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ITC Treatment of IPR Decisions

The International Trade Commission ("ITC") is a fast-paced venue for claims involving intellectual property rights. These claims, adjudicated as Section 337 investigations, typically reach trial less than ten months after the initial complaint. Because the overwhelming majority of Section 337 investigations involve allegations of patent infringement, it is important for practitioners to understand the interplay between the ITC and another fast-paced patent adjudication vehicle—the inter partes review ("IPR") proceeding conducted by the Patent Trial and Appeal Board ("PTAB").

An IPR is unique in that it adjudicates only the patentability of an issued patent, not whether any party's patent rights have been infringed. The PTAB has the statutory power to cancel a patent (or certain patent claims) that it deems invalid over prior art patents and publications. 35 U.S.C. § 311(b). In light of this power, patents asserted in the ITC are often concurrently challenged via IPR. When this is the case, what deference does the ITC pay to the IPR decisions?

There are two key milestones in an IPR proceeding that have bearing on a concurrent Section 337 investigation: (1) the PTAB's decision to institute the IPR, and (2) the PTAB's issuance of

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INSIDE

Philippe Pinsolle Appointed Senior Vice-Chair of the 2019 International Bar Association Arbitration Committee

Partner Philippe Pinsolle has been appointed as Senior Vice-Chair of the 2019 IBA Arbitration Committee. Mr. Pinsolle will be Co-Chair of the Arbitration Committee in 2020 and become Senior Co-Chair in 2021. The IBA Arbitration Committee is the largest committee within the IBA and is regarded as one of the most important organizations in international arbitration. The Committee works to enhance the value of international arbitration and promote its use through its conferences, developments, and publications. Mr. Pinsolle is head of the firm's International Arbitration practice for continental Europe. Q

Law360 Names Six Partners 2018 "MVPs of the Year"

Law360 has named six of the firm's partners 2018 "MVP's of the Year" in their practice areas. The publication's annual list recognizes exemplary individuals who have achieved incredible levels of success. The Quinn Emanuel partners named MVPs are as follows: William Burck – White Collar; Jane Byrne – Insurance; Susheel Kirpalani – Bankruptcy; Victoria Maroulis – Telecommunications; Anthony Sinclair – International Arbitration; and Charles Verhoeven – Intellectual Property. Q

DOJ Fraud Chief Sandra Moser Joins the Firm

The firm is pleased to announce that Sandra Moser has joined the firm as a partner in the Washington, D.C. office. Ms. Moser, a 12-year veteran of the U.S. Department of Justice, has for the last two years been in charge of the Fraud Section of the Crime Division. As its chief and and in prior roles at the Fraud Section, Ms. Moser oversaw enforcement of economic crimes and white collar crimes, including securities fraud, health care fraud, opioid related cases and complex cross-border matters. Q an IPR "final written decision" canceling a patent or patent claims. The ITC has traditionally treated each of these milestones very differently.

Because of the speed at which a Section 337 investigation proceeds, IPRs have historically had little impact on the schedule of Section 337 investigations. This is especially true for IPRs that have hit the first milestone but yet to reach the second. In fact, the ITC has ***never*** stayed a Section 337 investigation based on a pending IPR—meaning an IPR that has been instituted but has yet to reach a final written decision. In denying motions to stay, ITC Administrative Law Judges ("ALJs") often point to the statutory mandate that ITC investigations conclude "at the earliest practicable time" after an investigation is initiated. Because it generally takes 18 months from the filing of an IPR petition to the issuance of a final written decision, staying an Section 337 investigation based on a pending IPR runs contrary to that mandate. The ITC's indifference to pending IPRs is an important contrast to federal district court patent cases, which are often stayed based on pending IPRs.

Once the PTAB issues a final written decision, however, that final decision could deeply impact a Section 337 investigation. These investigations consist of two primary phases: the violation phase (starting with discovery and concluding with the ALJ's issuance of an initial determination) and the remedy phase (starting after the ALJ's issuance of an initial determination and concluding with the Commission's final disposition of the investigation or the expiration of remedial relief). Recent developments at the ITC make clear that an IPR final written decision could, in certain circumstances, impact either phase.

In August 2018, for the first time ever, the ITC stayed a ***violation-phase*** Section 337 investigation based on an IPR final written decision. The groundbreaking order was issued by Chief ALJ Bullock in *Certain Integrated Circuits with Voltage Regulators and Products Containing Same*, Inv. No. 337-TA-1024. Order No. 55. Although a violation-phase Section 337 investigation had never before been stayed based on an IPR, the order likely does not suggest any policy shift by the ITC. Indeed, the 1024 investigation involved an unusual set of circumstances (briefly summarized below) resulting in numerous delays that ultimately pushed the ITC schedule far behind that of the IPR schedule. The other rarity is that all parties (the complainant, the respondents, and the Office of Unfair Import Investigations ("OUII")) supported the stay.

As for the unusual circumstances of the 1024 investigation: The evidentiary hearing was originally scheduled to begin on July 24, 2017. Order No. 5. On July 6, 2017, Judge Bullock canceled the July hearing date due to a medical issue. Notice Regarding the Evidentiary Hearing. The hearing was ultimately rescheduled for November 2017. Order No. 43. Then, in October 2017, Judge Bullock granted the respondents' motion for summary determination of non-infringement on the lone asserted patent. Order No. 46. This order effectively paused the violation phase of the investigation. The complainant petitioned the Commission to review Judge Bullock's order, and in February 2018, the Commission remanded the case back to Judge Bullock for further consideration. Comm'n Order (Feb. 20, 2018). Discovery was also reopened, and the hearing was reset for April 2019. Order No. 54. But long before the scheduled April hearing date, on July 31, 2018, the PTAB issued an IPR final written decision invalidating the lone patent asserted in the investigation. In light of that decision, the respondents promptly moved to stay the investigation pending any appeal of the decision to the Federal Circuit. Both the complainant and OUII filed responses supporting the motion to stay.

In granting the motion, Judge Bullock noted that while "stays of section 337 investigations are generally disfavored, it is clear from the Commission's opinions that stays in section 337 investigations *are* permissible." Order No. 55 at 6 (emphasis in original). He further found that the 1024 "Investigation presents a clear example of when a stay is in the best interest," as all "private parties all believe that judicial economy favors a stay, and [OUII] is not opposed," and "the factors present in other investigations—such as a soon-to-expire patent or being at an advanced stage of the investigation combined with being at the initial stages of reexamination—are not present here." *Id.*

Given the rare circumstances and the language of Judge Bullock's stay order, it is unlikely that the 1024 investigation represents any shift in the ITC's longstanding policy of disfavoring stays of Section 337 cases. The 1024 investigation does, however, show that it is possible to obtain a stay of an investigation that is still in its violation phase.

Like the violation phase, the remedy phase of a Section 337 investigation can be impacted by an IPR final written decision. Specifically, a concluded IPR finding a patent unenforceable can potentially cause the ITC to suspend enforcement of remedial relief. Two recent ITC cases provide a roadmap as to how the ITC is likely to treat remedial relief after the PTAB issues an IPR final written decision.

First, the very scenario of the ITC suspending enforcement of remedial relief based on an IPR final written decision occurred in *Certain Three Dimensional Cinema Systems and Components Thereof*, Inv. No. 337-TA-939. Prior to the Commission's suspension of the issued remedial relief in that case, the ITC had never stayed or suspended its own activities in response to an IPR. In the 939 investigation, five months after the ALJ issued an initial determination finding a Section 337 violation based on infringement of the asserted '934 patent—but before the Commission reviewed the ALJ's determination or issued any remedial relief—the PTAB issued an IPR final written decision finding the '934 patent invalid. Three months ***after*** the PTAB decision, the Commission affirmed the ALJ's finding that the '934 patent was ***not*** invalid. Comm'n Op. (July 21, 2016). Despite confirming its disagreement with the PTAB on the validity of the '934 patent, the Commission nevertheless suspended enforcement of the remedial relief it issued, pending any appellate review of the PTAB decision. The Commission noted that "upon final resolution, including any appeal of the PTAB's final decision, the Commission will take appropriate action as to the '934 patent claims." *Id.* at 61.

The second roadmap case (*Certain Network Devices, Related Software and Components Thereof (II)*, Inv. No. 337-TA-945) concluded after the 939 investigation and took an opposite approach—ultimately holding that the IPR final written decision at issue ***did not*** suspend enforcement of the ITC's remedial relief. There, the Commission issued remedial relief (based on infringement of two patents) just three weeks ***before*** the PTAB issued a final written decision finding those same two patents invalid. Comm'n Op. (May 4, 2017). Despite the PTAB's decision, the Commission denied the respondent's requests to suspend enforcement of the already issued remedial relief. Comm'n Op. (July 25, 2017); Comm'n Op. (Sept. 11, 2017). The Commission reconciled its directive here with the one it made in the 939 investigation by distinguishing the cases on two key grounds: (1) here, the remedial relief had already been issued by the time the PTAB issued its final written decision, whereas in the 939 case, no remedial relief had been issued at the time of the PTAB's final written decision; and (2) here, suspension would require remedial relief to be completely denied while the PTAB decision undergoes the appeal process, whereas in the 939 case, the suspension of remedial relief applied to only one patent (the '934 patent) out of the three patents on which the ITC had found a Section 337 violation, so relief was not completely denied. *See* Comm'n Op. at 13-14 (July 25, 2017); Comm'n Op. (Sept. 11, 2017) at 9 n.8.

It also bears mention that a patent is valid during appeal of an IPR final written decision. 35 U.S.C. § 318(b) (stating that the PTAB will not issue a certificate of cancellation until all appeals are exhausted or the time for appeal has expired); *see also Certain Network Devices*, Comm'n Op. at 12 (July 25, 2017) ("By contrast, the Federal Circuit has explained that a finding of invalidity by a federal district court has immediate preclusive effects upon the continued vitality of Commission remedial orders.").

Taken together, the 1024, 939, and 945 holdings suggest that in the right circumstances—*e.g.*, an IPR final written decision that issues ***before*** the ITC issues remedial relief—the ITC may use its discretion to pause a Section 337 investigation, including the enforcement of any subsequently issued remedy. But aside from these narrow sets of circumstances, the ITC does not appear likely to stay either its case schedule or any issued remedial relief. Q

Aliki Sofis Promoted to Partner in Boston

The firm has promoted Aliki Sofis to partner based in Boston. Ms. Sofis is an experienced trial lawyer who represents clients in many industries, including finance, energy, and retail. She also served as a Special Assistant District Attorney for Middlesex County in 2014. Ms. Sofis received her J.D. from Boston College Law School, and her B.A. *magna cum laude* in Philosophy and Political Science from Providence College. Q

Lessons Learned from the Frontlines of #MeToo

Win the public relations battle. Winning the public relations battle is the most critical aspect of the dispute and makes resolving any potential legal claims far easier. The advice you receive from a public relations firm must be carefully vetted for its legal implications and compliance with disclosure obligations. Communications with a public relations firm are almost certainly not privileged as attorney-client communications would be.

Reserve judgment. In today's climate, where the accused are often convicted in the court of public opinion before a legal complaint is ever filed, organizations are often pressured to immediately side with the accuser. However, taking this stance from the outset, when the facts are not yet (and may never be) clear, may slant internal investigations, limit strategic options in the legal actions to come, and ultimately be detrimental to the public relations battle.

Be careful making pledges of transparency. It is tempting at the beginning of a crisis to pledge "transparency". Pledging transparency without knowledge of liability or damages may not be a realistic goal either in internal or external communications and may harm litigation defenses. Further, disclosing the results of an independent investigation publicly may waive attorney-client privilege over the investigation. Strive instead to disseminate accurate information as the facts and circumstances of the case require.

Don't disparage the accuser. In an effort to win the public relations battle, particularly in situations involving time-barred claims, lawyers and clients sometimes disparage the accuser. Some courts have found public denials of otherwise time-barred allegations are defamatory and may be the basis for a separate defamation claim where the ultimate issue to be tried is the truth or falsity of the misconduct. No matter the circumstances, treat accusers with respect, even if you dispute their claims.

Getting to the truth is difficult. Individuals accused of sexual misconduct usually resist admitting to it—especially if they are married. Likewise, employees and executives interviewed during internal investigations may be reluctant to provide truthful information about the conduct of senior executives or company culture. Finding the truth may sometimes require closely examining all sources, including text messages, disappearing messaging apps, social media profiles, and personal and work-related emails. It also requires deft and sensitive interviewing techniques that foster candor from witnesses. Never assume the truth or falsity of any allegations or facts, and plan on continually evaluating the facts as reported by all parties involved (including witnesses) several times as new information is discovered.

Assess before settling. The first instinct when faced with a damaging sexual misconduct allegation may be to settle, and settle quickly. But if multiple claims are a possibility, settling with one accuser for a significant amount may encourage more allegations and set a high bar for future payouts.

Do not assume that a settlement will remain confidential. Organizations and individuals often settle to avoid public dissemination of allegations—regardless of whether they are founded. But new legislation may make confidentiality unenforceable. For example, a California law effective January 2019 prohibits confidential settlements of sexual discrimination and sexual harassment allegations. Moreover, even settlements covered by valid confidentiality agreements may be leaked. Make sure any settlement agreement contains information supportive of your position so that there is a disincentive for improper disclosure.

Individual's interests usually won't be aligned with the organization's. When an executive is accused of sexual misconduct, our experience is that the organization has different interests and takes a different tack than the individual. While an organization usually wants allegations behind it, the accused often wants to clear his or her name, often through litigation. The organization may exert tremendous leverage over the accused individual by threatening to withhold defense costs and indemnification.

In valuing claims, consider using focus groups rather than relying on perceived public opinion or prior awards. When valuing claims, companies and attorneys may look to media reports and public reaction to those reports. Particularly in class actions or situations where there are numerous claimants, we have found that focus groups comprised of individuals with similar demographics as class members provide data points useful for assessment of claims. For the same reason, do not place a heavy value on what claimants have been awarded in other cases—no two #MeToo cases are alike.

Managers who do not intervene to stop known sexual harassment face serious risk too. It is not only accused individuals who face liability. Other executives and employees who are on notice of inappropriate behavior and do nothing to stop it are likely to lose their jobs as well.

A prompt corporate response to allegations is key. Although corporations are often concerned about corporate liability and stock drops resulting from allegations of misconduct, risk of liability to corporations is small so long as the company promptly responds when it learns of alleged misconduct.

The statute of limitations is not a defense in the court of public opinion. Many #MeToo allegations relate to misconduct that would be barred by the statute of limitations if brought in a civil or criminal complaint. But companies and the public are concerned about executive misconduct if allegations of misconduct are credible, serious, and, perhaps most importantly, relate to a pattern of behavior.

The past is never past. Executives invited to become board members, as well as political appointees and others being considered for high-ranking positions, are increasingly being asked specifically whether they have ever been accused of harassment or whether they have ever settled such a claim.

Consider changes to employment contracts. Historically, and by statute, certain executives' financial benefits such as stock vesting and severance payments have been protected by a high bar for "for cause" terminations. Some companies are revising employment contracts to give the company the flexibility to terminate an executive "for cause" if the executive has engaged in sexual misconduct.

Consider international perceptions of #MeToo. While #MeToo has gained significant traction in the United States, it has not made as clear inroads in other nations. Understanding the cultural perceptions of the #MeToo movement in a given country is critical to developing an effective defense strategy. Q

PRACTICE AREA NOTES

Life Sciences Litigation Update

Federal Circuit Provides Certainty Regarding Patent Term Extensions and Clarifies Limits of Obviousness-Type Double Patenting. In *Novartis AG v. Ezra Ventures, LLC*, 909 F.3d 1367 (Fed. Cir. 2018), the Court of Appeals for the Federal Circuit issued a widely-anticipated decision concerning the interplay between a patent term extension ("PTE") granted pursuant to 35 U.S.C. § 156 and obviousness-type double patenting – a judicially created doctrine that precludes a patentee from extending the statutorily defined patent term for a single invention with claims in a later-expiring patent that are the same or an obvious modification of the claims in an earlier-expiring patent. The Court held that obviousness-type double patenting does not invalidate an otherwise validly obtained PTE under § 156.

Section 156 is part of the Drug Price Competition and Patent Term Restoration Act of 1984 (the "Hatch-Waxman Act") and was enacted to restore the value of the patent term that a patent owner loses during the early years of the patent because the product cannot be commercially marketed without approval from a regulatory agency, such as the Food and Drug Administration ("FDA"). Pub. L. No. 98-417, 98 Stat. 1585, 1598. Section 156 provides for a term extension of up to five years, equal to the regulatory review period, on a patent covering a product subject to regulatory review. *See* 35 U.S.C. §§ 156(a), (c), (g)(6). The term of only one patent can be extended, even if a patent owner owns more than one patent covering the same product that has been subject to regulatory review. *See* 35 U.S.C. § 156(c)(4). Under the statute, the patent owner is permitted to make a choice among any of its qualifying patents. *Merck & Co. v. Hi-Tech Pharmacal Co.*, 482 F.3d 1317, 1323 (Fed. Cir. 2007).

Novartis owned at least two patents covering its multiple sclerosis drug Gilenya® that could qualify for PTE under § 156(a). *Novartis*, 909 F.3d at 1369-70. Novartis chose to apply for PTE on its first patent – U.S. Patent No. 5,604,229 ("the '299 patent") – directed to various compounds, including fingolimod, the active ingredient in Gilenya®. *Id.* at 1370. With the PTE, the '299 patent expires on February 18, 2019. *Id.* The second Novartis patent – U.S. Patent No. 6,004,565 ("the '565 patent") – is directed to methods of administering fingolimod and expired on September 23, 2017. *Id.*

Ezra filed an Abbreviated New Drug Application ("ANDA") seeking to market a generic version of Gilenya® before expiration of the '229 patent. *Id.* at 1369. In response, Novartis filed an action for infringement of the '229 patent in the District of Delaware. *Id.* Ezra moved for judgment on the pleadings that the '229 patent was invalid or otherwise terminally disclaimed for the patent term past the expiration date of the unasserted '565 patent. *Id*. at 1370. The district court denied Ezra's motion. *Id*. In an unanimous decision, the Federal Circuit affirmed. *Id*. at 1375. The Court explained that Section 156 "recognizes that a patent owner may own multiple patents relating to a product, a method of using that product, and/or a method of manufacturing the product," and "nothing in the statute restricts the patent owner's choice for patent term extension among those patents whose terms have been partially consumed by the regulatory review process." *Id*. at 1372.

The Federal Circuit rejected Ezra's argument that Novartis violated the requirement under § 156(c)(4) that only "one patent be extended." *Id*. According to Ezra, Novartis obtained a term extension for two patents – *i.e*., the PTE for the '229 patent "effectively" extended the '565 patent term as well, because the '229 patent covers a compound necessary to practice the methods claimed by the '565 patent. *Id*. The Federal Circuit concluded, however, that "there is no reason to read 'effectively' as a modifier to 'extend' in the language of § 156(c)(4)." *Id*. at 1372. Likewise, "nothing in the text, structure, or history of § 156" imposes a requirement on patent owners to ensure that no more than one patent is "effectively" extended. *Id*. In fact, "Congress chose not to limit the availability of a patent term extension to a specific patent and instead chose 'a flexible approach which gave the patentee the choice.'" *Id*. (quoting *Merck*, 482 F.3d at 1323). Thus, the Court concluded that Novartis' selection of its '229 patent for term extension did not violate § 156(c)(4). *Id*. "That the method of the '565 patent cannot be practiced during the '229 patent's extended term is a permissible consequence of the legal status conferred upon the '229 patent by § 156." *Id*.

Next, the Federal Circuit considered "the question of whether the '299 patent is invalid due to obviousness-type double patenting because the term extension it received causes the '299 patent to expire after Novartis's allegedly patentably indistinct '565 patent." *Id*. The Court concluded "as a logical extension" of the holding in *Merck & Co. v. Hi-Tech Pharmacal Co.* that obviousness-type double patenting does not invalidate a validly obtained PTE in such a scenario. *Id*. In *Merck*, the Court found that "a straightforward reading of § 156 mandates a term extension so long as the other enumerated statutory requirements for a PTE are met." *Id*. (citing *Merck*, 482 F.3d at 1321-22). Applying that reasoning here, the Federal Circuit concluded that "if a patent, under its pre-PTE expiration date, is valid under all other provisions of law, then it is entitled to the full term of its PTE." *Id*. at 1374.

The Federal Circuit was not persuaded by Ezra's policy arguments. *Id*. at 1374-75. As the Court explained, this case does not present the concerns for potential gamesmanship during prosecution that drove earlier decisions regarding obviousness-type double patenting. *Id*. (citing *Gilead Sciences, Inc. v. Natco Pharma Ltd*., 753 F.3d 1208 (Fed. Cir. 2014) and *Abbvie Inc. v. Mathilda & Terence Kennedy Institute of Rheumatology Trust*., 764 F.3d 1366 (Fed. Cir. 2014)). Further, the Court explained that obviousness-type double patenting is a "judge-made doctrine" that is intended to prevent extension of a patent beyond a "statutory time limit." *Id*. at 1375. Here, the Court found that agreeing with Ezra would mean that a judge-made doctrine would cut off a statutorily-authorized time extension, which the Court declined to do. *Id*.

Bankruptcy Litigation Update

Can Equity Investors or Creditors Prevent a Debtor from Filing for Bankruptcy – Two Recent Circuit Level Decisions Shed Some Light. Federal bankruptcy law generally governs who is eligible to file for bankruptcy. *See* 11 U.S.C. § 109. Assuming a debtor is eligible, any purported waiver of the right to file is generally unenforceable as a matter of federal bankruptcy policy. *See, e.g*., *Bank of China v. Huang (In re Huang)*, 275 F.3d 1173, 1177 (9th Cir. 2002). But while this rule is straight-forward for individuals, it raises complicated questions for corporations and other business entities. This is because of another, well-established principle of federal bankruptcy law—while federal law governs whether a company is eligible to file for bankruptcy, state law governs who has the authority to file a voluntary bankruptcy petition on behalf of the company. *Price v. Gurney*, 324 U.S. 100, 106-07 (1945).

Creditors have attempted to use state-law rules of corporate governance to effectively render their borrowers ineligible for bankruptcy. This has included requiring a borrower to include in its operating agreement or charter (i) an outright prohibition on filing for bankruptcy, or (ii) approval mechanisms that require the creditor's (or someone loyal to it) consent to a filing through its vote as a member, shareholder, or director. Although a few courts have upheld these structures, *see, e.g*., *DB Capital Holders, LLC v. In re DB Capital Holdings, LLC v. Aspen HH Ventures, LLC (In re DB Capital Holdings, LLC)*, 2010 WL 4925811 (10th Cir. BAP 2010), more often than not they have not been enforced if implemented at the behest of a creditor. *See, e.g.*, *In re Intervention Energy Holdings, LLC*, 553 B.R. 258 (Bankr. D. Del. 2016), *In re Bay Club Partners–472, LLC*, 2014 WL 1796688 (Bankr. D. Or. 2014).

A recent Circuit court case sheds some further light on the circumstances in which a creditor or investor can restrict a debtor's right to file for bankruptcy protection through provisions in the debtor's organic corporate documents. *See In re Franchise Services of North America, Inc.*, 891 F.3d 198 (5th Cir. 2018) ("*FSNA*"). A second case illustrates an alternative path that may be available in some cases—seeking the appointment of a receiver who can wrest authority to file away from the debtor's existing board or management. *See In re Sino Clean Energy, Inc.*, 901 F.3d 1139 (9th Cir. 2018) ("*Sino Clean Energy*").

***In re Franchise Services of North America, Inc.*, 891 F.3d 198 (5th Cir. 2018)**. In *FSNA*, the Fifth Circuit held that a shareholder could exercise its approval rights to prevent a corporation from filing for bankruptcy, even though that shareholder was controlled by a creditor of the company. The debtor in that case ("Franchise") was a rental car company that had sought to expand its business by buying Advantage Rent a Car. Franchise retained an investment bank ("Macquarie"), which in turn created a subsidiary ("Boketo") to invest $15 million in Franchise in exchange for 100% of Franchise's preferred stock. As a condition of Boketo's investment, Franchise reincorporated in Delaware, and adopted a new certificate of incorporation that provided that it could not file for bankruptcy unless it had approval of the holders of a majority of the preferred shares (*i.e.* Boketo).

Franchise's acquisition of Advantage was ill-fated. Advantage filed for chapter 11 bankruptcy within a year, and Franchise followed a couple of years later. Franchise did not, however, obtain Boketo's approval of its chapter 11 filing—notwithstanding the requirement in its certificate of incorporation. At the time, Macquarie was an unsecured creditor of Franchise that was allegedly owed $3 million in unpaid transaction fees.

Boketo and Macquarie moved to dismiss Franchise's chapter 11 case on the ground that the bankruptcy petition was filed without corporate authority. In response, Franchise argued, among other things, that (i) the blocking provision was an invalid bankruptcy restriction contrary to federal bankruptcy policy, (ii) the blocking provision was unenforceable under Delaware law, and (iii) Boketo's fiduciary obligations as a controlling minority shareholder prevented it from blocking Franchise from filing for bankruptcy.

The Fifth Circuit held that "[f]ederal law does not prevent a bona fide shareholder from exercising its right to vote against a bankruptcy petition just because it is also an unsecured creditor." *FSNA*, 891 F.3d at 203. That is true even if the shareholder does not owe any fiduciary duties to the debtor. *Id.* at 209. Although federal law authorizes corporations to file for bankruptcy, it does not specify who has the authority to decide whether the corporation should file: "the issue of corporate authority to file a bankruptcy petition is left to state law." *Id.*

The court rejected Franchise's arguments that (1) Macquarie used Boketo to make a $15 million equity investment so that Macquarie could hedge on its ability collect on its $3 million invoice, and (2) Boketo was trying to force Franchise to draw on a $7.5 million line of credit. *Id.* at 209 & n.8. The court, however, was careful to note that it was only considering the case before it, *i.e.,* one in which the equity investment made by the shareholder at issue was $15 million and the debt just $3 million. The court suggested that the result may be a different in a case where "a creditor with no stake in the company held the right" to block a bankruptcy, or where "there was evidence that a creditor took an equity stake simply as a ruse to guarantee a debt." *Id.* at 203 n.1, 209. The court did not decide whether, as a general matter, a provision in a corporate charter granting a creditor a blocking right is enforceable, but cited several cases that have held such provisions to be unenforceable. *Id.*at 207.

Turning to the applicable state law (that of Delaware), the Fifth Circuit declined to resolve whether the shareholder consent provision in Franchise's articles of incorporation violated Delaware law, because Franchise waived any such argument on appeal. The court did note, however, that "the parties have not identified, and we have not discovered, any on-point Delaware cases." 891 F.3d at 198.

Lastly, the Fifth Circuit held that Boketo did not owe any fiduciary duties, including a duty to consent to the bankruptcy filing. Boketo was a minority shareholder (its preferred stock was convertible to 49.67% of the total equity), and under Delaware law, minority shareholders only owe fiduciary duties if they are "controlling." Franchise argued that Boketo's right to veto the bankruptcy rendered Boketo a controlling shareholder. The court disagreed, applying the "actual control" test under Delaware law. The court reasoned that Boketo held only two of the five board seats, and the "very fact that Boketo had to resort to filing a motion to dismiss the bankruptcy petition . . . only emphasizes its inability to control [Franchise]." *Id.* at 213. Because Boketo did not exercise actual control, it did not owe fiduciary duties that might have been violated in not allowing Boketo to file its voluntary petition. The Fifth Circuit noted however, that if Boketo were a controlling shareholder, the proper remedy for breach of fiduciary would be bringing a breach of fiduciary duty claim against Boketo; the remedy would ***not*** be to allow Franchise to violate its charter by declaring bankruptcy with the requisite shareholder consent.

The Fifth Circuit's ruling in *FSNA* shows that federal bankruptcy law does not prevent a *bona fide* equity holder from exercising its voting rights to prevent the corporation from filing a voluntary bankruptcy petition, just because it is also a creditor. But there could be a different result if the equity holder's principal interest was that of a creditor, or if there was evidence that the creditor took an equity stake simply to facilitate repayment of its debt.

***In re Sino Clean Energy, Inc.*, 901 F.3d 1139 (9th Cir. 2018).** In *Sino Clean Energy*, the Ninth Circuit outlined another way that creditors or investors may be able to prevent a corporation from filing for bankruptcy: through the appointment of a receiver. The Ninth Circuit held that a company's board of directors lacked authority to file a bankruptcy petition for the company after the directors had been removed by a state-court appointed receiver for nonfeasance and gross mismanagement.

The debtor had been under control in major part by its former chairman and CEO. Starting in 2011, the debtor became the subject of legal controversy. The Securities and Exchange Commission deregistered the debtor after it abruptly stopped filing required forms and financial information, and trading in the debtor's stock was suspended. A group of forty-three shareholders then filed a Nevada state-court petition in an attempt to acquire financial information from the debtor. After more than a year of the debtor's disregard of the Nevada state-court action, the plaintiffs filed for entry of default, which the state court granted. A few months later, the shareholder plaintiffs moved for the appointment of a receiver. Finding that the debtor's board of directors failed to properly manage the debtor's affairs, the state court appointed a receiver and granted him the power to reconstitute the board of directors, which he did by replacing all of the directors.

The former chairman and CEO then purported to "reconstitute" the former board of directors, and thereafter purported to file a voluntary petition for chapter 11 bankruptcy on behalf of the debtor. The bankruptcy court dismissed the chapter 11 case, holding that at the time the petition was filed by the former board members, the petition was filed without corporate authority because the board of directors had been replaced by the receiver. The district court and Ninth Circuit both affirmed.

The Ninth Circuit held that "[s]tate law determines who has authority to file a voluntary bankruptcy petition on behalf of a debtor." 901 F.3d at 1141. The relevant Nevada statute provides that "[u]nless the articles of incorporation or the bylaws provide for a greater or lesser proportion, a majority of the board of directors of the corporation then in office … is necessary to constitute a quorum for the transaction of business, and the act of directors holding a majority of the voting power of the directors … is the act of the board of directors." *Id.* (quoting Nev. Rev. Stat. § 78.315). Applying Nevada law, the Ninth Circuit found that the individuals who filed the bankruptcy petition were not members of the board of directors of the corporation at the time of filing, and thus they were not authorized to file a bankruptcy petition on behalf of the debtor. The corporation was able to file for bankruptcy through valid filings made by its current eligible board of directors. The Ninth Circuit suggested, however, that the result might be different if a state court purported to enjoin a bankruptcy filing entirely. *Id.* at 1142.

The utility of seeking a receiver to prevent bankruptcy may be limited, because in most cases the debtor's existing management would be able to act before they are divested of authority. But as *Sino Clean Energy* demonstrates, that is not always the case. And *Sino Clean Energy* further underscores the importance of state law in determining who decides whether a corporation files for bankruptcy.

Product Liability Litigation Update

***"No Valid Distinction": New York Court of Appeals Extends "Scientific Expression" Requirement to Asbestos Plaintiffs in* Juni.** 2018 was a difficult year for manufacturers of cosmetic talcum powder. This past summer, Johnson & Johnson suffered a crushing loss, as a St. Louis jury awarded $4.69 billion to a group of plaintiffs who alleged their ovarian cancer was caused by baby powder containing asbestos. Daniel Siegal, *J&J Hit with $4.69B Verdict in 22-Woman Talc Cancer Trial*, *Law360* (July 12, 2018), https://www.law360.com/articles/1062771/j-j-hit-with-4-69b-verdict-in-22-woman-talc-cancer-trial (last visited Jan. 19, 2019). However, the year ended on a high note, as the New York Court of Appeals at long last weighed in on an important question: whether plaintiffs alleging asbestos-related illness, as opposed to illness caused by another toxin, must demonstrate that they were exposed to an amount of asbestos known to cause disease. The Court of Appeals in *Juni* answered in the affirmative, a step toward achieving parity between asbestos-litigation defendants and defendants in other toxic-tort litigation.

Ten years after the first wave of asbestos-in-talc litigation began in 2008, there are thousands of active cases in courts across the U.S., with more being filed each week. These cases often become a so-called battle of the experts, with plaintiffs' experts testifying that talcum powder manufactured by defendants contains asbestos, and that plaintiffs' use of that talcum powder, without qualification, causes cancer. Setting aside the lack of scientific evidence supporting either of those propositions, plaintiffs—such as those in the Johnson & Johnson ovarian cancer case—have been able to circumvent the general requirement in toxic tort cases that specific causation be proven by a showing that a particular plaintiff was exposed to an amount of toxin actually capable of causing the plaintiff's alleged injury. Plaintiffs' experts instead typically rely on a "cumulative exposure" theory, testifying that each and every exposure to asbestos over one's lifetime increases the risk of developing an asbestos-related illness, regardless of the dose of asbestos received from any particular exposure. Under such a theory, plaintiffs essentially need only create a jury question of whether they were exposed to asbestos at all, significantly lowering their burden of proof regarding causation. Dr. Jacqueline Moline, a causation expert who testified in the Johnson & Johnson case and in countless other asbestos-in-talc cases, espouses this theory. John Sammon, *Expert witness discusses link to asbestos in ovarian cancer in Johnson & Johnson talc trial*, *Law360* (Jan. 18, 2019) https://stlrecord.com/stories/511468463-expert-witness-discusses-link-to-asbestos-in-ovarian-cancer-in-johnson-johnson-talc-trial (last visited Jan. 19, 2019).

Before talc litigation had picked up much speed, the New York Court of Appeals rejected the cumulative exposure theory as insufficient to demonstrate causation in toxic tort cases, holding that "an opinion on causation should set forth a plaintiff's exposure to a toxin, that the toxin is capable of causing the particular illness (general causation) and that the plaintiff was exposed to sufficient levels of the toxin to cause the illness (specific causation)." *Parker v. Mobil Oil Corp.*, 857 N.E.2d 1114 (N.Y. 2006). *Parker* did not require a precise quantification, or an exact numerical value for exposure, but it *did* require a "scientific expression"—some generally accepted method of demonstrating exposure to a level of toxin sufficient to cause illness.

Parker reigned over a new generation of toxic tort cases, but there remained a question as to whether this "scientific expression" requirement applied to asbestos cases equally. This precise question recently came before the New York Supreme Court, Appellate Division for the First Department in the *Juni* case. *In re New York City Asbestos Litig.*, 148 A.D.3d 233, 240 (N.Y. App. Div. 2017) (*Juni*). In *Juni*, a mechanic alleged that he had contracted mesothelioma after being exposed to asbestos in brakes, clutches, and gaskets manufactured by Ford Motor Company. *Id.* at 235. Plaintiff's experts, including Dr. Moline, asserted that asbestos in these products was the cause of the plaintiff's mesothelioma, but failed to offer any quantification or scientific expression of the amount of asbestos to which plaintiff was allegedly exposed to through Ford's products specifically. The court singled out Dr. Moline's assertion that *all* of the plaintiff's exposures were substantial factors in causing his mesothelioma as "groundless" and "unsupported." *Id.* at 237. The court held that the experts' "broad conclusions on causation lacked a sufficient foundation" and were thus insufficient to establish that Ford's products specifically caused the Plaintiff's mesothelioma. *Id.* at 239-40.

With respect to asbestos cases generally, the court held that a "particular plaintiff" is *not* entitled to judgment against "a particular defendant by merely establishing *some* exposure to a product containing any amount of asbestos." *Id.* "Rather," the court continued, "a plaintiff claiming that a defendant is liable for causing his or her mesothelioma must still establish some scientific basis for a finding of causation attributable to a particular defendant's product." *Id.* There is "no valid distinction," the court held, between the difficulty of establishing exposure to asbestos than exposure to other toxins. *Id.* at 238. Plaintiff petitioned for review of the First Department's decision, and in November 2018, the New York Court of Appeals affirmed the court's order in a short opinion, applying *Parker* and holding that the evidence presented by plaintiff was insufficient as a matter of law. *Matter of New York City Asbestos Litig.*, --N.E.3d--, 2018 WL 6173944 (Mem) (N.Y. 2018).

(continued on page 11)

Victory in ITC

Quinn Emanuel achieved a significant victory for its client Ledman Optoelectronic Co. Ltd. On January 31, 2019, Administrative Law Judge (ALJ) David P. Shaw, presiding over International Trade Commission (ITC) Investigation No. 337-TA-1114, issued an initial determination that terminated the investigation in its entirety. Notably, the termination was done at the request of the complainant, Ultravision Technologies LLC, who, at the close of discovery, opted to dismiss the case rather than proceed to the evidentiary hearing.

Ultravision filed its initial petition requesting this Investigation on March 27, 2018. In the initial complaint, Ultravision asserted patent infringement against 44 respondents, many of whom were Chinese manufacturers of modular LED display systems for outdoor use. These LED display systems adorn soccer stadiums, highway billboards, and office buildings around the world, from Times Square to Tokyo. Quinn Emanuel was retained by Ledman to handle the case together with co-counsel Bayes, PLLC, who had previous experience against Ultravision.

Together with co-counsel, Quinn Emanuel grasped early on and targeted a significant vulnerability in Ultravision's case. Specifically, Quinn Emanuel built a strategy around exposing Ultravision's asserted patents as unenforceable. Among the 44 respondents, Ledman alone developed and pled defenses of inequitable conduct and improper inventorship—a move that set the dominoes in motion for eventual victory.

From the very start of discovery, Quinn Emanuel pressed Ultravision for information and documents regarding the circumstances surrounding the purported inventions claimed in the asserted patents. Ultravision resisted, maintaining that the requested records were missing. So Quinn Emanuel sought the voluntary production of a trove of pertinent documents from a foreign manufacturer. These documents proved a critical accelerant to the collapse of Ultravision's case, as they substantiated the allegations supporting the inequitable conduct and improper inventorship defenses. Quinn Emanuel leveraged the production during depositions of Ultravision's witnesses to obtain admissions contradicting the false narrative of inventorship and innovation in the complaint.

After other respondents learned of the relevant facts and documents obtained by Quinn Emanuel and its co-counsel through these efforts, they collectively moved to amend their answers to assert the defenses of inequitable conduct and improper inventorship that Quinn Emanuel's client had maintained from the beginning. In parallel, Quinn Emanuel moved to compel an avalanche of email discovery that Ultravision had refused to disclose as well as additional depositions of Ultravision's key witnesses. With expert discovery in full swing, and Ultravision's infringement theories cracking under scrutiny, the ALJ granted both Quinn Emanuel's motion to compel and the other respondents' motion to amend their answers to assert additional defenses.

On the due date specified in the court order granting Quinn Emanuel's motion to compel, Ultravision made an initial email production the day after Thanksgiving. Quinn Emanuel immediately responded and told Ultravision that this production was inadequate and failed to meet its obligations under the ALJ's order. The next business day, Ultravision notified all respondents that it intended to file a Motion to Terminate the investigation and stay all case deadlines. By November 27, 2018, eight months after it began, the case was effectively over. After reopening from the longest government shutdown in U.S. history, the ALJ issued the initial determination that terminated Investigation 1114 on January 31, 2019.

Victories in Northern District of California for LendingClub

On August 29, 2018, the firm obtained dismissals of two derivative lawsuits pending in the District Court for the Northern District of California against officers and directors of San Francisco-based fintech company, LendingClub. In 2017, a shareholder filed a derivative suit alleging claims under Section 14(a) of the Securities Exchange Act of 1934. Then, apparently hedging his bets in case his own action was dismissed as untimely, the shareholder also sought to intervene in an earlier-filed derivative suit that had included Section 14(a) and breach of fiduciary duty claims, but which had been dismissed so that a demand on the board of directors could be pursued. The shareholder in the second case argued that the dismissal in the earlier derivative case had been procedurally improper and should be set aside. The court agreed, and revived the earlier derivative suit.

The court, however, withheld a ruling on intervention, instead instructing the parties to brief the issue of whether the shareholder's own suit was filed within the statute of limitations. At a subsequent hearing, the court indicated that while it might dismiss shareholder's own action as time-barred, it was considering allowing shareholder to intervene in the earlier revived action. The court seemed troubled that the Company might lose the right to pursue a claim under Section 14(a) — which is a claim not asserted in any other suits pending against defendants. In response, Quinn Emanuel argued that the Section 14(a) claim was weak and narrow in its scope, and that any recovery under such a claim was a subset of the recovery for claims being asserted in a related derivative action pending in the Delaware Court of Chancery.

Although the court had expressed skepticism about dismissing the cases, the court did just that. The court agreed with LendingClub and its co-defendants that the second-filed case was barred by the statute of limitations, that the shareholder's intervention request was untimely and the first-filed case should be dismissed. This outcome brings an end to derivative suits ostensibly filed on LendingClub's behalf that were largely duplicative of suits already extant and which would have been time consuming and expensive to defend.

Moldex-Metric Ninth Circuit Victory

The firm secured a significant victory for Moldex-Metric, Inc. in a published Ninth Circuit opinion that reaffirms protection for color trademarks. Since 1982, Moldex-Metric has manufactured earplugs in a specific color shade of green. There are a multitude of other shades of green, yellow, and orange (as well as patterns) that can be used to color earplugs—any of these colors is highly visible for the benefit of the user or, in an industrial setting, a supervisor checking that workers have earplugs inserted.

The longstanding "functionality" doctrine makes functional product features ineligible for trademark protection, instead leaving any available protections to patent law. Color in particular is a product feature that has reached the Supreme Court a few times, in the context of colored medical pills (held functional and thus ineligible for trademark) and dry-cleaning press pads (held non-functional and thus eligible). Among the lower court decisions in this area is the Second Circuit's holding the red soles of Louboutin shoes to be eligible for trademark protection, at least where the top part of the shoe is not red. The animating policy is that if the color mainly identifies the product with the manufacturer (a red-soled shoe is associated with Louboutin, a particular green colored earplug with Moldex), it can be trademarked. But, on the other hand, if the color serves not just to identify the product but also serves a non-identification function (such as ensuring that a patient is taking the right medicine) *and* if protecting that color would leave an insufficient number of alternatively good colors available to achieve that function, the color is functional and not eligible for trademark protection.

Moldex's dispute arose because a competitor named McKeon Products (which typically sells its plugs under the name "Mack's") copied Moldex's green shade. Moldex sued for trademark infringement, and McKeon claimed that the color is ineligible for protection because it makes earplugs more visible in certain situations. Moldex responded that this particular shade is closely identified by users as a Moldex product, and that allowing trademark protection won't hinder competition because McKeon can choose any of hundreds of available color shades or patterns that are just as visible.

Despite a factual record demonstrating the availabilty of numerous alternative visible colors, the district court granted summary judgment to McKeon on functionality grounds. In essence, the court held that, if Moldex's green color served any function, the existence of alternative colors that could serve that function equally well was legally irrelevant. We appealed and, in 2015, won a narrow 2-1 victory in a decision that vacated and remanded the district court's summary judgment ruling because the district court had given short shrift to *Qualitex Co. v. Jacobsen Products, Co.*, 514 U.S. 159 (1995) (the Supreme Court's dry-cleaning press pads case). On remand, the district court attempted to distinguish *Qualitex* and essentially clung to its original ruling, granting summary judgment against us again. Back to the Ninth Circuit.

After briefing and oral argument, Quinn Emanuel again obtained a vacatur and remand, this time in a unanimous, more lengthy, and published decision by an entirely different panel. The decision definitively holds that functionality cannot be decided on summary judgment in the context of our case and that the jury must consider the availability of alternative colors and designs in determining whether Moldex's green color is eligible for trademark protection. The Court's central holding will unquestionably redound to the benefit of other color trademark holders as well. Q

(practice area notes continued from page 9)

The court's decision in *Juni* is a landmark for asbestos litigation nationally. New York has a busy, specialized asbestos docket consisting of claims of occupational exposures such as those made in *Juni*, as well as claims of exposure from the use of cosmetic talcum powder like those made against Johnson & Johnson in St. Louis. In both types of cases, plaintiffs will now be required to demonstrate not just that asbestos exposure is causally associated with illness, but that *their* particular exposure was of an amount sufficient to cause *their* particular illness. Q

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