

March 2024

quinn emanuel

quinn emanuel urquhart & sullivan, llp | business litigation report

abu dhabi | atlanta | austin | beijing | berlin | boston | brussels | chicago | dallas | doha | hamburg | hong kong | houston | london | los angeles | mannheim | miami | munich
neully-la defense | new york | paris | perth | riyadh | salt lake city | san francisco | seattle | shanghai | silicon valley | stuttgart | sydney | tokyo | washington, d.c. | wilmington | zurich

California Takes Steps To Curb Greenwashing

In the rapidly evolving landscape of climate-conscious business practices, California has introduced leading legislation targeted against false and misleading claims about the environmental impact or benefits of a product or service (known as greenwashing) with the introduction of Assembly Bill 1305 ("AB 1305"). This legislative initiative is aimed at enhancing the credibility of climate-related claims, particularly in the voluntary carbon market. As businesses grapple with the complexities of navigating carbon reduction goals and green claims, the need for transparent and standardized practices becomes increasingly evident. Whether AB 1305 is the answer remains to be seen. Indeed, the U.K. Financial Conduct Authority recently attempted to introduce similar rules against greenwashing, but was forced to delay enactment of the rules in the face of industry response. See Press Release, Financial Conduct Authority, *FCA Proposes New Rules To Tackle Greenwashing* (October 25, 2022) <https://www.fca.org.uk/news/>

[press-releases/fca-proposes-new-rules-tackle-greenwashing](#); Kristen McGachey, *FCA Delays Final Rules for ESG Labelling Regime*, FINANCIAL NEWS, July 18, 2023, <https://www.fnlondon.com/articles/fca-delays-final-rules-for-esg-labelling-regime-20230718>; Elliot Gulliver-Needham, *FCA Delays SDR Policy Statement Until Q4 2023*, INVESTMENT WEEK, July 18, 2023, <https://www.investmentweek.co.uk/news/4120330/fca-delays-sdr-policy-statement-q4-2023>. This article explores the multifaceted aspects of AB 1305, including what led to its enactment, the required disclosures, key takeaways, costs, and next steps for businesses.

Anti-Greenwashing Efforts

Spurred by the prevalence and impact of climate action and policies over the past few decades, businesses began marketing their climate friendly efforts to bolster their reputations in the eyes of the public and shareholders, sometimes beyond their capabilities.

(continued on page 2)

INSIDE

Recent Developments
Regarding the Patent
Prosecution Laches Doctrine
Page 4

Practice Area Updates:

Blockchain and Digital Asset
Litigation
Page 6

Trademark and Copyright
Page 7

Restructuring and
Insolvency
Page 8

Triumph of Justice: Quinn
Emanuel Paris Secures Victory
for Republic of Tunisia Against
USD 12 Billion Claim And
Other Victories
Page 9

Paul Dacier Joins Quinn Emanuel as New Boston Partner

Paul Dacier has joined the firm as a partner in the Boston office. Previously Executive Vice President and General Counsel at Indigo Agriculture Inc. and at EMC Corporation, Paul is a highly accomplished chief legal officer and experienced member of senior management teams. He is a luminary of Boston's legal establishment with deep roots in its tech sector.

London Office Hires Two Female Partners

Disputes Partner Gemma Anderson and Arbitration Specialist Melis Acuner have joined the London Office as partners. Gemma was previously at Morrison & Foerster where she was a partner specializing in complex cross-border disputes, whereas Melis was previously at Cadwalader Wickersham & Taft where she was the lead partner in its international arbitration and litigation practice. Both have outstanding credentials and will be important contributors to the London Office.

Former White Collar Prosecutor Avi Perry Joins Washington D.C. Office

Straight from the U.S. Department of Justice, where he served for nine years, Avi Perry joins Quinn Emanuel's D.C. Office as Co-Chair of the Securities Litigation Group and Co-Chair of the Commodities and Derivatives Group. He is also a member of the firm's elite Investigations, Government Enforcement and White Collar Criminal Defense Group.

This phenomenon became known as “greenwashing”—an act of misrepresenting that one’s practices, products, or services are environmentally friendly when they are not, or at least not to the extent claimed or implied.

Multiple federal agencies have taken anti-greenwashing action. The U.S. Securities and Exchange Commission (“SEC”) proposed rules in March 2022 that would require extensive climate-related disclosures (*e.g.*, the use of voluntary carbon offsets (“VCOs”)). *See* The Enhancement and Standardization of Climate-Related Disclosures for Investors, SEC Release Nos. 33-11042; 34-94478, (Mar. 21, 2022). The Federal Trade Commission (“FTC”) established “Green Guides” intended to scrutinize green marketing claims. *See* 16 C.F.R. § 260 (Dec. 20, 2022). The U.S. Commodity Futures Trading Commission (“CFTC”) formed the Environmental Fraud Task Force that is focused on greenwashing, specifically fraud and manipulation in carbon credit markets and misrepresentations about environmental, social, and governmental (“ESG”) investment strategies. *See* CFTC Division of Enforcement Creates Two New Task Forces, CFTC Release No. 8736-23 (June 29, 2023).

Not to be outdone by the federal government, California passed three separate climate-focused disclosure laws: the Voluntary Carbon Markets Disclosure Act (AB 1305), the Climate Corporate Data Accountability Act (SB 253) (*n.b.*: SB 253 requires U.S. companies with total annual revenues over \$1 billion that do business in California to publicly disclose all Scope 1, 2, and 3 greenhouse gas (“GHG”) emissions annually), and the Climate-Related Financial Risk Act (SB 261) (*n.b.*, SB 261 requires U.S. companies with total annual revenues over \$500 million that do business in California to publicly disclose climate-related financial risk in accordance with the Task Force on Climate-Related Financial Disclosures framework on a biennial basis). This article focuses on AB 1305. At its core, AB 1305 seeks to bridge the gap between corporate sustainability rhetoric and concrete actions directed at positive environmental impact. Primarily, the bill mandates that businesses engaging in carbon offset activities or making specific climate claims provide detailed and accurate information regarding their endeavors. *See* AB 1305, 2023 Leg. § 1 (Cal. 2023). This includes disclosing the methodologies employed in calculating carbon reductions, ensuring that claims are substantiated and not merely marketing ploys. AB 1305 also places a significant emphasis on harmonizing the terminology used in the voluntary carbon market, aiming to contribute to a standardized and understandable framework for stakeholders. For example, companies that sell or market a product that claims to be a “greenhouse gas emissions offset,” a “voluntary emissions reduction,” or a “retail offset” must disclose prescribed details on

their website to substantiate their claims. Likewise, entities that make claims regarding net zero emissions or carbon neutrality, or that make claims that a product does not add net carbon dioxide or greenhouse gases to the atmosphere, must disclose how such claims were accomplished and measured.

Required Disclosures

The disclosure requirements apply to any entity operating in California regardless of size, making AB 1305 the baseline expectation compared to its counterparts, including the recently enacted SB 253 (\$1 billion in annual revenue required) and SB 261 (California companies with over \$500 million in annual revenue). AB 1305 applies to California *and* foreign entities with no minimum activity threshold.

The legislation provides no definition for what it means to “operate” or “make claims” in California. Accordingly, such terms may be construed broadly to provide sweeping force to AB 1305. Indeed, it is difficult to determine or predict the confines of AB 1305—not only because this first-of-its-kind legislation has critical undefined terms, but also because of the nature of internet communications. Public companies, for example, often make statements regarding climate policies or practices in SEC filings, which are available online. But even private companies regularly publish these statements on their websites, in advertising and marketing materials and in sustainability reports. To the extent these companies “operate” in California, they may be subject to AB 1305 for “making claims” regarding their climate initiatives. Similarly, even if a company has no California operations, mere marketing of VCOs may subject it to AB 1305, as “marketing” remains undefined. On its face, AB 1305 could conceivably cover every claim on a website of a company as long as the website is accessible in California—an incredibly broad application.

Because significant aspects of AB 1305 are open to interpretation, many questions regarding its scope and applicability will likely be litigated in the coming years. Until then, companies will be expected to comply with various disclosure obligations:

Section 44475 applies specifically to business entities that market or sell VCOs within the state. Such businesses are required to post all of the following information on their website:

- Details regarding the applicable carbon offset project, including all of the following information:
 1. The specific protocol used to estimate emissions reductions or removal benefits.
 2. The location of the offset project site and project timeline, including the start date.
 3. The date when a specified quantity of emissions

reductions or removals started, will start, was modified, or was reversed.

4. The type of project, including whether the offsets from the project are derived from a carbon removal, an avoided emission, or, in the case of a project with both carbon removals and avoided emissions, the breakdown of offsets from each.
 5. Whether the project meets any standards established by law or by a nonprofit entity.
 6. The durability period for any project for which the seller knows or should know that the durability of the project's greenhouse gas reductions or greenhouse gas removal enhancements is less than the atmospheric lifetime of carbon dioxide emissions.
 7. Whether there is independent expert or third-party validation or verification of the project attributes.
 8. Emissions reduced or carbon removed on an annual basis.
- Accountability measures if a project is not completed or does not meet the projected emissions reductions or removal benefits, including details about what an entity will do if carbon storage projects are reversed or future emissions reductions do not materialize.
 - Data and methods to reproduce and verify the number of emissions reduction or removal credits issued.

Section 44475.1 applies to entities that operate within California or purchase or use VCOs sold within the state and make marketing claims regarding emissions. These businesses must disclose all of the following on their website:

- The business selling the VCO and a project ID number or name if applicable.
- The offset project type, including whether it is purchased or derived from a carbon removal, avoided emission, or combination of both.
- The protocol used to estimate emissions reductions or removal benefits.
- Whether there is independent third-party verification.

Section 44475.2 applies to entities that are operating in the state and are making emissions marketing claims within the state. Their disclosure requirements include:

- All information documenting how its emissions claim was determined to be accurate or actually accomplished or how its interim progress is measured.
- Whether there is independent third-party verification of the company data and claims listed.

As noted above, it is unclear what activities would constitute operating in California and thereby trigger the disclosure requirements under this Section. The statute may be read broadly to encompass any company subject

to personal jurisdiction in California, for example.

Enforcement and Costs

AB 1305 imposes civil fines of not more than \$2,500 each day that information is not available or is inaccurate on an entity's website. Such penalties cannot exceed a total amount of \$500,000. Enforcement of AB 1305 will come in the form of civil actions brought by California's Attorney General, district attorneys, county counsel, or city attorneys in courts of competent jurisdiction. *See* AB 1305, 2023 Leg. § 1 (Cal. 2023).

Because private litigants cannot enforce the terms of AB 1305, there is no immediate risk of a flood of enforcement suits. However, because AB 1305 (and SB 253 and SB 261) impose affirmative disclosure obligations, companies may nevertheless experience an increase in litigation involving climate claims, including securities class actions. This is due to the additional public information that will be available to enterprising plaintiffs, activists, and regulatory authorities who were already pursuing litigation based on environmental claims before the passage of AB 1305. The disclosure obligations of AB 1305 will, in effect, give such entities free pre-suit discovery into a company's underlying ESG data and strategies, exposing those companies to greater scrutiny—particularly public companies that have expressed various ESG goals and commitments to their shareholders and the public. Companies will need to be prepared to defend not only the substance of their statements, but also the due diligence exercised in making them, their methodology and accuracy, and corporate oversight of the process.

Companies and their legal teams will want to evaluate the risk of liability and weigh it against the value of their current or expected climate-related statements to ensure the risk is worth the reward. Companies likely have already started to adjust their climate-related communications in response to SEC, FTC, and CFTC actions, but one can expect more drastic changes given the increased pressure and consequences of failing to comply (or complying) with AB 1305.

Key Takeaways

AB 1305 sets the stage for a paradigm shift in how businesses, particularly private businesses, approach and communicate their environmental commitments. Looking ahead, it is anticipated that AB 1305 will catalyze a new era of corporate practices where climate goals are not merely lofty marketing statements but verifiable and quantifiable commitments. Moreover, AB 1305 represents significant legislation at the state level to address greenwashing by establishing robust requirements for businesses to substantiate their climate-related claims. The legislation aims to ensure that environmental

assertions are accurate, transparent, and align with genuine sustainability efforts.

The legislation also places a particular emphasis on fortifying the integrity of voluntary carbon markets. Businesses engaging in carbon offset activities are now required to provide detailed information on methodologies used in calculating carbon reductions, contributing to a more standardized and credible voluntary carbon market.

AB 1305 seeks to standardize the terminology used in climate-related claims, creating a consistent framework that enhances clarity for businesses, consumers, and other stakeholders. This move towards standardized disclosure aims to reduce ambiguity and enhance the reliability of reported environmental achievements.

One of the enduring impacts of AB 1305 may lay in its potential to reshape consumer trust. By demanding accurate and substantiated climate-related claims, the legislation signals a departure from the era of greenwashing, with a goal of fostering an environment in which businesses are held accountable for their environmental stewardship. This shift towards transparency is likely to resonate with environmentally conscious consumers who are increasingly demanding authenticity and ethical practices from the brands they support.


Further, the legislation's influence is expected to extend beyond California's borders. As a trendsetter in environmental regulations, California's adoption of AB 1305 may prompt other jurisdictions to reconsider and enhance their own climate disclosure frameworks. This harmonization of standards could contribute to a more cohesive global effort in addressing climate change, with businesses worldwide aligning their practices with increasingly stringent environmental expectations. Certainly, companies outside California will wait to see

how AB 1305 will be enforced, how long it will take before it is applied in other states, and what the FTC will update next in its Green Guides.

These key takeaways underscore the transformative nature of AB 1305, not only in terms of compliance for businesses but also in shaping a more transparent, accountable, and sustainable future for the business landscape and the fight against climate change.

Next Steps

AB 1305 became effective January 1, 2024—a tight turnaround for companies to ensure that they are in compliance with the new law. With the new legislation now in full force, companies should begin taking at least the following steps:

- Analyze current advertising and marketing claims to determine whether they are subject to the new regulation;
- Substantiate current or planned net zero, carbon neutrality, or emissions reduction disclosures;
- Ensure that any claims related to future goals or achievements are backed by a substantive plan;
- Gather data on offsets sufficient to make any disclosures;
- Exercise due diligence when purchasing carbon credits to ensure they meet market and/or regulatory expectations;
- Develop and maintain detailed records regarding carbon credits;
- Engage a third-party to perform independent audits or reviews; and
- Prepare a plan for a consistent assessment of marketing claims. 

NOTED WITH INTEREST

Recent Developments Regarding the Patent Prosecution Laches Doctrine

Prosecution laches is an equitable defense in patent litigation that dates back to the early 1900s. *See Woodbridge v. United States*, 263 U.S. 50 (1923); *Webster Elec. Co. v. Splitdorf Elec. Co.*, 264 U.S. 463 (1924). An alleged infringer may invoke this defense to render a patent unenforceable if the patentee's delay in prosecution is unreasonable and inexcusable, and there is some corresponding prejudice attributable to the delay. Unlike traditional laches that is aimed at protecting a particular competitor, a primary purpose of prosecution laches is to serve the public's interest. For example, the Supreme Court has expressed that “[a]ny practice by the inventor and applicant for a patent through which he deliberately and without excuse postpones beyond the

date of the actual invention, the beginning of the term of his monopoly, and thus puts off the free public enjoyment of the useful invention, is an evasion of the statute and defeats its benevolent aim.” *Woodbridge*, 263 U.S. at 50.

Over the past century, the doctrine of prosecution laches has been raised and applied primarily in the context of “submarine” patents. The term “submarine patent” refers to a former practice by patentees in which continuations in a patent family were filed and abandoned successively, thereby keeping the family alive as long as possible, and allowing the patentee to craft claims covering interim developments in the industry. Because, prior to changes in U.S. patent law in the 1990s, the term of a U.S. patent was 17 years from issuance, patentees who employed a

submarine patent strategy could issue patent claims after industry adoption of a technology and prolong the life of those patent claims. The existence of these patents remained hidden until an opportune moment for the patentee, at which point they would issue and “surface” to catch companies and the public off guard.

On June 8, 1995, however, the term of a patent was changed from 17 years from issuance to 20 years from filing due to adoption of the Uruguay Round of the General Agreement on Tariff and trade (“GATT”). As a result of this change, patent applications flooded the PTO in early 1995 just prior to institution of the new rules—a period later known as the “GATT Bubble.” After the new rules took hold, patentees were generally dissuaded from “submarining” a patent because delays in prosecution had no practical effect on the overall term of the patent, which now runs from filing and not issuance. Nevertheless, numerous submarine patents were filed as part of the GATT Bubble and later litigated, leading to the resurgence of the prosecution laches defense. *See, e.g., In re Bogese*, 303 F.3d 1362, 1369 (Fed. Cir. 2002) (finding patents unenforceable based on an eight-year delay); *Symbols Techs., Inc. v. Lemelson Med.*, 277 F.3d 1363, 1366-68 (Fed. Cir. 2002) (finding asserted patents unenforceable due to 18-39 year delays); *Cancer Rsch. Tech. Ltd. v. Barr Labs., Inc.*, 625 F.3d 724, 728-29 (Fed. Cir. 2010) (requiring patentee’s delay in prosecution be unreasonable and inexcusable under the totality of circumstances, and prejudice attributable to the delay).

Even now, several decades after the GATT amendments, the Federal Circuit remains faced with cases in which prosecution laches of GATT Bubble submarine patents is at issue. *See* <https://www.quinnemanuel.com/the-firm/publications/lead-article-snooze-think-again-prosecution-laches-and-why-applicants-and-litigants-should-beware/> (Feb. 8, 2022). For example, in *Hyatt v. Hirshfeld*, prosecution laches was raised in the context of four patent applications filed during the GATT Bubble. 998 F.3d 1347 (Fed. Cir. 2021). At issue in the case was the PTO’s rejection of claims across four of the applications filed by the patentee, Hyatt. Hyatt filed suit under 35 U.S.C. § 145 seeking issuance of the rejected claims, and the PTO moved to dismiss the action based on prosecution laches. The PTO’s argument was that Hyatt had engaged in a pattern of delay in prosecuting his applications, including in adding claims between 12 and 28 years after their claimed priority dates. The district court concluded that prosecution laches did not bar the issuance of the patent applications at issue. However, on appeal, the Federal Circuit vacated and remanded that determination, finding that the district court erred by failing to consider the “totality of circumstances,” including facts showing that Hyatt’s delay in prosecuting

the claims and applications was unreasonable and inexcusable, and that he had obstructed the PTO from examining the applications at issue. *Id.*

The doctrine was again addressed by the Federal Circuit in *Personalized Media Commc’ns v. Apple Inc.* (“PMC”), another case in which the patentee had filed hundreds of GATT Bubble applications. 57 F.4th 1346 (Fed. Cir. 2023). In *PMC*, the Federal Circuit affirmed the district court’s finding of unenforceability due to prosecution laches, which was based on the totality of the circumstances, including that the patentee had waited 8 to 14 years to file its subject applications and at least 16 years to present its subject claims for examination. In particular, though extension of the patent monopoly was a concern, both the district court and the Federal Circuit specifically referenced the patentee’s inexcusable delay in introducing the accused subject matter into the patent claims (*i.e.*, “the subject encryption and decryption limitations”) as one of the bases for finding prosecution laches.

Despite traditionally being raised in the context of submarine patents, prosecution laches is a broad equitable doctrine and, thus, practitioners should be aware that its elements and policy goals can apply in broader contexts. For example, Quinn Emanuel recently successfully raised prosecution laches as a defense against two post-GATT patents in which the patentee’s delays in prosecution were not directed to extending the life of the subject patents. Rather, in *Sonos, Inc. v. Google LLC*, the patentee, Sonos, waited more than a decade to file the two patents at issue and raise new subject matter in its claims. Sonos did this not to extend the life of the patents, but to spring its patents on Google after Google and the industry had already released the accused technologies. No. C 20-06754 WHA, 2023 WL 6542320, at *2 (N.D. Cal. Oct. 6, 2023). Judge William H. Alsup of the Northern District of California found that prosecution laches applied to bar Sonos’s claims based on the totality of the circumstances, including that Sonos had waited over a decade to introduce the specific subject matter at issue into its claims and, importantly, that the newly-added subject matter was not supported by or disclosed in Sonos’s priority applications. The court found that “in 2019, during the prosecution of the applications for the patents in suit, Sonos amended the specification to insert new matter, despite telling the patent examiner the inserted matter was not new.” *Id.* at *1. Additionally, Sonos accelerated prosecution of the two applications using the PTO’s “Track One” prioritized examination procedures, while simultaneously disclosing over 70,000 pages of prior art and other documents to the PTO examiner. *Id.* at *12-13.

Notably, as part of its analysis, the district court expressly found that prosecution laches is still a viable

defense for post-GATT patents. The district court noted, for example, that if the doctrine were dead with respect to post-GATT patent applications, “it would have been easy for the Federal Circuit to say so in opinions issued after 1995.” *Id.* at *19. The district court further reasoned that the Supreme Court was less concerned with the nuances of patent term duration in the context of equitable defenses, and more concerned with manipulation of the patent monopoly for profit at the expense of the public. *Id.*

Although there was no extension of the expiration date of the two post-GATT patents at issue in *Sonos*, the district court nevertheless found the application of prosecution laches was warranted in view of the patentee’s “designed delay” in prosecution that “imposed limitations on the public’s right to practice the invention after the

fact, at considerable expense to Google, other companies, and consumers.” *Id.* at *20.

Takeaways

The recent Federal Circuit *PMC* and Northern District of California *Sonos* decisions indicate that prosecution laches is still a viable tool in an accused infringer’s arsenal of defenses, even when faced with post-GATT patents. Patentees and litigants should take care to identify relevant fact patterns, particularly those in which a patentee has filed successive continuations in a patent family and appears to have crafted claim language specifically directed to products and technologies released in the market long after the patentee’s corresponding priority application(s). [Q](#)

PRACTICE AREA NOTES

Blockchain and Digital Asset Litigation

Lejilex Goes on the Offensive Against the SEC, with a Challenge to the SEC’s Authority to Regulate

Lejilex, founded in 2023 by Mike Wawszczak and Eli McNutt in Fort Worth, Texas, intends to launch a digital asset trading platform to be known as Legit.Exchange. It wants to enable non-custodial peer-to-peer trading of digital assets through the use of “smart contracts.” But its platform launch is on hold, due—according to a complaint filed on February 21—to a “genuine threat” of SEC enforcement against it, if it proceeds with its planned exchange launch. Rather than waiting for that enforcement action, Lejilex has chosen to go on the offensive. With the assistance of lobbying group Crypto Freedom Alliance of Texas (CFAT), Lejilex has filed suit against the SEC in the Northern District of Texas. Complaint, *Lejilex v. SEC et al.*, No. 4:24-cv-00168-O (N.D. Tex. filed Feb. 21, 2024).

The suit’s core argument is that the SEC’s enforcement power does not extend to digital assets. The Securities Act and the Exchange Act authorize the SEC to regulate transactions involving “securities,” a term with a lengthy and technical definition. See 15 U.S.C. §77b(a)(1); 15 U.S.C. §78c(a)(10) (similar). That definition, as Lejilex points out, does not encompass everything that might be considered an “investment” or traded between investors on markets. Lejilex argues, with reference to *SEC v. W.J. Howey Co.*, 328 U.S. 293 (1946), that an “investment contract” under the meaning of the Securities Act and Exchange Act encompasses only a transaction that contemplates some form of common enterprise, with ongoing obligations on the part of the issuer or seller toward the buyer, not present in most blockchain-based

tokens. *Lejilex Compl.* ¶¶ 21-26. Because of this, according to Lejilex, digital assets of the kind Lejilex envisions being traded on its proposed exchange are not “investment contracts,” nor do they fall under any other prong of the definition of “security,” and are therefore not within the SEC’s statutory authority.

Nevertheless, the SEC has undertaken multiple enforcement actions against digital asset trading platforms, most notably Coinbase and Binance. In those enforcement actions, the SEC has claimed that many of the digital assets that Lejilex wishes to allow to be traded on its platform constitute “securities” and fall within its regulatory authority. See Complaint, *SEC v. Coinbase, Inc.*, No. 1:23-cv-04738 (S.D.N.Y. filed June 6, 2023); Complaint, *SEC v. Binance Holdings Ltd.*, No. 1:23-cv-01599 (D.D.C. filed June 5, 2023). That leaves Lejilex—like many current or aspiring digital asset trading platforms—with a dilemma: it cannot facilitate trading of these digital assets without running the risk that the SEC could bring a potentially business-ending enforcement suit against Lejilex for failure to register as a securities exchange, broker, or clearing agency. But neither can it register, because the SEC has not promulgated any regulation governing the registration of digital asset platforms, or clearly laying out what such platforms must do to comply with securities laws. Indeed, the SEC recently denied Coinbase’s petition for such rulemaking. See Letter from Vanessa Countryman, Secretary, SEC (Dec. 15, 2023), <http://tinyurl.com/4ezj2wa2>; see also Gary Gensler, SEC Chair, *Statement on the Denial of a Rulemaking Petition Submitted on Behalf of Coinbase Global, Inc.* (Dec. 15, 2023), <http://tinyurl.com/3w7z9xftp>.

Lejilex asks the court to resolve its dilemma, bringing

suit under the Declaratory Judgment Act, 28 U.S.C. §2201. Lejilex seeks “to determine whether it will be able to conduct its business without risking the severe penalties that the SEC is currently seeking against Coinbase and others,” and so requests a declaration that “secondary-market sales of digital assets . . . are not sales of securities as defined by the Exchange Act of 1934 and the Securities Act of 1933.” *Lejilex Compl.* ¶¶ 91, 94.

Bringing suit in advance of any enforcement action is a novel and creative approach to securing regulatory certainty for Lejilex’s business. And bringing that suit in the Northern District of Texas, which may be more inclined to skepticism about the SEC’s claims to regulatory authority than the Southern District of New York or District of D.C. (where Coinbase and Binance are pursuing many of the same arguments), raising the likelihood of a circuit split on these timely issues. We look forward to seeing the results of Lejilex’s quest for regulatory certainty.

Trademark and Copyright

Supreme Court Considers Whether Copyright Plaintiffs May Recover Damages for Infringing Acts Occurring Outside the Copyright Act’s Three-Year Statute of Limitations

The Supreme Court recently heard argument in a case that stands to have significant implications for the scope of damages available in a copyright case. In *Nealy v. Warner Chappel Music, Inc.*, the Court is asked to decide whether, under the discovery rule, a copyright plaintiff can recover damages for infringing acts that occurred outside the Copyright Act’s three-year statute of limitations. The discovery rule generally measures the limitations period from when the plaintiff discovered or reasonably should have discovered its claim, whereas the injury rule measures the limitations period in a copyright case from the act of infringement. The defendant seeks reversal of the Eleventh Circuit’s holding that, where a plaintiff timely commences suit under the discovery rule, the Copyright Act’s three-year statute of limitations does not preclude the plaintiff from obtaining damages for acts that occurred more than three years before filing suit and before the plaintiff’s discovery of its claim.

Circuit courts are split on this question based largely on diverging interpretations of the Supreme Court’s 2014 decision in *Petrella v. Metro-Goldwyn-Mayer, Inc.*, 572 U.S. 663 (2014). There, the Court held that a defendant cannot invoke the doctrine of laches (*i.e.*, unreasonable, prejudicial delay in bringing suit) to bar a timely claim seeking damages for acts within the Copyright Act’s three-year window for commencing suit. *Id.* at 667. The Court noted that, under the separate-accrual rule, each act of infringement “starts a new limitations period,” and the

plaintiff sought damages only for infringing acts within the limitations period. *Id.* at 668, 671. Thus, a defendant cannot use laches to argue that the plaintiff’s failure to bring suit over infringing acts outside the limitations period bars a claim for damages as to infringing acts within the limitations period. In reaching its decision, the Court explained that the Act’s statute of limitations “itself takes account of delay” because a plaintiff “can gain retrospective relief only three years back from the time of suit” and “[n]o recovery may be had for infringement in earlier years.” *See id.* at 677. The Court noted that it was not passing on the question of whether the discovery rule applies in copyright cases, which was not at issue. *See id.* at 670 n.4.

The Second Circuit read *Petrella* to mean that, even where the discovery rule applies to determine when a claim accrues, the Copyright Act nonetheless limits recovery to “damages incurred during the three years prior to filing suit.” *See Sohm v. Scholastic Inc.*, 959 F.3d 39, 52 (2d Cir. 2020). The Ninth and Eleventh Circuits have disagreed with that reading. Both courts held that the Act’s three-year statute of limitations does not foreclose recovery of damages for infringing acts that occurred before the plaintiff discovered or reasonably should have discovered its claim, even if those acts occurred more than three years before suit. *See Starz Entm’t, LLC v. MGM Domestic Television Dist., LLC*, 39 F.4th 1236 (9th Cir. 2022); *Nealy v. Warner Chappel Music, Inc.*, 60 F.4th 1325 (11th Cir. 2023). The Ninth Circuit stated that the Second Circuit’s approach would “eviscerate the discovery rule.” *Starz Entm’t*, 39 F.4th at 1244. The Eleventh Circuit explained that a contrary reading of *Petrella* “ignores the question presented, conflates the Court’s discussion of claim accrual under the injury rule with the availability of damages under the discovery rule, and cannot be squared with the Court’s express preservation of the discovery rule.” *Nealy*, 60 F.4th at 1334.

In addition to their differing readings of *Petrella*, the parties in *Warner* disagree over whether the Copyright Act’s statute of limitations cabins the scope of recoverable damages. The plaintiff argues that the limitations period for civil claims codified in Section 507(b) of the Copyright Act determines only when suit may be brought, not the scope of recoverable damages. That section provides that a civil action may not be brought unless it is commenced within three years of the claim’s accrual. Section 504 provides that a copyright owner may recover “the actual damages suffered” and “any profits” attributable to the infringement. The plaintiff also points to other sections of the Copyright Act and argues that where Congress sought to limit the temporal scope of damages for certain types of copyright infringement, it has done so explicitly.

The defendant argues, among other things, that

the Court should limit the scope of the discovery rule in copyright cases, contending that it has traditionally been applied only in cases of fraud, latent disease, or medical malpractice. The plaintiff has asserted that such arguments are beyond the question presented, which it claims the Court modified to assume the discovery rule applies. During argument, several justices questioned whether it was appropriate for the Court to decide the scope of the discovery rule in this case before it in light of the question presented. In a separate case, *Martinelli v. Hearst Newspapers LLC*, a cert petition is currently pending before the Supreme Court on the question of whether the discovery rule applies at all in copyright cases.

The Court's decision in *Warner* may have important implications for the scope of damages that plaintiffs can recover in copyright cases involving the discovery rule. Under current precedent, a plaintiff that files suit in the Second Circuit is foreclosed from obtaining damages for infringing acts that occurred more than three years before suit, whereas certain other circuits permit such recovery when the discovery rule applies and the suit is timely. A uniform rule in either direction will thus either expand or narrow the scope of damages recoverable when the discovery rule applies. In *Nealy*, the plaintiff filed suit in 2018, but seeks to recover damages for alleged infringement extending as far back as 2008, illustrating the difference the Court's decision of this issue stands to make in copyright cases going forward.

Restructuring and Insolvency

Potential Resurrection of Creditor Derivative Suits on Behalf of Debtor LLCs

In early February, a Delaware bankruptcy judge broke ranks with several of his fellow Delaware bankruptcy judges who have held that creditors' committees and/or individual creditors cannot obtain derivative standing to prosecute breach of fiduciary duty claims on behalf of the bankruptcy estate of a Delaware limited liability company.

On February 2, 2024, Judge Craig T. Goldblatt issued a 52-page "Memorandum Opinion" in *In re Pack Liquidating, LLC*, No. 22-10797 (CTG), 2024 WL 409830 (Bankr. D. Del. Feb. 2, 2024) holding that the Delaware Limited Liability Company Act does not preclude the bankruptcy court from granting the official creditors' committee standing to pursue estate causes of action (assuming it otherwise met the established standards for granting that relief).

Prior to this ruling, Delaware bankruptcy judges had issued three published opinions—*In re HH Liquidation, LLC*, 590 B.R. 211 (Bankr. D. Del. 2018) (Ret. J. Gross), *In re PennySaver USA Publishing, LLC*, 587 B.R. 445 (Bankr. D. Del. 2018) (Ret. J. Sontchi), and *In re Citadel Waterford City Disposal Partners, L.P.*, 603 B.R.

897 (Bankr. D. Del. 2019) (J. Carey)—and at least two bench rulings—*In re Dura Automotive Systems, LLC*, No. 19-12378 (J. Owens) and *In re Ector County Energy Center LLC*, No. 22-10320 (J. Dorsey)—holding that creditors, including official committees of unsecured creditors, cannot derivatively prosecute claims on behalf of a Delaware LLC (*Citadel* involved a Delaware limited partnership, which is governed by similar state law). Other than *Dura Automotive*, the judges who have denied creditor standing to sue derivatively on behalf of a Delaware LLC's estate have focused their rulings on breach of fiduciary duty claims. This makes sense, particularly in the context of fraudulent transfer claims, which under state law are creditor claims.

A member of a Delaware LLC (like a shareholder of a corporation) may sue derivatively for breach of fiduciary duties. Delaware LLC Act § 18-001. The Delaware LLC Act limits who can be a plaintiff in such an action to members or certain assignees of an LLC interest. *Id.* § 18-002. The Delaware Chancery Court examined the plain meaning of these statutes in 2010 in *CML V, LLC v. Bax*, 6 A.3d 238 (Del. Ch. 2010) and held that only members or assignees of LLC interests have standing to bring derivative actions. Thus, the court concluded, creditors of an LLC never have standing to bring derivative actions on behalf of an LLC. In reaching its conclusion, the *Bax* court noted that the LLC Act's guiding policy is to promote freedom of contracts. And creditors of an LLC, the court noted, generally have the ability to protect themselves, both through their agreements with the LLC and through their insistence on the inclusion of creditor protections in the LLC agreement. Moreover, creditors of an insolvent LLC are protected by state fraudulent transfer laws, as well as the avoidance provisions of the Bankruptcy Code in the event the LLC files for bankruptcy.

Judge Goldblatt's fellow judges focused their opinions on state law (*i.e.*, the Delaware LLC Act and the *Bax* decision) not on the Bankruptcy Code or the Third Circuit Court of Appeals' ruling in *Cybergenics*. In this seminal case—which is binding precedent for Delaware Bankruptcy Courts—the Third Circuit held that the bankruptcy court could authorize the committee to pursue certain estate claims and that such authority was implicit in the Bankruptcy Code. *Official Comm. of Unsecured Creditors of Cybergenics Corp. ex rel. Cybergenics Corp. v. Chinery*, 330 F.3d 548 (3d Cir. 2003).

In contrast, Judge Goldblatt's ruling is based on the premise that, "[w]hile an order granting a committee standing...can fairly be described as authorizing a 'derivative' lawsuit, it is a federal rather than state-law derivative action, and thus not the subject of the Delaware Limited Liability Company Act." *Pack Liquidating*, 2024 WL 409830 at *2. He therefore determined

that *Cybergenics* and *Bax* were not in conflict, and that *Cybergenics* controlled in the bankruptcy context. But even if they were in conflict, the outcome would be the same, as the U.S. Constitution's Supremacy Clause would require the authority that the Third Circuit found implicit in the Bankruptcy Code to preempt any contrary state law.

Judge Goldblatt noted that in the federal court's "hierarchical system of precedent" he was not "formally" bound to follow the rulings of his fellow judges, but recognized that there are "sound prudential reasons to strive for consensus" in multi-judge trial/bankruptcy courts. Consensus and clarity are important to the rule of law, and predictability is especially important in areas of commercial law (such as bankruptcy) where "parties can be expected to rely on consistent application of settled law

in their commercial dealings." *Id.* at *2, 16. Thus, he was "loath to break with the only three written opinions by judges of this Court to have addressed the topic." *Id.* at *2.

Nevertheless, the *Pack Liquidating* decision—which itself is not binding on other Delaware bankruptcy judges—gives rise to significant uncertainty. As a result, until a higher court decides the issue, creditors may be well-advised to negotiate for provisions in financing, cash collateral, or similar orders, or other so-ordered stipulations, prospectively granting standing to pursue claims on behalf of debtors notwithstanding any issue regarding whether creditors have the ability to file derivative suits on behalf of any debtor that is a Delaware LLC or LP.



VICTORIES

Triumph of Justice: Quinn Emanuel Paris Secures Victory for Republic of Tunisia Against USD 12 Billion Claim

A team from Quinn Emanuel Paris (and co-counsel from the previous law firm of lead partner Isabelle Michou) defeated claims amounting to over USD 12 billion for its client, the Republic of Tunisia, thereby allowing Tunisia to commence 2024 free of a dispute that has hung over Tunisia and its people for two decades.

The dispute arose out of the Claimant (ABCI Investments)'s transfer in 1982 of 2.5 million Tunisian dinars (about 4 million USD at the time) to the Central Bank of Tunisia, to acquire 50% of the capital of the Banque Franco-Tunisienne (BFT), Tunisia's smallest bank. Amid allegations of misappropriation of corporate assets and other mismanagement, and ensuing criminal proceedings initiated against one of ABCI's sole director, the other shareholders of the bank (with the State's help) sought to facilitate ABCI's exit from BFT. In that context, ABCI entered into a series of settlement agreements with (inter alia) the State. ABCI thereafter claimed that it had only entered into those settlement agreements under duress.

ABCI commenced ICSID arbitration in 2003, having failed to prosecute successful claims in other fora. When the arbitration eventually began in 2007, ABCI ran just about every argument imaginable. In 2011, the then Tribunal held that it did not have jurisdiction on any of the grounds asserted by ABCI, with the exception – for the majority – of Tunisia's historic foreign investment law. Following unsuccessful attempts to settle the dispute (without the involvement of external counsel), the arbitration resumed in 2016. In 2017, in a decision on liability, the Tribunal – by the same majority – found that

an expropriation, denial of justice and violation of the FET standard had occurred at the time of the settlement agreements, apparently on the sole basis of a political declaration made by the Tunisian Court of Cassation in the context of the transitional (and exceptional) process following Tunisia's "Jasmine Revolution" and the ousting of former President Zine El Abidine Ben Ali. Emboldened by the majority's decision on liability, ABCI duly inflated its damages claim from the USD 900 million advanced in the Request for Arbitration, to USD 12 billion.

A newly-constituted Tribunal had conduct of the phase dealing with causation and quantum, following the resignation of each of the members of the original tribunal. After extensive briefing on causation and quantum and a hearing, on December 22, 2023, the Tribunal issued an award dismissing ABCI's claims for over USD 12 billion. Instead, the Tribunal ordered compensation in the purely nominal amount of approximately 1 million Tunisian dinars – the equivalent of approximately USD 350,000 (or 0.003% of the amounts claimed) interest included. The Tribunal also refused to order Tunisia to pay ABCI's legal fees.

Although Tunisia has consistently argued that the majority's decision to uphold jurisdiction was untenable in the first place, this victory provides a salutary reminder of the importance of establishing a cogent, consistent and principled legal case in the face of an opposing party's ever-shifting arguments, whose only real objective is to achieve a windfall outcome. It also shows that – as legal principle requires – a party cannot expect to recover monetary compensation, where an alleged violation does

VICTORIES

not cause financial loss. Even if liability is established, everything may still be in play.

The case is: *ABCI Investments Limited v. Republic of Tunisia*, ICSID Case No. ARB/04/12.

Victory for Samsung

When a well-known patent pool operator slashed Samsung's royalties, while continuing to sublicense Samsung's patents, Samsung turned to Quinn Emanuel. Justice Crane of the New York Supreme Court ruled that the pool operator had breached its contractual obligations to Samsung, rejecting all of the pool operator's arguments to the contrary. The win earns Samsung more than \$25 million in damages, tens of millions in future royalties, and a complete victory before trial.

In a patent pool, many different patentees who own patents related to a particular technology standard all contribute their patents and allow other companies to take a single sublicense that covers all the pooled technology. The administrator collects the royalties from those sublicenses and divvies them up among the patentees, after the administrator takes its cut.

In 2014, Samsung and other companies formed a patent pool for the High Efficiency Video Coding ("HEVC") standard that would be administered by MPEG LA. In 2020, Samsung and 13 other licensors terminated their contracts with the MPEG LA pool. Just three months later, the pool administrator engineered a scheme to amend one of the pool agreements to pay terminated licensors only half of their share. The administrator encouraged the remaining licensors to approve the amendment and imposed a rule that any licensor who did not vote would be counted as if they had consented to the amendment. Without the silences, the amendment failed under any standard prescribed by the pool agreements. But the administrator unilaterally declared that the lowest voting threshold applied, counted both the "yes" votes and the silences, and declared victory. It started cutting Samsung's payments in the third quarter of 2020, without even informing Samsung that a vote had been held.

When Samsung discovered the change and could not persuade MPEG LA to honor the parties' contract, it brought suit in 2022, alleging both breach of contract and breach of the implied covenant of good faith and fair dealing. MPEG LA brought its own implied covenant claim, which we successfully moved to dismiss, and tried to have Samsung's implied covenant claim dismissed, which the Court refused to do. The case thus went through all of discovery with all of Samsung's claims intact, and no counterclaims.

At summary judgment, Justice Crane granted Samsung's motion in its entirety and gave Samsung all of its requested relief. The Court ruled that MPEG LA

had breached its contract with Samsung by only paying half royalties, as it had no right to treat a vote that failed like one that had passed. The Court awarded Samsung all of its withheld royalties, including more than \$5 million that were heavily contested even once liability had been established, and declared that the administrator may not withhold Samsung's royalties due to the purported amendment in the future.

Pro Bono Asylum Victory

Quinn Emanuel recently achieved a complete victory for our pro bono client Sofia Hernandez Gudiel, who was granted asylum after a prolonged and hard-fought battle with the government.

Sofia is a transgender woman who was born Jonathan Hernandez Gudiel in El Salvador. El Salvador is home to some of the world's most ruthless gangs, including MS-13. The culture there is also very homophobic—especially against transgender individuals, who are often murdered with impunity. After Sofia came out as a transgender woman and began hormone therapy, she suffered numerous vicious attacks, including multiple attacks at the hands of Salvadorian police officers.

Sofia fled El Salvador and was granted temporary status in Mexico. However, the culture in Mexico is also homophobic, and particularly so for transgender women. After just one month in Mexico, Sofia was attacked again. This time she was stabbed multiple times in the abdomen. Sofia again knew she was not safe in Mexico, and so as soon as she was healthy enough to travel, Sofia presented herself at the US border seeking asylum.

Sofia's case was referred to Quinn Emanuel by Public Counsel, and Quinn Emanuel took over the matter on a pro bono basis. Sofia had a merits hearing scheduled for July 2021, and the Department of Homeland Security was uninterested in stipulating to relief in lieu of a hearing. The hearing was then postponed due to court backlog, with the hearing being moved from July 2021 to September 2024. This was a blow to Sofia, who had already been waiting years for a decision on her asylum application.

After the hearing was postponed, Quinn Emanuel began negotiating a resolution with the government that would obviate the need for a hearing. Quinn Emanuel drafted a fulsome brief to the government explaining why Sofia's case warranted a grant of asylum without a hearing, including an expert report on country conditions in El Salvador and Mexico. After multiple rounds of negotiation with the government, Quinn Emanuel finally convinced the government to stipulate to a grant of asylum in November 2023. The Immigration Court accepted the stipulation on December 18, 2023, and granted Sofia asylum status just in time for the holidays.

business litigation report

quinn emanuel urquhart & sullivan, llp

Published by Quinn Emanuel Urquhart & Sullivan, LLP as a service to clients and friends of the firm. It is written by the firm's attorneys. The Noted with Interest section is a digest of articles and other published material. If you would like a copy of anything summarized here, please contact Elizabeth Urquhart at +44 20 7653 2311.

- We are a business litigation firm of more than 1,000 lawyers — the largest in the world devoted solely to business litigation and arbitration.
- As of January 2024, we have tried over 2,500 cases, winning 86% of them.
- When we represent defendants, our trial experience gets us better settlements or defense verdicts.
- When representing plaintiffs, our lawyers have garnered over \$80 billion in judgments and settlements.
- We have won eight 9-figure jury verdicts and five 10-figure jury verdicts.
- We have also obtained fifty-one 9-figure settlements and twenty 10-figure settlements.

Prior results do not guarantee a similar outcome.

ABU DHABI

ATLANTA

AUSTIN

BEIJING

BERLIN

BOSTON

BRUSSELS

CHICAGO

DALLAS

DOHA

HAMBURG

HONG KONG

HOUSTON

LONDON

LOS ANGELES

MANNHEIM

MIAMI

MUNICH

NEUILLY-LA DEFENSE

NEW YORK

PARIS

PERTH

RIYADH

SALT LAKE CITY

SAN FRANCISCO

SEATTLE

SHANGHAI

SILICON VALLEY

STUTTGART

SYDNEY

TOKYO

WASHINGTON, D.C.

WILMINGTON

ZURICH