commonality—the glue that is the essence of any class action—then the class action mechanism will operate unabated.

The Unanimous Court's Silent Revolution

If there is one area in which *Dukes* has provoked a reaction among the district courts, it is not the holding of the 5-4 Scalia majority regarding the commonality element under Rule 23(a)(2), but rather the Court's unanimous holding regarding "incidental" monetary damages under Rule 23(b)(2). Both the majority and the dissent agreed that "at a minimum, claims for *individualized* relief (like the backpay at issue here) do not satisfy [Rule 23(b)(2)]." *Dukes*, 131 S. Ct. at 2557; *see also id.* at 2561 (Ginsburg, J., concurring in part and dissenting in part) ("The class in this case, I agree with the Court, should not have been certified under [Rule] 23(b)(2)."). This holding has had a profound effect on how courts interpret Rule 23(b), and likely represents *Dukes*' most lasting imprint on the law of class actions.

The Court's holding that individualized claims for backpay could not be brought under Rule 23(b)(2), in the words of one district court, "reduced to rubble more than forty years of precedent in the Courts of Appeals, which had long held that backpay is recoverable in employment discrimination class actions certified under Rule 23(b)(2)." *City of New York*, 276 F.R.D. at 33. As Judge Garaufis recognized, because backpay claims usually require individual calculations for each class member, "[a]fter [*Dukes*], it is clear that claims for neither backpay nor compensatory damages may be certified for class treatment under Rule 23(b)(2), at least where those claims are more than wholly incidental to the injunctive relief sought by the class." *Id.* Other courts have similarly recognized that by disapproving of the Ninth Circuit's method of "Trial by Formula," *Dukes* did away with one of the few methods left to attach individualized issues with the classwide relief obtained via Rule 23(b)(2). *E.g.*, *Cruz*, 2011 WL 2682967 at *6.

Other district courts have extended *Dukes*' holding beyond the context of backpay claims in employment discrimination cases. In *Aho v. Americredit Financial Services, Inc.*, for example, Judge Sabra applied *Dukes*' Rule 23(b)(2) reasoning to a claim under the Fair Debt Collection Practices Act, which provides for statutory damages up to $500,000, depending on several statutorily-delineated factors. --- F.R.D. ----, 2011 WL 5401799, at *7 (S.D. Cal. Nov. 8, 2011) (discussing 15 U.S.C. § 1692k). Judge Sabra ruled that because "statutory damages are subject to the court's discretion considering the factors listed," the named plaintiff could not show that "any award of statutory damages would flow directly from liability to the class as a whole without the need for resolution of substantial factual issues or individualized determinations." *Id.* *Aho* also

(continued on page 10)

(lead article continued from page 9)

rejected any claim for class restitutionary damages under Rule 23(b)(2), because again "each class member who paid a deficiency paid a different sum, and thus would be entitled to an 'individualized award.'" *Id.* at *8. *Aho*'s holding demonstrates the far-reaching effects of *Dukes*' reasoning, as "individualized" damages issues made the class improper for certification under Rule 23(b)(2). *See also Daskalea v. Wash. Humane Soc.*, 275 F.R.D. 346, 362-63 (D.D.C. 2011) (Kollar-Kotelly, J.) (extending *Dukes*' Rule 23(b)(2) reasoning to Rule 23(b)(1)).

At the same time, some district courts have refined their analyses by certifying two classes, one under Rule 23(b)(2), which is limited to class-wide injunctive relief, and one under Rule 23(b)(3), where the class can be certified so long as questions of law or fact predominate over the class and a class action is a superior vehicle for adjudication. Thus, while Judge McMahon recognized in *Jermyn* that *Dukes* had undercut its prior reasoning on Rule 23(b)(2), she still concluded that class certification was appropriate because "[i]n this case, unlike *Dukes*, a (b)(2) class is not seeking monetary relief, but only an injunction against further statutory violations. It is a separately certified (b)(3) class that seeks money damages." *Jermyn*, 276 F.R.D. at 173-74. And because the New York law at issue provided for both monetary and injunctive relief, Judge McMahon held that "only one liability trial will need to be held to determine the existence *vel non* of the [challenged company policy]." *Id.* at 174; *see also Stone v. Advance America*, No. 08-CV-1549-AJB, 2011 WL 615136 (S.D. Cal. Dec. 12, 2011) (Battaglia, J.) (collecting cases that adopt this "unique type of 'divided certification'"). Cases such as *Jermyn* thus demonstrate one possible evolution in the case law as a result of *Dukes*, though it is unclear whether other courts will continue to adopt this form of dual certification after *Dukes*.

Dukes' *Potential Sequel:* Daubert *and Class Actions*

The five-Justice majority in *Dukes* briefly addressed, but ultimately declined to decide, whether and how the *Daubert* standard applies in the class action context. *Dukes*, 131 S. Ct. at 2553-54. Instead, the Court expressed "doubt" that *Daubert* was wholly inapplicable, and then launched into a pointed critique of the testimony of the ostensible expert, Dr. Bielby. *Id.* at 2554 & n.8 (collecting sociological authority attacking Dr. Bielby's research and methods). Nonetheless, this suggestive dicta has already trickled through the first set of district courts that has interpreted *Dukes*, and has set the stage for a circuit split on the issue.

On one side of the divide are cases such as *Fosmire v. Progressive Max Ins. Co.*, --- F.R.D. ----, 2011 WL 4801915, at *3. (W.D. Wash. Oct. 11, 2011), in which Judge Robart relegated the Supreme Court's "doubt" to mere "dictum." Instead, Judge Robart followed the Eighth Circuit's lead in "reject[ing] the notion that a trial court is required to conduct 'an exhaustive and conclusive *Daubert* inquiry' at the class certification stage," and utilized "'a focused *Daubert* analysis which scrutinize[s] the reliability of the expert testimony in light of the criteria for class certification and the current state of the evidence.'" *Fosmire*, 2011 WL 4801915, at *3 (quoting *In re Zurn Pex Plumbing Prods. Liab. Litig.*, 644 F.3d 604, 613, 614 (8th Cir. 2011)). Relying on decisions he authored prior to *Dukes*, Judge Robart held that at the class certification stage, a district court need only "determine whether [the experts'] opinions tend to show commonality of claims and damages among the class members." *Id.* (quoting *Hovenkotter v. Safeco Ins. Co.*, No. C09–0218JLR, 2010 WL 3984828, at *4 (W.D. Wash. Oct. 11, 2010)). These decisions thus use a relaxed *Daubert* analysis that only examines whether the expert's testimony sheds light on the class certification factors.

On the other side of the divide are cases such as *In re Aftermarket Automotive Lighting Products. Antitrust Litigation*, 276 F.R.D. 364, 370 (C.D. Cal. 2011), in which Judge Wu found the Supreme Court's "doubt" to be a "strong[] indicat[ion] that *Daubert* should be applied to expert testimony at the certification stage of class action proceedings." Following this understanding of *Dukes*, Judge Wu engaged in a lengthy *Daubert* analysis that focused on ten different factors that were potentially relevant to the reliability inquiry. *Id.* at 371-74. Decisions such as *In re Aftermarket* thus apply the full *Daubert* test at the class certification stage, and present a stark contrast to district court decisions such as *Fosmire*. This division among lower courts likely presents an incipient circuit split, with potentially stark implications: it is unclear how many individual plaintiffs (or their law firms) will pay for full expert discovery even before a class is certified. Given the Supreme Court's clear interest in the issue and the first appearances of a circuit split, it is likely that there will be a sequel to *Dukes* before the Supreme Court in the near future. Q

$63.7MM Arbitration Win for Rosen Capital Partners

The firm recently won a FINRA arbitration award of over $80 million, reported to be one of the largest securities arbitration awards of all time, for its client, Rosen Capital Partners, a California-based hedge fund run by its founder, Kyle Rosen. Mr. Rosen started trading stock options when he was 13 years old. He started his own firm in 1999, and its assets grew to about $125 million by mid-2008. By that time Mr. Rosen had earned a reputation as one of the most accomplished and respected options-traders in the nation. In mid-2008, Mr. Rosen moved his funds to Merrill Lynch. Within just weeks of the move to Merrill Lynch, Mr. Rosen's funds were decimated—and Mr. Rosen alleged that those massive losses had resulted from Merrill Lynch's egregious misconduct. Mr. Rosen alleged that, among other things, Merrill Lynch had prevented him from executing his long-tested "delta-neutral" trading strategy and had made improper margin demands, all in violation of Merrill Lynch's clear contractual and legal duties. Merrill Lynch attempted to defend the arbitration by arguing that Mr. Rosen's losses resulted from the financial crisis. Mr. Rosen responded with proof that his trading history and planned, but disallowed, trades demonstrated that his strategy would have survived the market movements but for the wrongful conduct of Merrill Lynch.

After a two-week hearing in May 2011, the arbitration panel found resoundingly and unanimously in Mr. Rosen's favor. The firm obtained an award for Mr. Rosen of $63.7 million, plus 9% interest running from October 7, 2008 until paid, for a total current amount of approximately $80 million. The award has since been confirmed over Merrill Lynch's objections by the Los Angeles Superior Court.

Patent Trial Victory in East Texas

The firm recently obtained a complete victory in a patent infringement case for its client Soverain Software in the Eastern District of Texas following a jury trial involving Soverain's technology for e-commerce sales systems. Soverain's patents are directed to "shopping cart" functionality and order tracking systems that have become the state of the art for retail websites on the Internet. Soverain has successfully licensed its patents to most of the major online retailers in the United States. But the defendants in this case, Avon and Victoria's Secret, decided to fight. At trial, they argued that their accused websites did not infringe the Soverain patents, and that the asserted patents were invalid in light of prior art sales systems. The firm's lean trial team dismantled defendants' defenses piece by piece, and after a five day trial, the jury returned a sweeping verdict in favor of Soverain in less than 90 minutes. The jury found that all three of defendants' accused websites directly infringe all five asserted claims, and that none of the claims was invalid. The jury awarded damages for pre-trial infringement of $9.2 million against Victoria's Secret and $8.7 million against Avon. Soverain's motion for post-trial damages is currently pending.

Trial Victory for Entergy Corporation

The firm recently obtained a significant victory in the District of Vermont for Energy Corporation in a case addressing the boundaries of state authority over nuclear power plants. Following a three-day bench trial, the Court struck down two Vermont statutes that would have prevented the Vermont Yankee Station, a nuclear power plant located in Vernon, Vermont, from operating past March 2012.

Pursuant to the Atomic Energy Act, the U.S. Nuclear Regulatory Commission ("NRC") regulates the radiological safety of nuclear power plants and licenses their operation. Vermont Yankee's original 40-year federal license expires in March 2012, but the NRC has renewed it for 20 years.

When Entergy acquired Vermont Yankee in 2002, it agreed to obtain a Certificate of Public Good from the Vermont Public Service Board for any post-March 2012 operations. In 2006, however, the Vermont Legislature usurped the PSB's authority by enacting a statute that prevented it from voting on Entergy's application for a new certificate unless the Legislature itself first voted to allow the PSB to consider that application. In 2010, the State Senate voted down a bill that would have permitted the PSB to proceed, and, in 2011, Entergy filed a lawsuit against Vermont officials, seeking to invalidate the new statutory scheme.

Entergy maintained that the new scheme had a radiological safety purpose (reflected throughout the legislative record) and was thus preempted under the Atomic Energy, which provides the federal government with exclusive jurisdiction over issues of radiological safety. The Court agreed with Entergy, declaring invalid the statute requiring legislative approval for continued operation of Vermont Yankee, as well as a similar statute related to nuclear waste storage. The Court also found that Vermont's practice of requiring Vermont Yankee to provide Vermont utilities with a below-market price for power as a condition of renewing the state certificate violated the Dormant Commerce Clause. As a result of this decision, the PSB is permitted to issue Vermont Yankee a certificate for continued operations. Q

quinn emanuel
865 South Figueroa Street, 10th Floor, Los Angeles, California 90017

PRESORTED
STANDARD
U.S. POSTAGE
PAID
PERMIT NO. 4338
INDUSTRY, CA

business litigation report

quinn emanuel urquhart & sullivan, llp

Published by Quinn Emanuel Urquhart & Sullivan, LLP as a service to clients and friends of the firm. It is written by the firm's attorneys. The Noted with Interest section is a digest of articles and other published material. If you would like a copy of anything summarized here, please contact David Henri at 213-443-3000.

- We are a business litigation firm of more than 600 lawyers — the largest in the world devoted solely to business litigation.
- As of February 2012, we have tried over 1460 cases, winning over 91% of them.
- When we represent defendants, our trial experience gets us better settlements or defense verdicts.
- When representing plaintiffs, our lawyers have garnered over $15 billion in judgments and settlements.
- We have won five nine-figure jury verdicts in the last ten years.
- We have also obtained eight nine-figure settlements and five ten-figure settlements.

Prior results do not guarantee a similar outcome.

LOS ANGELES
865 S. Figueroa St., 10th Floor
Los Angeles, CA 90017
213-443-3000

NEW YORK
51 Madison Ave., 22nd Floor
New York, NY 10010
212-849-7000

SAN FRANCISCO
50 California St., 22nd Floor
San Francisco, CA 94111
415-875-6600

SILICON VALLEY
555 Twin Dolphin Dr., 5th Floor
Redwood Shores, CA 94065
650-801-5000

CHICAGO
500 West Madison St., Suite 2450
Chicago, IL 60661
312-704-7400

WASHINGTON, D.C.
1299 Pennsylvania Avenue NW, Suite 825
Washington, DC 20004
202-756-1950

TOKYO
NBF Hibiya Bldg., 25F
1-1-7, Uchisaiwai-cho, Chiyoda-ku
Tokyo 100-0011,
Japan
+81 3 5510 1711

LONDON
16 Old Bailey,
London EC4M 7EG,
United Kingdom
+44 0 20 7653 2000

MANNHEIM
Mollstraße 42
68165 Mannheim,
Germany
+49 (0) 621 43298 6000

MOSCOW
Voentorg Building, 3rd floor
10 Vozdvizhenka Street
Moscow 125009
Russia
+7 495 797 36 66