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Shifting the Growing Costs of E-Discovery

Since the arrival of e-discovery in the mid-1990s, the cost of collecting, copying, reviewing, sorting, processing and producing electronically stored information ("ESI") has grown exponentially. In 2007, for example, litigants spent nearly $2.79 billion dollars on e-discovery, a 43% increase from the amount spent just a year earlier. *See* George Socha & Tom Gelbmann, *A Look At The 2008 Socha-Gelbman Survey*, Law Tech. News, Aug. 11, 2008. In a more recent case study of Fortune 500 companies, the RAND Institute found that the median total cost for ESI production among participants reached the astounding sum of $1.8 million dollars per case. *See* Nicholas Pace & Laura Zakaras, Rand Institute for Civil Justice, Where the Money Goes: Understanding Litigant Expenditures for Producing Electronic Discovery, 28 (2012). Given the sheer volume of email and other electronic documents stored in the cloud and on company servers, hard drives, and handheld devices that are potentially responsive to discovery requests, these e-discovery costs will only continue to rise in 2013 and beyond.

In an effort to defray these costs, prevailing litigants can seek reimbursement of certain e-discovery expenses as taxable costs under Federal Rule of Civil Procedure 54(d)(1) and 28 U.S.C. § 1920(4). Litigants seeking to tax e-discovery costs have done so with varying degrees of success. *See, e.g., Race Tires Am., Inc. v. Hoosier Racing Tire Corp.*, 674 F.3d 158,

(continued on page 2)

INSIDE

Quinn Emanuel Continues the Expansion of International Arbitration Practice with the Addition of Stephen Jagusch
Page 4

Aesthetic Functionality and the Use of "Color Marks" in the Fashion Industry
Page 5

Practice Area Updates:

Patent Litigation
Page 7

Securities Litigation
Page 8

European Litigation
Page 9

Summary Judgment Victory for Google in *Jurin v. Google Inc*. and Other Victories
Page 10

Quinn Emanuel Elects Ten New Partners *see page 6*

QE Continues the Expansion of International Arbitration Practice with the Addition of Stephen Jagusch *see page 4*

Quinn Emanuel Opens Fifth European Office in Paris Led by International Arbitration Specialist Philippe Pinsolle

The firm has opened an office in Paris, France, the firm's fifth European office. The five-lawyer Paris office will focus on international arbitration.

Philippe Pinsolle, formerly a partner in the international arbitration group of the Paris office of Shearman & Sterling, is Managing Partner of Quinn Emanuel's new office. Pinsolle is admitted to practice in both Paris and England (where he qualified as a barrister). He has acted as counsel in more than 180 international arbitrations in both commercial and investor-state disputes in a wide ranging number of industries, including oil and gas, energy, construction, and defense. He regularly serves as chairman, sole arbitrator, and party-appointed arbitrator and has also served as an expert in a number of international arbitrations. Pinsolle is a widely published author and frequent lecturer in the area of international arbitration. He is the co-editor in chief of the *Paris Journal of International Arbitration* and of the *French International Arbitration Reports*. *Chambers Global* lists him as one of the world's leading advocates, reporting that clients described him as "an outstanding strategist" with "great tactical sense." In January 2012, Pinsolle was awarded the Swiss Arbitration Association's prize for outstanding advocacy in international commercial arbitration.

With the addition of Pinsolle in Paris, Quinn Emanuel will have expanded its stable of international arbitration specialists by eight in the past year, including Stephen Jagusch, Anthony Sinclair and Epaminontas Triantafilou (London), David Orta (Washington, D.C.), Tai-Heng Cheng (New York), and Ivan Marisin and Vasily Kuznetsov (Moscow). Q

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159, 162 (3rd Cir. 2012) (taxing $30,000 (or 8%) of requested e-discovery costs for copying related tasks); *Fells v. Virginia Dept. of Transp.*, 605 F. Supp. 2d 740 (E.D. Pa. 2011) (refusing to tax *any* costs associated with the processing of electronic records because the techniques were not technically "photocopying or scanning"); *Lockheed Martin Idaho Technologies Co. v. Lockheed Martin Adv. Envtl. Sys., Inc.*, 2006 WL 2095876, at *2 (D. Idaho July 27, 2006) (taxing $4.6 million (or 100%) of requested e-discovery costs for a document review database). Recent decisions like these and others, while not entirely consistent, provide guidance for litigation counsel hoping to shift at least a portion of the ever-rising e-discovery costs and expenses to an opposing party.

Statutory Support of Shifting Costs

Rule 54(d)(1) allows a prevailing party to recover certain costs and expenses incurred during litigation from the opposing party. "Unless a federal statute, these rules, or a court order provides otherwise, costs—other than attorney's fees—should be allowed to the prevailing party." Fed. R. Civ. P. 54(d)(1). Under this Rule, if a substantiated bill of costs is sent to the court clerk, there is a presumption that recovery is proper; however, courts still have discretion to reduce any award. *Id.*; *see also Plantronics Inc. v. Aliph, Inc.*, 2012 WL 5269667, at *2 (N.D. Cal. Oct. 23, 2012). The losing party then has the burden of overcoming the presumption by affirmatively showing that the prevailing party is not entitled to costs.

However, the term "costs" is not defined under Rule 54. Instead, the universe of taxable costs is defined by 28 U.S.C. § 1920. *See Taniguchi v. Kan Pac. Saipan, Ltd.*, 132 S. Ct. 1997, 2001-02 (2012) (rejecting the proposition that "the discretion granted by Rule 54(d) is a separate source of power to tax costs and expenses not enumerated in § 1920.") Taxable costs under § 1920 include, inter alia, "[f]ees for exemplification and the costs of making copies of any materials where the copies are necessarily obtained for use in the case." 28 U.S.C. § 1920(4). Even among courts that have taxed e-discovery costs, however, there is a lack of uniformity on how or whether to treat individual e-discovery costs as taxable under §1920(4), with some courts taxing all e-discovery costs and some courts refusing to tax anything more than a minute fraction.

***The Impact of* Race Tires**

The Third Circuit is the first, and arguably only, appellate court to directly address the propriety and scope of taxing e-discovery costs under §1920(4). In *Race Tires*, the Third Circuit was confronted with a bill of costs that contained over $365,000 of e-discovery charges related to the collection, processing, TIFF conversion, OCR, and production of approximately 600,000 pages of electronic documents. *Race Tires Am., Inc.*, 674 F.3d at 159, 162.

Prior to the Circuit's review, the district court had accepted the defendant's bill of costs, viewing the work as "the electronic equivalent of exemplification and copying." *Id.* at 163. The district court found that the "expertise" needed to "retrieve and prepare" the electronic information for discovery (an expertise "not normally" possessed by lawyers) was an "indispensable part of the discovery process" and thus taxable under §1920(4). *Id.* Disagreeing, the Third Circuit vacated the opinion and ordered the district court to tax a mere 8% of the requested costs. *Id.* at 171.

In reaching its decision, the Third Circuit first analyzed whether the e-discovery costs fell under the "exemplification" allowance contained in § 1920(4). Noting that its sister courts had split on the scope of the exemplification allowance, the Third Circuit ultimately decided it was unnecessary to decide how broadly the allowance extended since none of the work at issue was for "illustrative evidence or the authentication of public records," it could not qualify as "exemplification" under any interpretation. *Id.* at 166.

The *Race Tires* court next reviewed the bill of costs to determine if any of the e-discovery work could be considered "making copies." *Id.* The court held that only the scanning of hard copy documents, the conversion of native files to TIFF, and the transfer of VHS tapes to DVD were costs that were properly taxable under §1920(4). *Id.* at 171. In addition, the court explicitly disagreed with prior district court opinions that held all types of e-discovery services are taxable due to their "indispensable," "highly technical," and/or "cost-saving" nature. *Id.* at 168. The court criticized this approach as being completely "untethered from the statutory mooring" of §1920. *Compare id.* at 169 *with CBT Flint Partners LLC v. Return Path*, 676 F. Supp. 2d 1376, 1381 (Fed. Cir. 2009) (*vacated on other grounds*) (e-discovery vendor's "highly technical" services are the "21st century equivalent of making copies") (citing *Cargill Inc. v. Progressive Dairy Solutions, Inc.*, 2008 WL 5135826, at *6 (E.D. Cal. Dec. 8, 2008)).

As §1920(4) did not provide for the taxation of "all steps" necessary to make a copy in the pre-digital era, the Third Circuit held that it cannot be used to tax the cost of all the services that proceed the making of an electronic copy, such as "gathering, preserving, processing, searching, culling, and extracting ESI." *Race Tires Am., Inc.*, 674 F.3d at 169-70. Fundamentally, to be taxable under §1920(4), the *Race Tires* court held that costs must be incurred for the "physical preparation and duplication of documents." *Id.* (citations omitted).

Moreover, e-discovery costs are not taxable simply because the activities leading up to the making of copies are performed by third party consultants with "technical expertise." *Id.* at 169. The *Race Tires* court held that neither the degree of expertise necessary to perform the work nor the identity of the party performing the work is a factor that can be gleaned from the text of § 1920(4). *Id.* In fact, *Race Tires* noted that the Ninth Circuit *Romero* rule has long limited these types of costs as *not* taxable under § 1920(4). *See Romero v. City of Pomona*, 883 F.2d 1418, 1427-28 (9th Cir. 1989), *overruled on other grounds*, (holding that § 1920(4) did not extend to the "intellectual effort" involved in the production of documents, only the physical preparation and duplication of documents).

The *Romero* rule has been interpreted by district courts to bar taxation of e-discovery costs. For example, in *Oracle v. Google*, Google attempted to seek remuneration for almost $3 million in e-discovery charges. *Oracle Am., Inc. v. Google Inc.*, 2012 WL 3822129, at *3 (N.D. Cal. Sept. 4, 2012). The court refused Google's requested e-discovery costs *in their entirety* because the costs were for "organizing, searching, and analyzing [of] discovery documents" and such "intellectual effort" costs were non-taxable under *Romero*. *Id*; *see also*, *Gabriel Techs. Corp. v. Qualcomm Inc.*, 2010 WL 3718848, at *10-11 (September 20, 2010) (denying motion for a bond to tax $1.5 million in e-discovery consultant fees because the work was intellectual effort and not "the physical preparation and duplication of documents"); *Computer Cache Coherency Corp. v. Intel Corp.*, 2009 WL 5114002, at *4 (N.D. Cal Dec. 18, 2009) (awarding less than 50% of requested e-discovery costs because OCR and metadata extraction costs were not "physical preparation and duplication of documents").

*The State of the Race Post-*Race Tires

While the Third Circuit found it "imperative to provide definitive guidance to the district courts in [the Third] Circuit on the question of the extent to which electronic discovery expenses are taxable," *Race Tires*, 674 F.3d at 160, the majority of district court decisions in other circuits have also tended to follow the rule announced by *Race Tires.* At the time of print, five district courts, from several circuits, have declined to tax large portions of e-discovery costs based on the analysis articulated in *Race Tires*. For example, the court in *El Camino Resources, Ltd. V. Huntington Nat'l Bank* noted that while there were diverging views on the appropriateness of taxing e-discovery costs, the "well-reasoned" approach of *Race Tires* had convinced it of the impropriety of adopting an expansive approach. *El Camino Resources, Ltd. V. Huntington Nat'l Bank*, 2012 WL 4808741, at *5-7 (W.D. Mich. May 3, 2012) (taxing only $2,000 of $84,000 in requested e-discovery costs).

Similarly, the courts in *Johnson v. Allstate* and *Country Vitner v. Gallo Winery* followed the "persuasive" and "helpful" *Race Tires* decision when they limited taxable e-discovery costs to the "making of copies" and ruled against taxing the pre-production processing costs of other e-discovery services such as the "creat[ion] of litigation database[s], processing of ESI, [and] extraction of metadata." *Johnston v. Allstate*, 2012 WL 4936598, at *6 (S.D. Ill. Oct. 16, 2012) (denying $122,000 worth of e-discovery costs as non-taxable "gathering, preserving, processing, searching, culling and extracting [of] ESI"); *Country Vitner v. Gallo Winery*, 2012 WL 3202677, at *2-3 (E.D. N.C. Aug. 3, 2012) (denying $111,000 worth of e-discovery costs and only awarding $218.59 for the "tasks that involve copying [such as] the conversion of native files to TIFF and PDF formats and the transfer of files onto CDs.").

On the opposite end of the spectrum, at least one district court has refused to follow the rationale articulated by the Third Circuit. In *In re Online DVD Rental Antitrust Litig.*, a Ninth Circuit Northern District of California court allowed nearly $700,000 of e-discovery costs to be taxed to the losing party. *In re Online DVD Rental Antitrust Litig.*, 2012 WL 1414111 (N.D. Cal. April 20, 2012). The court reasoned that, in the absence of controlling Ninth Circuit precedent, a broad approach to cost shifting was appropriate under the facts of the case *Id.* at *1. Notably, the court failed to mention the Ninth Circuit's *Romero* rule against awarding "intellectual effort" costs in its brief two-page decision.

By contrast, another, more recent, Northern District of California district court followed the measured *Race Tires* and *Romero* analysis in taxing only $20,000 out of $200,000 of in-house e-discovery costs; limiting taxable costs to those associated with TIFF conversion; OCR; CD, DVD, and HD duplication. *Plantronics Inc.*, 2012 WL 5269667, at *17-18. This decision is also instructive on "best practices" litigants should follow under *Race Tires* and

Romero that are most likely to result in a successful motion to tax e-discovery costs. First, litigants should prepare detailed, itemized lists of the costs sought to be taxed as "[n]othing about… Rule 54(d)'s presumption excuses a prevailing party from itemizing its costs with enough detail to establish that each expense is taxable under section 1920." *Id.* at 5 (citing *Oracle America, Inc.*, 2012 WL 3822129, at *3). Second, litigants must be careful to avoid line-item descriptions that read like "intellectual effort" to a court, or they risk those costs being denied under the *Romero* rule. *Id.* at 21. Another pitfall is to avoid producing documents in a costlier, alternative format, especially if that format was not requested by the other side as it provides a basis for the court to deny costs. *Id.* at 23. Above all, litigants must remember that when it comes to e-discovery cost-shifting, greed is *not* good. Submitting a bill of costs with inflated costs, bad-faith accounting, or purposefully vague descriptions will result in "diminished award[s] and sometimes result in denying of taxable costs altogether." *Id.* at 3 (quoting *Jansen v. Packaging Corp. of Am.*, 898 F. Supp. 625, 629 (N.D. Ill. 1995).

***The Supreme Court May Eventually Limit Section 1920(4) Similar to* Race Tires**

The Supreme Court chose not to accept certiorari in *Race Tires* so there is no definitive precedent on the taxability of e-discovery costs outside of the Third Circuit. However, in early 2012, the Supreme Court ruled on the scope of the category of taxable costs under §1920(6) ("compensation of interpreters") in a decision that is instructive on how the Supreme Court might interpret the scope of taxable e-discovery costs under §1920(4).

Holding that the term "interpreter" could not be stretched to include non-oral translation, the Supreme Court articulated a relatively circumscribed approach to the recovery of litigation costs under § 1920. *Taniguchi*, 132 S. Ct. at 2005. The Court explained that taxable costs are of "narrow scope" and are "limited to relatively minor, incidental expenses." *Id.* at 2006. Ultimately, the Court remanded the case to the Ninth Circuit with instructions to refuse to tax costs for the written translation of documents.

While *Taniguchi* was limited to costs associated with translation of documents, it appears that the thrust of *Taniguchi*, combined with the Court's decision not to accept certiorari in *Race Tires*, may indicate that the Court is not sympathetic to arguments that § 1920(4) should be used to allow a party to shift the entirety of the costs associate with e-discovery.

Conclusion

Race Tires and subsequent cases provide mixed results for corporate litigants. On the one hand, *Race Tires* protects unsuccessful litigants (at least in the Third Circuit) from being saddled post-judgment with their opponents' e-discovery costs that can run into the millions of dollars. On the other hand, *Race Tires* and courts following it pose the serious risk that *successful* litigants will still be on the hook for vast sums of money for e-discovery, even when the underlying litigation lacks merit. Ironically, the only true protection may come from the same source as the problem itself: technology. If companies can more fully automate the early stages of ESI processing and e-discovery, this issue may yet resolve itself. Q

Quinn Emanuel Continues the Expansion of International Arbitration Practice with the Addition of Stephen Jagusch

The firm is pleased to announce that Stephen Jagusch joined the London office as partner on January 2, 2013. Jagusch will be Global Chair of the Quinn Emanuel International Arbitration Practice. He was formerly Global Chair of Allen & Overy's International Arbitration Practice. He has been an advocate in dozens of international arbitrations in countries all over the world under the auspices of all the major arbitration rules and involving the substantive law of many different nations as well as public international law. In addition to a wide range of commercial disputes for multinational corporations, a substantial number of his matters have been for and against sovereign states and sovereign entities, particularly disputes arising under bilateral investment treaties (BITs) and the Energy Charter Treaty (ECT). He also serves as an arbitrator. Jagusch is ranked by *Chambers* as one of the top arbitration specialists in the UK and *The International Who's Who of Business Lawyers* (and of Commercial Arbitration). He won the inaugural (and subsequent) Client Choice Award for Best Arbitration Lawyer in the UK, according to surveys conducted by the International Law Office. He earned his BCom, LLB, and MComLaw *with first class honors* from Auckland University. Q

Aesthetic Functionality and the Use of "Color Marks" in the Fashion Industry

For more than a century, courts have grappled with whether to extend the protections of trademark laws to colors. In 1995, however, the Supreme Court recognized that both the "language . . . and the basic underlying principles" of the Trademark Act of 1946, 15 U.S.C. §§ 1051-1127 (Lanham Act), "would seem to include color within the universe of things that can qualify as a trademark." *Qualitex Co. v. Jacobson Prods. Co.*, 514 U.S. 159, 162 (1995) ("We cannot find in the basic objectives of trademark law any obvious theoretical objection to the use of color alone as a trademark, where that color has attained 'secondary meaning' and therefore identifies and distinguishes a particular brand (and thus indicates its 'source').").

Holding that "color alone, at least sometimes, can meet the basic legal requirements for use as a trademark," *id*. at 166, the *Qualitex* court acknowledged, however, that in some circumstances, "to permit one, or a few, producers to use colors as trademarks will 'deplete' the supply of usable colors to the point where a competitor's inability to find a suitable color will put that competitor at a significant disadvantage. *Id*. at 168. In such circumstances, the competitor's use of a color mark may be subject to a defense of "aesthetic" functionality:

> When a color serves as a mark, normally alternative colors will likely be available for similar use by others. . . . Moreover, if that is not so – if a "color depletion" or "color scarcity" problem does arise – the trademark doctrine of "functionality" normally would seem available to prevent the anticompetitive consequences . . . ."

Id. (citations omitted). The *Qualitex* court anticipated that such "aesthetic" functionality concerns would cause courts evaluating the validity of color marks to "examine whether the use [of a color or range of colors] as a mark would permit one competitor (or a group) to interfere with legitimate competition through actual or potential exclusive use of an important product ingredient [i.e., all usable colors]," and that such examination would, "ordinarily, . . . prevent the anticompetitive consequences of . . . 'color depletion.'" *Id*. at 170.

The Second Circuit recently analyzed that aesthetic functionality defense to a single-color trademark in *Christian Louboutin S.A. v. Yves Saint Laurent America Holding, Inc.*, 2012 WL 3832285 (2d Cir. 2012). At issue was a dispute between two European fashion houses over the right to color the "outsole" of women's shoes red. In 2008, the plaintiff, French shoe designer Christian Louboutin, registered a mark consisting of "a lacquered red sole on footwear" (the "Red Sole Mark"). Since Louboutin began designing shoes in the early 1990s, he had featured red outsoles to contrast with the colors of other parts of the shoes. The district court concluded that, through Louboutin's marketing efforts, the "flash of a red sole" had become "instantly" recognizable as "Louboutin's handiwork." *Id.* at *2 (citing district court).

In 2011, the fashion company founded by the late Yves Saint Laurent ("YSL") designed a line of "monochrome" ladies shoes of various colors, including red shoes that "featured the same color on the entire shoe, so that the red version is all red, including a red insole, heel, upper, and outsole." *Id.* After YSL rejected Louboutin's demand that it remove its monochrome red shoes from the market, Louboutin sued and sought a preliminary injunction. YSL opposed in part on the ground that the Red Sole Mark was invalid as aesthetically functional.

Relying on *Qualitex*, the district court concluded that a "color is protectable as a trademark only if it 'acts as a symbol that distinguishes a firm's goods and identifies their source, without serving any other significant function.'" *Id.* at *3 (quoting district court). Noting the supposedly "unique characteristics and needs – the creativity, aesthetics, taste, and seasonal change – that define production of articles of fashion," the district court held that single-color marks are inherently "functional" in the fashion industry, and on that basis denied Louboutin's requested injunction. *Id.*

On review, the Second Circuit recognized the *Qualitex* court's concerns about the potential anti-competitive consequences of single-color marks and discussed at length the "aesthetic functionality" defense to a trademark infringement claim. In addition to the traditional "functionality" defense, which asks whether a product feature like color is "'functional' in a utilitarian sense," *id.* at *8, aesthetic functionality goes a step further in considering whether a design feature has a "significant effect on competition." *Id.* After analyzing various formulations of the aesthetic functionality tests that it and other circuit courts have applied, the Second Circuit held that "a mark is aesthetically functional, and therefore ineligible for protection under the Lanham Act, where protection of the mark significantly undermines competitors' ability to compete in the relevant market." *Id.* at *10.

Having decided on the standard for evaluating aesthetic functionality, the Second Circuit turned to the district court's "*per se* rule of functionality for color marks in the fashion industry." *Id.* The court

(Noted With Interest continued on page 11)

Quinn Emanuel Elects Ten New Partners

Nine associates and one of counsel were elected to the Quinn Emanuel partnership, effective January 1, 2013. The new partners are:

Jeremy Andersen is based in the firm's Los Angeles office. Jeremy, who has a degree in accounting, focuses on complex financial litigation, often fraud claims on behalf of large investors against money center banks. Jeremy received a B.S. in Accountancy, *with honors,* from Arizona State University, and a J.D., *cum laude*, from Harvard Law School.

Carl Anderson is based in the firm's San Francisco office. Carl's practice focuses on intellectual property, particularly patent litigation. He has litigated cases involving 3G cell phone technologies, Internet search and advertising, magnetic resonance imaging, nuclear magnetic resonance spectroscopy, semiconductor design and fabrication, and wireless local area networks. Carl received a B.A. in Mathematics from Princeton University, a Ph.D. in Philosophy from University of California Berkeley and a J.D. from Stanford.

Linda Brewer is based in the firm's San Francisco office. She joined Quinn Emanuel in 2006 following a clerkship with the Honorable Saundra Brown Armstrong in the United States District Court, Northern District of California. Her practice focuses on intellectual property litigation, but she also has broad experience in complex commercial litigation, including securities, class action, and antitrust matters. Linda received a B.A. in Philosophy from Dartmouth College and her J.D., *with honors*, from Duke.

Justin Griffin is based in the firm's Los Angeles office. His practice focuses on complex business litigation and intellectual property disputes. He has represented clients in matters involving satellite television, smart phones, casino gaming, healthcare, financial fraud and breaches of fiduciary duty, FRAND licensing obligations, consumer class actions, and large contract disputes. Justin received a B.A. from Princeton and a J.D. from Stanford. Before law school, Justin played professional baseball in the Cleveland Indians' organization.

Christopher D. Kercher is based in the firm's New York office. He has extensive experience in a broad range of litigation matters, including complex commercial litigation, bankruptcy, corporate takeovers and white collar defense. He received a B.A. from Cornell University, and a J.D. from New York University School of Law, where he was a member of the *Annual Survey of American Law*.

Joseph Milowic III is based in the firm's New York office. Joe's practice focuses on intellectual property litigation. Joe has represented clients involved in a variety of complex technologies, including pharmaceuticals (ANDA), medical devices, semiconductor memory, digital signal processing, consumer electronics products, graphical user interfaces, shift registers, speech coding and compression and corporate actions software. Joe has twice been named a "Rising Star" by *Law & Politics Magazine*. Joe graduated *with high honors* in Chemical/Biochemical engineering from Rutgers College of Engineering and was named a member of the Engineering Honor Society, Tau Beta Pi. Joe received his J.D. from Rutgers School of Law.

Isaac Nesser is based in the firm's New York office. His practice focuses on complex commercial litigation including structured finance litigation, corporate fraud and securities claims, consumer class actions, and Alien Tort Statute litigation. He received his B.A. in Political Science and Music, *magna cum laude*, from Columbia University, and his J.D. from Yale Law School.

Steig Olson is based in the firm's New York office. Steig has nearly a decade of experience in litigating large antitrust class actions and other complex litigation. Steig is a graduate, *magna cum laude*, of Harvard Law School and received his B.A. in Philosophy from Vassar College. After law school, he clerked in U.S. District Court for the Northern District of California and on the Second Circuit Court of Appeals.

Dan Posner is based in the firm's Los Angeles office. He focuses on complex business litigation. Dan received a B.A. in Development Studies, *with honors,* from the University of California, Berkeley, in 1998, and a J.D., *cum laude*, from the Georgetown, where he was a Law Fellow, a member of the *Global Law Scholars* and an editor of the *American Criminal Law Review*. Following his graduation from law school, Dan served as a judicial clerk for Chief Judge George H. King of the United States District Court for the Central District of California.

Audrius Zakarauskas is based in the firm's London office. His practice focuses on complex commercial litigation and arbitration, particularly on high value multi-jurisdictional disputes. He was the finalist for *The Lawyer*'s Associate of the Year Award in 2011. Audrius trained as a barrister at Brick Court Chambers, one of the leading commercial sets of barristers in London. He is admitted to the Bars of England and Wales (2003) and the British Virgin Islands (2009). Audrius has a B.A. and M.A. in philosophy from Vilnius University, Lithuania, was a college lecturer in philosophy at Merton College, Oxford between 1999 and 2001, is the winner of the Peter Taylor and Princess Royal Scholarships from Inner Temple, and also won the Blackstone's National Mooting competition in 2002. Audrius is fluent in Russian and Lithuanian. Q

Patent Litigation Update

***European Parliament Approves European Unitary Patent and Unified Patent Court*:** On December 11, 2012, the European Parliament approved a new patent system that, once fully implemented, would create both an optional Unitary Patent and a Unified Patent Court to handle litigation of all European patents. Ideally, the Unitary Patent option should streamline the process for obtaining patent protection in the 25 participating EU member states, and will reduce the associated fees and translation expenses.

Once the set of EU regulations are in effect (which could be as early as 2014), patentees will have the option to request that a new European patent granted by the European Patent Office be given unitary effect across all 25 participating EU member states. Applications for a Unitary Patent must be filed in English, German or French, and no other human translations will be required (automated "machine" translations may be submitted). Unitary Patents will coexist with national patents and also classical European patents that will still be available to obtain patent protection in non-participating states, including Spain, Italy, Switzerland, Turkey, Norway and Iceland.

The Agreement on a Unified Patent Court, once ratified by at least 13 EU member states including France, Germany and the United Kingdom, will create a Unified Patent Court with exclusive jurisdiction over the litigation of all European patents, including over actions for infringement, revocation, or injunctions. The Unified Patent Court will include a specialized Court of Appeal located in Luxembourg, and a set of specialized trial courts of first instance. The central division of the trial courts will be located in at least Paris, Munich and London, while local divisions will be located in one venue of each of the member states (some member states will share on venue, regional divisions) with the exception of Germany, which will have at least 3 local divisions (Düsseldorf, Mannheim and Munch, possibly Hamburg). Each trial court will be overseen by an internationally composed panel of judges and each division of the trial court will grant pan-EU relief for all of the member states (or for all of the designated contracting states of a European patent, which can extend beyond the EU). The Plaintiff can decide to file in any local division where there is an infringing activity in the member state that hosts that local division.

***Gross Negligence Insufficient to Establish Deceptive Intent for Inequitable Conduct*:** The Federal Circuit recently clarified the level of deceptive intent required for inequitable conduct in *Outside the Box Innovations, LLC v. Travel Caddy, Inc.*, No. 2009-1171 (Fed. Cir. Sept. 21, 2012). The Court held that gross negligence is insufficient to establish clear and convincing evidence of the deceptive intent required for inequitable conduct.

Recognizing that inequitable conduct requires evidence of the omission or misrepresentation of material information in dealings with the PTO, and also clear and convincing evidence of specific intent to deceive the PTO, the trial court found two patents unenforceable due to inequitable conduct arising out of the patentee's failure to disclose to the PTO the existence of litigation involving the parent patent during the prosecution of its progeny. In so holding, the trial court rejected the patentee's argument that any material omission regarding the litigation was the result of oversight, error or negligence, not deceptive intent.

On appeal, the Federal Circuit overruled the trial court, holding that "[n]egligence, however, even gross negligence, is not sufficient to establish deceptive intent." Building on the Court's prior holding in *Therasense, Inc. v. Becton, Dickinson & Co.,* 649 F.3d 1276 (Fed. Cir. 2011) (*en banc*), this latest decision further raises the bar for proving inequitable conduct, confirming not only the need for clear and convincing evidence of the patentee's specific intent to deceive, but also rejecting the notion that the requisite deceptive intent can be inferred from merely the patentee's gross negligence.

***Federal Circuit Eases Requirements for Proving Inducement Involving Joint Infringement*:** In a 6-5 *en banc* decision involving the cases of *Akamai Tech. v. Limelight Networks* and *McKesson Technologies, Inc. v. Epic Systems Corp*., the Federal Circuit has apparently loosened the standard for proving liability under the doctrine of induced infringement.

Under the Court's prior decision in *BMC Resources, Inc. v. Paymentech, L.P.*, 498 F.3d 1373 (Fed. Cir. 2007), proof of induced infringement of method claims required a single, direct infringer who performed all of the steps of the method claim. Neither of the cases before the Court in *Akamai* and *McKesson* included such a direct infringer. In *Akamai*, the defendant performed some of the steps of the claimed method and induced others to perform the remaining steps. In *McKesson*, the defendant induced multiple parties to "collectively perform" all the steps of the claimed method, *i.e.*, no single party performed all of the required steps for direct infringement. Both defendants prevailed at the trial court level because there was no single, direct infringer.

However, upon reconsideration, the *en banc* Federal

Circuit expressly overruled the requirement in *BMC Resources* of a single entity who performs all the claimed steps of the patent. As stated in the *Akamai* opinion (*emphasis in original*):

> Requiring proof that there *has been* direct infringement as a predicate for induced infringement is not the same as requiring proof that a single party would be *liable* as a direct infringer. If a party has knowingly induced others to commit the acts necessary to infringe the plaintiff's patent and those others commit those acts, there is no reason to immunize the inducer from liability for indirect infringement simply because the parties have structured their conduct so that no single defendant has committed all the acts necessary to give rise to liability for direct infringement.

In the view of a majority of Federal Circuit judges, a party who induces several others to infringe collectively, or a party who performs some steps of the claimed method and induces others to perform the remaining steps, "has had precisely the same impact on the patentee as a party who induces the same infringement by a single direct infringer."

Going forward, plaintiffs may find it slightly easier to prove inducement even in the absence of a single direct infringer. All of the steps of the claimed method still need to be performed, but it is no longer necessary to show that a "single entity" performed them. Nevertheless, this ruling may have a minimal impact on the number of cases finding induced infringement because such a determination still requires that the accused infringer to have *knowingly* induced the infringement. Additionally, the Court also limited its opinion to infringement of *method* claims, thereby potentially further reducing its impact on the existing patent landscape.

Securities Litigation Update

***Viability of Core Operations Doctrine Still Unsettled in Second Circuit*:** Securities fraud plaintiffs continue to attempt to plead scienter by invoking the "core operations" doctrine, which imputes to key company officers and directors knowledge of facts relating to the company's "core" businesses. In the Second Circuit, the doctrine originates from *Cosmas v. Hassett*, 886 F.2d 8 (2d Cir. 1989), in which a company announced that sales to China would constitute a significant revenue source for the company, despite Chinese regulations preventing exactly those sales. The Second Circuit imputed knowledge of the regulations to the defendant directors, given that "the restrictions apparently eliminated a potentially significant source of income for the company." *Id.* at 13.

The Second Circuit has not determined, however, what if any of this doctrine survived the passage of the PSLRA. *See Frederick v. Mechel OAO*, 2012 WL 1193724, at *2 (2d Cir. Apr. 11, 2012) ("*Cosmas* was decided prior to the enactment of the PSLRA, and we have not yet expressly addressed whether, and in what form, the 'core operations' doctrine survives as a viable theory of scienter."). Nonetheless, *New Orleans Employees Retirement Sys. v. Celestica, Inc.*, 2011 WL 6823204 (2d Cir. Dec. 29, 2011), decided late last year, explained in a footnote that "allegations of a company's core operations . . . can provide *supplemental* support for allegations of scienter, even if they cannot establish scienter independently." *Id.* at *2, n.3 (*emphasis added*). But the Court declined to address core-operations allegations because plaintiff had otherwise pleaded sufficiently that the CEO and CFO knowingly made false statements concerning the company's inventory. *Id.* at *2. *See also City of Pontiac Gen'l Employees' Retirement System v. Lockheed Martin Corp.*, 2012 WL 2866425 (S.D.N.Y. July 13, 2012) (interpreting *Celestica* to suggest that the Second Circuit "endorsed the idea behind the core operations doctrine as enhancing, if not independently supporting, an inference of scienter.").

Recent cases indicate that courts in the Southern District of New York may impute knowledge of the company's financial statements to key officers and/or directors. In *In re Longtop Financial Technologies Ltd. Securities Litigation*, 2012 WL 2512280 (S.D.N.Y. June 29, 2012) (SHS), for instance, Judge Scheindlin found it appropriate to impute to the defendant CFO knowledge of "information [that] was available to [defendant] that would have made him aware of the falsity of the financial statements (which he signed) and his own oral and written statements." *Id.* at *11. The allegations there related to specific filings or press releases, signed by the CFO, that contained false statements or were based upon false information. *Id.* at *4.

In *Dobina v. Weatherford Int'l Ltd.*, 2012 WL 545148 (S.D.N.Y. Nov. 7, 2012), the Court explained that the doctrine imputes knowledge of a company's false financial statements to senior officers "who should have known of facts relating to the core operations of their company that would have led them to the realization that the company's financial statements were false when issued." (quoting *In re Atlas Worldwide Holdings, Inc. Secs. Litig.*, 324 F. Supp. 2d 474, 490 (SDNY 2004)). The Court also noted, however, that the doctrine's post-PSLRA survival is an "open question," *id.* at *11, and even assumed that the "tax rates" at issue were sufficiently important to the company's financials to constitute "core operations." *Id.* But the Court nonetheless declined to determine the doctrine's viability, since a simple mistake in the company's financials was the most plausible inference. *See also Ho v. Duoyuan Global Water, Inc.*, 2012 WL 3647043, at *18 (S.D.N.Y. Aug. 24, 2012) (imputing knowledge of company's financials to CEO and CFO, particularly where revenue and net income in an SEC filing was reported to be one-hundred times greater than what was reported in an SAIC filing).

Given the frequency with which securities class action plaintiffs rely on the core operations doctrine, courts will have ample future opportunities to consider the question of whether the doctrine survives the passage of the PSLRA which established a heightened pleading requirement for scienter. Even if so, the precise contours of the doctrine remain to be defined.

European Litigation Update

***The European Court of Justice (ECJ) on European Supplementary Protection Certificate (SPC) for Further Medical Uses*:** With a remarkable ruling from July 2012 (*Neurim Pharmaceuticals, C-130/11*), the European Court of Justice (ECJ) substantiated its interpretation of the granting conditions for the European Supplementary Protection Certificate (SPC) for medicinal products by extending the scope of protection to usage patents. This judgment further liberalizes the SPC system and subsequently will stimulate investments of pharmaceutical or biotech companies researching on new medical uses of earlier marketed products.

***General Background on the SPC*:** Subject to European regulations complemented by national legislation, *e.g.* by section 16a of the German Patent Act, the SPC generally allows for supplementary protection of patents for products depending on regulatory licensing. The SPC provides a maximum of an additional five years of protection to compensate the patent owner for the loss of time for effective use due to the period that elapses between the filing of an application for a patent for a new product and the authorization to place the product on the market. Within European legislation, the lack of effective protection has been considered to penalize research, potentially leading to a relocation of research centers situated in the Member States to countries that offer greater protection. In view of the purpose of promoting protection for research, the SPC so far has been introduced by European regulations for medicinal products and for plant protection products such as herbicides and insecticides. By virtue of the direct effect of European regulations, the granting conditions are thereby governed by European Law, being subject to the jurisdiction of the European Court of Justice (ECJ).

***The* Neurim *Case*:** In the recent decision *Neurim Pharmaceuticals*, the ECJ *inter alia* had to substantiate its interpretation of Regulation (EC) No 469/2009 concerning the SPC for medicinal products. The referring UK court first and foremost was seeking clarification on the requirement pursuant to Article 3(d) of the Regulation that the marketing authorization referred to in the SPC application has to be the first authorization to market as a medicinal product.

The case concerned *Neurim*'s discovery that appropriate formulations of the natural hormone *melatonin* could be used as a medicine for insomnia. Based on a patent protecting a medical product for human use called *"Circadin"*, *Neurim* applied for a grant of an SPC. This application was rejected by the UK Intellectual Property Office as being contrary to Article 3(d) of the Regulation, since an earlier marketing authorization already had been granted for a medical use of melatonin with respect to regulating the seasonal breeding activity of sheep under the mark "*Regulin*".

***ECJ Ruling*:** The Court followed the opinion of the Advocate General and decided that the mere existence of an earlier marketing authorization obtained for a veterinary medicinal product does not preclude the grant of a SPC for a different application of the same product for which marketing authorization has been granted, provided that the application is within the limits of the protection conferred by the basic patent relied upon for the purposes of the application for the SPC. Furthermore, Article 13 (1), defining the duration of the SPC, equally must be interpreted as meaning that it refers to the marketing authorization of a product that comes within the limits of the protection conferred by the basic patent relied upon for the purposes of the SPC application.

The reasoning is formal and logical, as it is not only based on the wording and context of the Regulation, but also on its protective purpose, as the introduction of SPC was meant to foster research within the Member States, by preventing a relocation of research centers due to a lack of adequate protection. In these premises, the decision rightly broadens the application range of SPCs by including usage patents for new medical developments of earlier known medicinal products in the scope of supplementary protection.

VICTORIES

Summary Judgment Victory for Google in *Jurin v. Google Inc.*

The firm recently obtained a complete summary judgment victory for Google in a trademark action in the Eastern District of California. The plaintiff, Daniel Jurin, asserted Lanham Act claims for trademark infringement, false advertising and false designation of origin, and trademark dilution, as well as common law trademark infringement and unfair competition under California state law relating to Google's keyword advertising program, AdWords. The plaintiff claimed that Google was liable for third party advertisers' use of Plaintiff's trademark "styrotrim" in ad text in Google's AdWords program, as well as third party advertisers' decisions to bid on "sytrotrim" as a keyword.

These types of claims have been asserted against Google numerous times in courtrooms around the country, and the firm has successfully prevented plaintiffs from prevailing in each case in which the firm represented Google—often with plaintiffs voluntarily dismissing their cases. This plaintiff's persistence proved futile when Quinn Emanuel obtained a summary judgment order in Google's favor on all claims. The Court found that Plaintiff had "absolutely no evidence" that anyone was confused by the alleged uses, and that Plaintiff had "absolutely no evidence" that there had been any false statements in any advertisements. The Court also agreed with Quinn Emanuel that Plaintiff could not prove that his trademark has the requisite level of fame required for a claim of dilution.

Two Quick Victories at the ITC

In two unrelated investigations before the International Trade Commission, the firm achieved termination based on the complainants' voluntary withdrawal of their investigations against our clients. In Inv. No. 337-TA-815, Quinn Emanuel represented Sony against patent infringement allegations by an Arizona-based digital projector company called Compound Photonics. Compound Photonics filed a Complaint in the ITC to exclude Sony's ultra-high-end digital cinema and home theater projectors from importation in the United States. Compound Photonics' withdrawal and request for termination came just weeks before trial and after discovery and pre-hearing briefing had been done. On the verge of trial, the ALJ issued two orders both in Sony's favor—one in which we were able to strike Compound Photonics' validity and domestic industry arguments and the other in which we defeated Compound Photonics' attack on our invalidity positions. Upon receipt of the orders, Compound Photonics' counsel informed Sony of its intent to drop its ITC case in its entirety. In Inv. No. 337-TA-848, Peregrine Semiconductor withdrew its complaint against our clients RF Micro Devices, Motorola Mobility and HTC mid-way through discovery, after the ITC staff agreed to our claim construction positions on the asserted patents. Facing the likelihood that its patents would be found invalid or non-infringed, Peregrine walked away from its case.

Landmark Victory for USC on Expert Opinion before the California Supreme Court

The firm won a unanimous victory in the California Supreme Court that not only protected the University of Southern California from more than $1.2 billion in alleged lost profits, but also established that trial judges have a duty to act as "gatekeepers" against unreliable expert witness testimony, a landmark ruling that will have an important impact on business litigation in California.

In 1996, USC contracted with a small company, Sargon Enterprises, Inc., to conduct a clinical study of a new dental implant developed by Sargon. In a trial at which USC was represented by another law firm, a jury found that USC had breached its contract and awarded Sargon several hundred thousand dollars in direct damages. Sargon appealed, claiming that it was entitled to lost profits as well, and the Court of Appeal remanded the case for a new trial on lost profits. On remand, Sargon's damages expert opined that the company's lost profits ranged from $220 million to $1.18 billion. The expert arrived at these large numbers by positing that market share in the dental implant industry is based primarily on "innovativeness" and that due to the "innovativeness" of the company's implant, absent breach of the clinical study, Sargon would have become a leader in the global dental implant industry.

Now represented by Quinn Emanuel, USC moved to exclude Sargon's expert on the ground that his testimony lacked any reliable basis and was speculative. Under the Supreme Court's 1995 decision in *Daubert v. Merrell Dow Pharmaceuticals, Inc.*, 516 U.S. 869 (1995), federal courts have a duty to exclude such expert testimony, but California law did not clearly impose any analogous duty, and many California trial judges routinely allowed virtually any expert testimony in civil cases to go to the jury, without regard to its reliability. Nevertheless, the firm persuaded the trial judge to review the expert's lost profits opinions, and after conducting an eight-day evidentiary hearing, the judge excluded the expert's testimony because it was speculative and lacked any reliable basis.

The Court of Appeal reversed, ruling that any challenges to the expert's reasoning were for the jury to resolve, but Quinn Emanuel successfully petitioned the California Supreme Court, which grants review in less than 1.5% of civil, to review case. Arguing in the California Supreme Court only two days after being before the U.S. Supreme Court, Kathleen Sullivan, the head of the firm's appellate group, persuaded the California Supreme Court to overturn the Court of Appeal and rule for USC in a unanimous 7-0 decision.

In addition to protecting USC against $1.18 billion in lost profits, the California Supreme Court's decision in *Sargon Enterprises v. USC* establishes that California trial courts have a duty to exclude speculative and unreliable expert testimony. Using language similar to *Daubert*, the Court held that trial judges have a "gatekeeping" responsibility, which requires them to exclude expert testimony that is based on invalid or unreliable reasoning. This now clearly established responsibility will enable businesses litigating in California courts to exclude speculative and unreliable expert testimony. Also, by bringing California practice more in line with federal practice, the *Sargon* decision removes a significant incentive for forum-shopping in complex business cases.

The *Sargon* decision also establishes another principle that may have a wide ranging impact on business litigation. It is well settled that new businesses seeking lost profits bear a heavy burden because they have no track record of profitability. Small businesses such as Sargon frequently claim that they would have grown into much larger companies absent some tort or breach of contact but that they should not be subject to the standard for new businesses because they already were earning some small profit. The *Sargon* decision makes clear that claims that a small business would grow into a much larger entity are subject to the same burden of proof. This ruling will change the dynamic in cases in which start-ups and other small companies seek large lost profit awards based on growth that they alleged that they would achieve. Moreover, because of California's leading role in the high-tech industry involving so many start-ups, this aspect of the *Sargon* decision is likely to influence decisions in other jurisdictions. Q

(Noted With Interest continued from page 5)

found this rule incompatible with the *Qualitex* court's requirement that there be "an individualized, fact-based inquiry into the nature of the trademark, [which] cannot be read to sanction an industry-based per se rule." *Id*. It also expressed doubt that such a *per se* rule was necessary in the fashion industry, even where "color can serve as a tool in the palette of a designer," because "the functionality defense does not guarantee a competitor 'the greatest range for [his] creative outlet, . . . but only the ability to fairly compete within a given market." *Id.* at *11 (citations omitted).

Notwithstanding its lengthy discussion of aesthetic functionality, the court never decided whether that defense could invalidate Louboutin's Red Sole Mark. Instead, it concluded that the Red Sole Mark has the "requisite 'distinctness' to merit protection [only] when used as a red outsole contrasting with the remainder of the shoe," *id.* at *12, and that when construed in that limited way, YSL's monochromatic shoes were non-infringing.

Based on the Second Circuit's ruling, owners of color marks should consider that even if their marks have no utilitarian function, they might be invalidated nevertheless if their use eliminates competition by monopolizing all usable colors. Likewise, competitors desiring to use another's color mark that has gained distinctiveness—think Tiffany & Co.'s "robin's egg blue" boxes, Maker's Mark's red dripping wax seals, or Owens Corning's pink insulation (all of which have been asserted as trademarks)—should recognize that they do so at their peril so long as the use of other color options would not significantly hinder their ability to compete. Q

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

business litigation report

quinn emanuel urquhart & sullivan, llp

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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
312-705-7400

WASHINGTON, D.C.
1299 Pennsylvania Ave. NW, Suite 825
Washington, DC 20004
202-538-8000

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
Paveletskaya Plaza
Paveletskaya Square, 2/3
115054 Moscow
Russia
+7 499 277 1000

HAMBURG
An der Alster 3
20099 Hamburg
Germany
+49 (0) 40 89728 7000

PARIS
25 rue Balzac
75008 Paris
France
+33 (0)1 53 53 68 97