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The Post-Berkheimer Section 101 Landscape: A Survey of Recent Patent Eligibility Decisions

Ever since the U.S. Supreme Court's decisions in *Alice Corp. Pty. Ltd. v. CLS Bank Intern.*, 573 U.S. 208 (2014) and *Mayo Collaborative Services v. Prometheus Laboratories, Inc.*, 566 U.S. 66 (2012), defendants have relied on these decisions to invalidate patents under 35 U.S.C. § 101. To establish the invalidity of a patent under *Alice* and *Mayo*, a defendant must meet a two-step test. First, it must show the claims at issue are directed to a patent-ineligible concept, such as a law of nature, abstract phenomenon, or abstract idea.

Alice, 573 U.S. at 217-18. Second, the defendant must show the claims contain no "inventive concept." *Id.* Under this second step, *Alice* directs trial courts to examine whether the claim limitations involve more than the performance of "well-understood, routine, [and] conventional activities previously known to the industry." *Id.* at 225.

In 2018, the Federal Circuit addressed this second step in *Berkheimer v. HP Inc.*, 881 F.3d 1360, 1363 (Fed. Cir. 2018). In *Berkheimer*, the Federal

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Quinn Emanuel Mourns the Loss of Former Partner Jon Cederberg



The firm is saddened to announce the passing of our former partner, Jon Cederberg. Jon retired from the firm two years ago. Jon was a student of the art of trying cases. He was a soft spoken, understated person, but a formidable and immensely likable presence in court. Jon had a keen understanding of witnesses and how to examine them. He spent many years as an Assistant United States Attorney in Los Angeles where he taught many AUSAs, including some of our present partners, about trying cases. Jon continued in that teaching role at Quinn Emanuel, where he was a favorite instructor in the firm's basic and advanced trial training programs. So many people owe him for his unselfishness and the things he did to help others look better, never bringing any attention to himself. When Jon prepared a witness in trial you could be sure the witness was ready in every sense. Jon played fullback at the University of Michigan for the famous coach Bo Schembechler. He was married to Paula Mabrey, a Los Angeles Superior Court Judge. [Q](#)

Firm Opens Miami Office, Luring Top Partners and City's Mayor

Extending the reach of the world's top business litigation firm to the newest hotbed of tech and finance-industry growth, the firm opened an office in Miami on May 10, 2021. The firm welcomes three lateral partners based there – John F. O'Sullivan, Olga Vieira, and Jason Sternberg. Miami Mayor Francis Suarez, who Fortune magazine recently ranked 20th on its list of the world's top 50 leaders, joined as Of Counsel. Partners Samuel G. Williamson and Alex Spiro will relocate from New York and partner David M. Orta will relocate from Washington, D.C.. The Miami office begins with ten lawyers, the largest team with which the firm has ever opened an office. [Q](#)

Circuit held that whether a claimed invention is “well-understood, routine, and conventional” under the second *Alice* step is a question of fact, as opposed to a question of law. *Id.* at 1368. Almost immediately, commentators predicted that *Berkheimer* would make it more challenging for defendants to invalidate patents under Section 101.

Since *Berkheimer* was decided, trial courts—and defendants—nationwide have grappled with its impact, particularly in the context of early pleading challenges, where the plaintiff’s factual allegations are taken as true. This article looks at *Berkheimer*’s practical effects several years out, and offers a brief overview of some recent cases in key jurisdictions. It also provides guidance on issues to watch out for from the standpoint of both plaintiffs and defendants litigating eligibility.

Post-*Berkheimer* Orders on Motions to Dismiss

I. Northern District of California

One common way for defendants to challenge patents they believe to be ineligible under 35 U.S.C. § 101 is via a motion for judgment on the pleadings under Rule 12(c). Similar to motions under Rule 12(b)(6), courts deciding motions under this Rule must determine “whether the facts alleged in the complaint, taken as true, entitle the plaintiff to a legal remedy.” *Cellspin Soft, Inc. v. Fitbit, Inc.*, 927 F.3d 1306, 1314 (Fed. Cir. 2019).

Notwithstanding *Berkheimer*, Judge Koh in the Northern District of California granted an *Alice* motion under Rule 12(c) in *MyMail, Ltd. v. OoVoo, LLC*, 17-CV-04487-LHK, 2020 WL 2219036 (N.D. Cal. May 7, 2020). The technology at-issue in that case related to modifying a toolbar on a user internet device. *Id.* at *8. The patentee had alleged in its briefing—but critically not its pleading—that specific methods of updating or changing the toolbar were inventive, such as via a “Pinger process” or “MOT script.” *Id.* at *21. In granting the motion to dismiss, Judge Koh distinguished *Berkheimer* on three grounds. *First*, she explained that both the complaint and the specifications failed to identify these specific methods as inventive. *Second*, she described *Berkheimer* as having identified “concrete inventive concepts.” *Id.* By contrast, MyMail had failed to identify precisely how the toolbar’s ability to be updated via a Pinger process or MOT script “improve[d] the toolbar update process or solve[d] any problem in the prior art.” *Id.* *Third*, she concluded that MyMail’s allegations as to the two methods merely involved using generic components, such as a “server” and various “databases,” in a routine manner. The

court specifically noted that the specifications did not identify any of these generic components as “unique to the invention” or further “identify any functions as an inventive concept.” *Id.* Given these facts, *Berkheimer* was no impediment to granting the defendants’ motion.

In another post-*Berkheimer* case, Judge Koh explained that patents must describe *how* to achieve the claimed inventive concepts to survive an early *Alice* motion. *Voip-Pal.Com, Inc. v. Apple Inc.*, 411 F. Supp. 3d 926 (N.D. Cal. 2019), *aff’d*, 828 Fed. Appx. 717 (Fed. Cir. 2020). In *Voip-Pal*, the patents related to routing Internet Protocol (“IP”) based communications, such as between private IP-based networks and external networks (e.g., the Public Switched Telephone Network). *Id.* at 930. The court accepted as true that specific allegations were “significant and unconventional improvements upon prior technology,” including: user-specific handling; transparent routing; resiliency; and communication blocking. *Id.* at 974. But Judge Koh explained that *Alice* required more: the plaintiff must be able to show from the specification precisely “*how* the desired result is achieved.” *Id.* at 974. The plaintiff in *Voip-Pal* failed to do so: “because neither the claims nor the specification provided the critical *how*,” the improvements could not be attributed to the claimed invention. *Id.* (emphasis added). As in *MyMail*, Judge Koh granted the motion to dismiss. *Id.*

More recently, the Federal Circuit affirmed a dismissal under Rule 12(b)(6) from Judge Chhabria in the Northern District of California. *Boom! Payments Inc. v. Stripe Inc.*, 2021 WL 116545 (Fed. Cir. Jan. 13, 2021). There, the patents were related to the process of confirming that a transaction has been completed before releasing electronic payment. *Id.* at *1. The Federal Circuit explained that under *Alice* step two, the plaintiff’s complaint contained only “conclusory statements” that its claimed subject matter was not routine or conventional at the time of invention. *Id.* at *4. Because the plaintiff had failed to provide “plausible factual assertions” to assert its arguments as to patentability, the Federal Circuit held that dismissal was justified. *Id.*

II. District of Delaware

Since *Berkheimer* was decided, Delaware judges, like their peers in the Northern District of California, have shown a willingness to grant motions to dismiss when the asserted patent and complaint failed to describe any technological improvement from the claimed inventions.

For example, in *WhitServe LLC v. Donuts Inc.*,

390 F. Supp. 3d 571 (D. Del. 2019), *aff'd*, 809 Fed. Appx. 929 (Fed. Cir. 2020) (unpublished), *cert. denied*, 20-325, 2020 WL 6701095 (U.S. Nov. 16, 2020), Judge Connolly determined under *Alice* step one that the asserted patents were directed to the abstract idea of sending and receiving responses to due-date reminders. *Id.* at 577. Specifically, the patents explained that professionals, such as attorneys, had long relied on a docketing system for determining when certain items were due for their clients. *Id.* at 574. The patents purported to solve the problem of spending time eliciting approvals from clients by disclosing an automated system for obtaining these authorizations. *Id.* But under *Alice* step two, similar to *MyMail* above, the *WhitServe* court explained that the patents described “improving the speed and efficiency with which humans deliver professional services by automating that practice through the use of generic computer components performing routine functions.” *Id.* at 581 (emphasis added). Accordingly, the court agreed with the defendant and granted the motion to dismiss under Fed. R. Civ. P. 12(b)(6).

III. Southern District of New York

In the Southern District of New York, defendants have faced more of a challenge on their early motions. For instance, in July 2020, Judge Woods decided Netflix’s Rule 12(c) motion in *Personalized Media Commun., LLC v. Netflix Inc.*, 475 F. Supp. 3d 289 (S.D.N.Y. 2020) (“PMC”), finding that PMC had plausibly alleged that the challenged patents included inventive concepts. Netflix argued that the one of the challenged patents was directed to the same subject matter as another PMC patent that had been invalidated under *Alice* in a pre-*Berkheimer* case—*Personalized Media Commun., LLC v. Amazon.Com, Inc.*, 161 F. Supp. 3d 325, 329 (D. Del. 2015) (“*Amazon*”)—and should be held ineligible for similar reasons. *Id.* at 302. But Judge Woods found *Amazon* unavailing because that decision did not address the sufficiency of PMC’s pleading allegations. *Id.* (“Most importantly, that decision does not discuss allegations in the complaint. . . . Relatedly, *Amazon* was decided before *Aatrix* and *Berkheimer*, which clarified this area of law.”). According to the court, even if remote programming were an abstract idea (satisfying *Alice* step one), PMC had plausibly alleged that combining remote programming with radio or television was sufficiently inventive under *Alice* step two to qualify as a significant advancement over the prior art. *Id.* at 302. Because PMC had made “plausible and specific factual allegations that aspects of

the claims are inventive” and the patent specification did not contradict those allegations, the court denied the motion. *Id.* at 303.

IV. Western District of Texas

Since Judge Albright was appointed to the federal bench in 2018, plaintiffs have filed cases in his court at a rapidly increasing rate. He has generally shown a hesitancy to grant early motions to dismiss under *Alice* following *Berkheimer*. For example, in *Slyce Acq. Inc. v. Syte - Visual Conception Ltd.*, W-19-CV-00257-ADA, 2020 WL 278481 (W.D. Tex. Jan. 10, 2020), Judge Albright was faced with whether to grant such a motion under Rule 12(b)(6). Citing to *Berkheimer*, Judge Albright explained that he would need fact discovery to rule on the asserted claims. *Id.* at 6. (Notably, in Judge Albright’s court, fact discovery does not begin until after the *Markman* hearing.) The court further explained that the difficulty of applying the *Alice* test also weighed towards delay: the court noted that the lack of predictability and consistency for outcomes of *Alice* motions was “widely known and extremely problematic.” *Id.* at *7. Judge Albright concluded that additional time would permit him to “spend more time understanding the patents and its nuances” for the purpose of correctly determining what was “well-understood, routine, and conventional activities previously known to the industry.” *Id.* (quoting *Berkheimer*).

Judge Albright has since relied upon his ruling in *Slyce* to deny other motions to dismiss as well, explaining that only “rare cases” will merit an early dismissal under *Alice*: “In light of the Court’s order in *Slyce*, the Court does not believe this is one of the rare cases where it is appropriate to resolve the Section 101 eligibility of the patents-in-suit as a Rule 12(b) motion to dismiss.” *Aeritas, LLC v. Sonic Corp.*, No. 6:20-CV-103 (W.D. Tex. Mar. 14, 2020) (internal citations omitted) (Order denying Motion to dismiss).

V. Eastern District of Texas

Since *Berkheimer*, defendants have generally faced an uphill battle to win their *Alice* motions in Judge Gilstrap’s court, especially when raising a challenge to the pleadings. For example, in *Luminati Networks Ltd. v. Teso LT, UAB*, 2:19-CV-00395-JRG, 2020 WL 6803256 (E.D. Tex. July 15, 2020), Judge Gilstrap denied a motion to dismiss under Rule 12(b)(6), explaining that the analysis would benefit from claim construction. *Id.* at *3. Similar to those in Judge Albright’s court, defendants in Judge Gilstrap’s court may want to consider waiting to file any *Alice*

motion until after *Markman* has concluded, unless the circumstances for a challenge are ideal.

Post-*Berkheimer* Summary Judgment

Unsurprisingly, *Berkheimer*'s holding as to *Alice* step two has provided patent plaintiffs with a potent weapon at their disposal to create a disputed issue of fact and thus avoid summary judgment on the issue of eligibility.

In *Vaporstream, Inc. v. Snap Inc.*, 2020 WL 136591 (C.D. Cal. Jan. 13, 2020), for example, defendant Snap sought to invalidate the patents-in-suit on a motion for summary judgment under Section 101. *Id.* at *8. The disputed technology related to reducing the “traceability” of electronic messages. *Id.* at *2. Judge Huff specifically noted two reasons for denying Snap's motion under *Berkheimer*. *Id.* First, each side had presented competing expert testimony as to whether particular claim elements were well-understood, routine, and conventional, thereby presenting a factual dispute inappropriate for resolution on summary judgment. *Id.* Second, contrary to *Berkheimer*—which directs courts to analyze elements of a claim both individually and as an ordered combination—Snap and its expert only analyzed the *individual* claim elements at issue. Snap thus failed to show that the elements as an *ordered combination* likewise failed under *Alice* step two. *Id.*

This decision, among numerous others, indicate that *Berkheimer* can be just as much of an impediment to invalidating a patent under § 101 at the motion for summary judgment stage as in the context of an early motion to dismiss. A defendant's failure to fully address the second step of *Alice*—including whether the claimed inventions are “well-understood, routine, [and] conventional activities previously known to the industry”—in expert reports can be fatal to an otherwise meritorious motion. On the other hand, plaintiffs hoping to get to trial would do well to develop a strong factual and testimonial record supporting the unconventional and inventive nature of their claims.

Practice Tips

In sum, the past four years of decisions have shown that the early predictions about *Berkheimer* were not far off: *Berkheimer*'s holding has made it somewhat more difficult to win patent eligibility challenges. It is also clear, however, that all hope is not lost for defendants. Even under *Berkheimer*, successful challenges are still possible, including at the motion to dismiss stage. With the aforementioned cases as guidance, litigants should be mindful of the following when considering the impact *Berkheimer* may have on their cases:

- As plaintiff, always strive to recite specific inventive concepts from the patent specification in your complaint, as a failure to do so could provide ammunition for an *Alice* motion (*MyMail*, 2020 WL 2219036; *PMC*, 475 F. Supp. 3d 289);
- As plaintiff, before claiming a particular result as the inventive concept, be sure to confirm that the specification provides teachings on how that result is achieved (*Voip-Pal*, 411 F. Supp. 3d 926);
- As defendant, look for “conclusory statements” in the complaint that claimed subject matter was not routine or conventional at the time of invention and bring those to the court's attention (*Boom! Payments*, 2021 WL 116545);
- As defendant, be mindful that the pre-*Berkheimer* practice of showing that a claim merely recites a practice previously performed by humans and automates it through the use of “generic computer components performing routine functions” remains a valid strategy today, as these types of claims may still be susceptible to *Alice* motions (*WhitServe*, 390 F. Supp. 3d 571);
- Be aware that cases decided before *Berkheimer* may not be as persuasive today as they were in the past (*PMC*, 475 F. Supp. 3d 289);
- As plaintiff at the summary judgment stage, seek to exploit any expert testimony from defendant that fails to analyze claim elements both individually and as an ordered combination (*Vaporstream*, 2020 WL 136591); further, use your own expert testimony to create an issue of material fact as to the non-conventional nature of the claim elements (*id.*);
- As defendant in the Western or Eastern Districts of Texas, consider waiting to file any *Alice* motions until after *Markman* has concluded (*Luminati*, 2020 WL 6803256; *Slyce*, 2020 WL 278481). 

Federal Circuit Grants Patentee Dismissal of IPR Appeal Under the Voluntary Cessation Doctrine

The United States Court of Appeals for the Federal Circuit recently granted a patentee's request to dismiss an appeal of an inter partes review brought by an accused infringer, relying on the patentee's voluntary resolution of litigation on the patent. In *ABS Global Inc., v. Cytonome/St, LLC*, 984 F.3d 1017 (Fed. Cir. Jan. 6, 2021), the panel set forth a framework for the specific circumstances under which a patentee can obtain such relief, explaining how a patent owner may moot such an appeal by expressly declining to appeal a district court judgement of non-infringement obtained by the petitioner.

A. District Court Litigation and Inter Partes Review of Cytonome's Patent

As is often the case, the parties before the Patent Trial and Appeal Board in the inter partes review were also involved in district court litigation on the patent. In June 2017, Cytonome and others filed a complaint asserting infringement of six patents, including U.S. Pat. No. 8,529,161, which is assigned to Cytonome. The '161 patent at issue is directed to devices and methods for microfluidic systems; defendant ABS was accused of infringing the patent in its cattle breeding business. In October 2017, ABS filed a petition for inter partes review of all claims of the '161 patent. The Board instituted review and in April 2019 issued its final written decision, finding some claims of the '161 patent invalid but also that ABS had failed to carry its burden to demonstrate that other claims were unpatentable.

By the time the final written decision issued, summary judgment motions were pending in the district court action, and indeed two weeks later the district court granted summary judgment that the accused ABS products did not infringe any of the '161 patent claims. Then, in June 2019, ABS filed its notice of appeal of the Board's decision to the Federal Circuit, seeking to reverse the finding that it had failed to show the remaining claims to be unpatentable.

B. The Federal Circuit Finds No Applicable Exception to Mootness and Applies the Voluntary Cessation Doctrine from the Supreme Court's *Already* Opinion

In November 2019, ABS filed its opening brief on appeal. In its February 2020 response brief, Cytonome argued that ABS lacked Article III standing to appeal the Board's decision. In support of that contention, Cytonome included an affidavit by counsel stating that Cytonome "has elected not to pursue an appeal of

the district court's finding of non-infringement as to the '161 patent and hereby disclaims such an appeal." *ABS Global*, 984 F.3d at 1019. The brief argued that Cytonome's disavowal removed the requisite injury in fact required for Article III standing. And specifically, Cytonome argued that in order to maintain its appeal, ABS needed to—but could not—demonstrate a basis to conclude that ABS remains at substantial risk of enforcement of the '161 patent claims. ABS's reply brief argued that jurisdiction should be analyzed under the jurisprudence of mootness, not standing, and that the Federal Circuit recognizes a purported exception to the mootness doctrine for patent actions.

The Federal Circuit agreed with ABS's argument that mootness provides the correct framework to evaluate jurisdiction, but did not agree that there is any applicable exception. As to the proper framework, the Court of Appeals cited to the Supreme Court's explanation that "[M]ootness can be described as the doctrine of standing set in a time frame: The requisite personal interest that must exist at the commencement of the litigation (standing) must continue throughout its existence (mootness)." *Id.* at 1021 n. 1 (quoting *Friends of the Earth, Inc. v. Laidlaw Env't Servs. (TOC), Inc.*, 528 U.S. 167, 189 (2000)). Understood that way, the question raised by Cytonome was not one of standing, but whether the voluntary cessation doctrine applied to render moot ABS's appeal.

The Court of Appeals looked to *Already, LLC v. Nike, Inc.*, 568 U.S. 85 (2013), for the law on voluntary cessation in the context of competing claims of infringement and invalidity. That case involved Nike's allegations of trademark infringement and *Already*'s counterclaims of invalidity. Nike sought to dismiss the entire case, including *Already*'s counterclaims, by voluntarily issuing a broad covenant not to sue. But *Already* argued this was not sufficient at least because its future products could again be threatened under Nike's trademark rights. As noted by the Federal Circuit, the Supreme Court set forth that in such circumstances the voluntary cessation doctrine places the initial burden on Nike, as the rights-holder, to show that it "could not reasonably be expected" to resume enforcement efforts against *Already*, the accused infringer. Where that initial burden is met by a covenant not to sue that covers all the alleged infringing conduct, the accused infringer then bears the burden to counter that it has engaged or has concrete plans to engage in activities not covered by the granted covenant. In *Already*, the Supreme Court

held Nike had met its initial burden and Already had not met its counter-burden, and therefore the case was moot.

As to the alleged exception to mootness in the context of patent law urged by ABS, the Court of Appeal found no such rule in its jurisprudence. *Id.* at 1026. Accordingly, the Court of Appeals applied the voluntary cessation doctrine as set forth in *Already* to the patent dispute in this case.

C. Finding Cytonome Met Its Burden While ABS Failed to Meet Its Counter-Burden, the Federal Circuit Dismissed the Appeal as Moot

Applying the voluntary cessation doctrine, the Federal Circuit held that Cytonome's disavowal of an appeal of the district court's summary judgment of non-infringement was sufficient to meet the initial burden to show its efforts to enforce the '161 patent against ABS could not reasonably be expected to resume. In reaching this result, the Court of Appeal stated that "Cytonome's disavowal of its right to appeal effectively made final the district court's judgment of noninfringement." *ABS Global*, 984 F.3d at 1022. Under the Federal Circuit's preclusion jurisprudence, and specifically under the *Kessler* doctrine, a final judgment of no infringement confers on the accused products the status of "noninfringing devices" which bars the future assertion of the same patent against future activity based on these noninfringing products or any products that are "essentially the same." *Id.* In light of that law, Cytonome's disavowal effectively estopped

any future enforcement against ABS for infringement of the '161 patent claims based on the same or similar products. Hence, Cytonome met its initial burden to show its efforts to enforce the '161 patent against ABS could not reasonably be expected to resume.

Turning then to ABS's opportunity to present contrary evidence that it reasonably expected Cytonome to sue again for infringement of the '161 patent, or that ABS engaged in or had concrete plans to engage in activities not covered by Cytonome's disavowal, the Federal Circuit noted the absence of any such evidence in the record. Accordingly, the Court of Appeal dismissed the appeal as moot (though Chief Judge Prost filed an opinion dissenting in part on the grounds that the proper disposition should be vacatur of the challenged portions of the Board's decision). *Id.* at 1028.

D. Conclusions

This precedential decision confirms that the voluntary cessation doctrine applies in the context of an appeal of a final written decision from inter partes review. By relying on the Supreme Court's exegesis of the doctrine in the trademark case *Already*, and confirming the affidavit submitted by Cytonome in this case to be sufficient, at least for the appellee's initial burden, the Federal Circuit provided guidance to future litigants to obtain similar relief. The analysis also suggests that accused infringers may face a substantial hurdle in coming forth with contrary evidence that they are engaged in or have concrete plans to engage in activities not covered by the scope of disavowal of allegations of infringement. [Q](#)

PRACTICE AREA NOTES

Insurance Litigation Update

New York Appellate Court Rules That Liability Insurer's Right to Recoup Defense Costs Must Be Defined by Policy

A recent decision of New York's Appellate Division, Second Department, demonstrates why liability insurance policies should expressly define the circumstances under which the insurer may recoup its costs defending the insured: where a policy is silent on recoupment, courts disagree over whether a reservation of rights letter can effectively fill the gap. In conflict with rulings from the First Department and other courts, a unanimous panel in the Second Department held in *American Western Home Insurance Co. v. Gjonaj Realty & Management Co.*, 192 A.D.3d 28 (2d Dep't

2020), that a reservation of rights letter is *not* sufficient to secure the insurer's right to recoupment where that right is not expressly granted by the policy.

American Western Home Insurance Company ("American") insured Gjonaj Realty & Management Company and 28-47 Webb Avenue Associates, LLC under a CGL policy. In 2010, during the policy period, an individual fell from a ladder on the insureds' premises. While the individual filed a personal injury suit against American in 2011, the insureds did not notify American until October 2014. In 2015, American agreed to defend and indemnify the insureds in the personal injury suit, but reserved its right to deny coverage if future developments established that the insureds' late notice prejudiced American. In May 2017, American

concluded that the late notice had caused it prejudice and sent the insureds a letter denying coverage and reserving its right to recoup the defense costs it had incurred. While continuing its defense in the personal injury suit, American commenced an action in New York Supreme Court seeking a declaration that American had no duty to defend or indemnify the insureds in the personal injury suit *and* that American was entitled to recoup its defense costs in that suit since the date of the letter that purported to reserve its right to recoupment. In February 2018, Supreme Court granted American the declaratory relief it sought, and the insureds appealed to the Appellate Division, Second Department.

The Second Department affirmed the Supreme Court's ruling that, due to the prejudice caused by the late notice, American owed neither a duty to defend nor to indemnify the insureds. However, the Second Department reversed the Supreme Court's ruling on the recoupment of defense costs. The Second Department held that, under New York law, American was not entitled to recoup any of its defense costs, notwithstanding American's purported reservation of rights. The crux of the Court's reasoning was that the underlying insurance policy did not expressly grant American any right to recoup defense costs, and American's "unilateral reservation of rights letter" could not reserve rights that had never existed:

[A]warding an insurer its defense costs when the insurer issues a reservation of rights letter for the same despite the lack of any language in the policy at issue permitting the insurer to recover the costs of defending claims that are later determined not covered by the policy flies in the face of basic contract principles and allows an insurer to impose a condition on its defense that was not bargained for[.]

The Court also emphasized the well-established doctrine that the duty to defend is broader than the duty to indemnify, and noted that the doctrine could be "eroded" if, upon establishing that it owes no duty to indemnify, an insurer was entitled, by default, to recoup the costs it incurred carrying out its duty to defend.

The Court acknowledged that its analysis conflicts with other authority. First, it expressly disagreed with two out-of-state cases—*United National Insurance Co. v. SST Fitness Corp.*, 309 F.3d 914 (6th Cir. 2002) and *Knapp v. Commonwealth Land Title Insurance Co.*, 932 F. Supp. 1169 (D. Minn. 1996)—which held that a new, implied contract is created when an insurer purports to reserve a right to recoup defense costs and the insured continues to accept the insurer's payments for the defense. The Court also expressly "declined

to follow" a "handful" of cases applying New York law that, as the Second Department described them, "allowed defense costs to be recouped where such a reservation of rights letter has been sent." Among those cases are two decisions of the First Department—one affirming an award of defense costs to an insurer that had "reserved its right to seek reimbursement of its defense costs in the event of a finding of no coverage," *Certain Underwriters at Lloyd's London Subscribing to Policy No. SYN-1000263 v. Lacher & Lovell-Taylor, P.C.*, 112 A.D.3d 434 (1st Dep't 2013), and another holding that an insurer had a viable claim for recoupment "[a]s [the insurer] reserved its rights to recoup expenses it incurred that are not covered by the policies," *American Home Assurance Co. v. Port Authority of New York*, 166 A.D.3d 464 (1st Dep't 2018).

However, the Second Department's decision in *American Western Home* is in line with recent decisions from the Eastern District of New York that also reached the conclusion that, under New York law, an insurer cannot use a reservation of rights letter to recoup defense costs where no such right exists under the insurance policy itself. *See, e.g., Crescent Beach Club LLC v. Indian Harbor Ins. Co.*, 468 F. Supp. 3d 515, 554 (E.D.N.Y. 2020); *Century Sur. Co. v. Vas & Sons Corp.*, 2018 WL 4804656, at *6 (E.D.N.Y. Sept. 30, 2018).

In light of the conflicting authority over an insurer's right to recoupment under New York law—including an apparent split between the First and Second Departments—New York insurers and insureds should expressly agree on whether, and under what circumstances, the insurer may recoup its defense costs. Parties to an insurance policy—particularly the insurer—should also keep in mind that, while reservation of rights letters are often necessary to reserve contractual rights that indisputably exist, they are generally insufficient to create ones that do not.

EU Litigation Update

EU Representative Actions Directive – An Overview

A representative action is one where an individual or entity sues as a representative of a group of individuals. In the United States, class actions are by far the most common form of representative actions. With its new Directive (EU) 2020/1828 Of The European Parliament And Of The Council of 25 November 2020 on representative actions for the protection of the collective interests of consumers ("**Directive**") the European Union has reached another milestone in its attempt to ensure consumer protection. The Directive, once it is implemented in the laws of the Member States, will enable consumer organizations, regulators and

other “qualified entities” to commence representative actions on behalf of consumers. Member States have until the end of 2022 to implement the Directive into their national laws. Some Member States, such as Germany, which had only recently introduced its own representative action legislation, will have to adapt their regulations to the new European Union framework.

The scope of the Directive is broad as it reflects recent developments in the area of consumer protection, especially with regard to digitalization and the consequential exposure of consumers to different markets. Besides general consumer law, the Directive covers both domestic and cross-border rights with respect to data protection, financial services, travel and tourism, energy, and telecommunications. Member States are granted the power to extend their respective national laws on collective consumer redress to further areas, not included in the scope of the Directive.

One notable feature of the Directive is that actions can only be brought by “qualified entities.” Qualified entities may either be designated to conduct cross-border representative actions under Article 6 (1) of the Directive or only to conduct representative actions within the Member State in which they reside.

Article 4 (3) of the Directive lists the criteria that must be met for an entity to be designated as qualified for cross-border representative actions. A qualified entity must be a legal person properly constituted in accordance with national law of the Member State in which it resides. It must be a nonprofit entity and show that it has been actively protecting consumer interests for at least 12 months. Protecting consumer interests must be part of the entity’s statutory purpose, and it should only be influenced by consumers and not by anyone with an economic interest in representative actions, such as traders or hedge funds. The EU Commission will publish a list of the qualified entities designated for cross-border representative actions by Member States.

The Directive is less specific regarding the designation of qualified entities for purely domestic (i.e. non-cross-border) representative actions. Member States need only ensure that the criteria used for designation are consistent with the Directive’s objectives. Art. 4 (4) of the Directive.

All qualified entities must ensure their independence through established procedures and they must disclose their funding, both in general and with respect to the individual representative actions they bring. One goal behind this structure is to make third-party funding of representative actions as difficult as possible. Accordingly, the Directive imposes heavy restrictions on third-party funding of representative actions.

Under Article 10 (2) lit. a of the Directive, the qualified entity’s decisions may not be unduly influenced by third parties to the detriment of the collective interests of the affected consumers. A representative action may not be funded by competitors of either the defendant or any entity which is dependent on the defendant under Article 10 (2) lit. b of the Directive. In order for the court to assess this, a qualified entity must disclose the sources of its funds for each specific action it brings. Art. 10 (3) of the Directive. Under Article 10 (4) of the Directive, undue influence in third-party funding can ultimately lead to the qualified entity losing its legal standing to maintain an action.

The qualified entity leads the representative action independently of individual consumers. While the qualified entity must show that its action is supported by a certain number of individual consumers (the exact number is left to the discretion of the Member States), individual consumers do not actively take part in the representative action.

The Directive also left it to the Member States to decide how affected consumers may participate in or benefit from the outcome of the representative action. This can either be done through an opt-in or an opt-out mechanism or a combination of the two, depending upon the “legal traditions” of the individual Member States. The Directive also provides that the Member States may allow consumers to directly benefit from a redress measure after it is issued, without having previously participated in the representative action. Depending on the implementation by the Member States, this may pose a serious risk for defendants as it might not be entirely clear who will benefit from a decision or a settlement of a representative action.

Regarding the proceedings of the representative actions themselves, the Directive offers few details. Qualified entities may seek injunctive measures as well as redress measures to benefit the affected consumers under Article 7 (4), (7) of the Directive. Under Article 9 (1) of the Directive, a redress measure can be any remedy provided by the defendant, including monetary compensation. The qualified entities will have the rights and obligations of a claimant party in the proceedings under Article 7 (6) of the Directive.

Under certain conditions, the defendant as well as third parties may have to disclose evidence within their control to the qualified entity under Article 18 of the Directive and incur penalties if they do not comply under Article 19 (1). Depending on the implementation, this could lead to significant procedural changes in Member States whose codes of procedure generally restricts the compelled provision of documents.

Under Article 11 (1), the qualified entity and the defendant may settle a redress action, but the settlement must be approved by the court. When ruling on a settlement, the court must consider the rights and interests of all concerned parties, in particular those of the affected consumers. If a settlement is approved by the court, it is binding on all parties. However, under Article 11 (4), Member States may provide affected consumers with the right to accept or refuse settlements.

The Directive introduces a loser-pays rule with regard to the costs of the proceedings. Art. 12 (1) of the Directive. However, Member States must ensure that these costs are not so excessive that they prevent qualified entities from bringing representative actions. Art. 20. Under Article 12 (2), (3) of the Directive, no consumer will bear the costs of a proceedings except for cases of an individual consumer's intentional or negligent misconduct. The unsuccessful party must also inform the affected consumers of the outcome of the representative action. Art. 13 (2), (3) of the Directive.

Finally, under Article 15 of the Directive, the ultimate decision issued by the court may be used in other actions as evidence of a violation.

As noted above, the Member States have until the end of 2022 to pass legislation implementing the Directive. In doing so, Member States will have considerable discretion in how to design or set up their collective redress systems. However, the Directive now provides a common framework for such systems across the European Union.

Cannabis Litigation Update

Recent Federal Court Decisions Rely on Illegality and Abstention to Avoid Hearing Cannabis Disputes

Several recent federal cases demonstrate that federal courts can be an unwelcome venue for cannabis litigants. First, the United States District Court for the Central District of California relied on the illegality doctrine to find that certain federal causes of action could not be asserted by an individual engaged in cannabis cultivation. In addition, the United States District Court for the Western District of Washington abstained from hearing a cannabis dispute, leaving it to the state court to resolve.

I. Federal Court Refuses to Hear RICO and Lanham Act Claims

Claims arising under the Racketeer Influenced and Corrupt Organizations Act (“RICO”) pose a significant danger to cannabis businesses because damages are trebled. RICO claims have often been asserted against cannabis companies and growers by neighboring

landowners alleging claims for nuisance and diminution of value. *See, e.g., Safe Sts. All. v. Hickenlooper*, 859 F.3d 865, 886-88 (10th Cir. 2017). The recent ruling by the Central District of California in *Shulman v. Kaplan*, 2020 WL 7094063 (C.D. Cal. Oct. 29, 2020), casts doubt on the ability of participants in the cannabis industry to use the RICO laws to their own advantage. The plaintiff in *Shulman v. Kaplan* leased a large tract of farm land in Santa Barbara where she planned to grow cannabis. Complaint at 2-4, 2020 WL 7094063. She entered into a pair of cultivation agreements and a branding agreement with a partner. *Id.* at 28, 101-02. She alleged in her lawsuit that the partner lied about his experience, background, and capabilities, and she sought lost profit damages under RICO, the Lanham Act, and a host of state law claims. *Id.* at 6-9, 69-125. Ms. Shulman based her RICO claims on the mail fraud and wire fraud that defendant allegedly committed in service of his alleged scheme. *Id.* at 81. She did not allege that the cultivation of cannabis was a predicate act for her RICO claim.

The court ruled that Ms. Shulman could not pursue her RICO claim because granting relief would require the court to violate the Controlled Substances Act (CSA) reasoning that lost profits for sales of cannabis violate the CSA. *Shulman v. Kaplan*, 2020 WL 7094063, at *2. The court called it “implausible” that Congress designed RICO to protect plaintiffs who violate federal law. *Id.* The court reached the same conclusion as to the Lanham Act claims, holding that the Lanham Act does not recognize false advertising claims concerning trademarks used to advertise products that are illegal under federal law. *Id.* at *2-3.

Accordingly, while RICO and Lanham Act cases may proceed against cannabis businesses, cannabis firms cannot use the law to protect their interests where their claims concern the production and sale of cannabis.

II. Federal Courts Abstain from Hearing Cannabis Disputes

Another recent federal court decision in *Brinkmeyer v. Washington State Liquor & Cannabis Board*, 2020 WL 5893807 (W.D. Wash. Oct. 5, 2020), confirms that federal courts will *sua sponte* abstain from hearing cannabis disputes under certain circumstances. *Brinkmeyer* involved a cannabis investor's challenge to the Washington State Liquor and Cannabis Board's residency requirements, which restrict certain licenses to those who have resided in the state for at least six months. *Id.* at *1. The Board had approved the plaintiff, Mr. Brinkmeyer, as a debt financier for cannabis businesses, but because he did not satisfy the

state's residency requirements, he could not become an equity financier and could not share in the profits of his investments. *Id.* Mr. Brinkmeyer asserted the residency requirements violated numerous provisions of the United States Constitution and the privileges and immunities clause of the Washington state constitution. *Id.* Mr. Brinkmeyer also argued that the Board had exceeded its authority under the relevant Washington statute in enacting the regulation. *Id.*

The court abstained from deciding the case under a doctrine called *Pullman* abstention. *Id.* at *2. Under *Pullman* abstention, a court may *sua sponte* postpone exercising jurisdiction where a federal constitutional issue may be mooted by a state court determination of pertinent state law. *Id.* The court applied the Ninth Circuit's test for invoking *Pullman* abstention, which asks 1) if the case touches on a sensitive area of social policy, 2) if a definite ruling on the state issue would terminate the controversy, and 3) if the possible determinative issue of state law is uncertain. *Id.* Concluding that all three prongs were met, the court returned the state-law claims to state court and stayed the federal constitutional claims. *Id.* at *3.

This is at least the third time in the last two years that a federal court has applied an abstention doctrine in a cannabis case. In 2019, the Ninth Circuit applied *Younger* abstention, declining to hear a case in light of an ongoing state judicial proceeding in a case involving the seizure of a hemp shipment. *Big Sky Sci. LLC v. Bennetts*, 776 F. App'x 541 (9th Cir. 2019). Under *Younger* abstention, federal courts in the Ninth Circuit abstain from hearing cases where 1) there is an ongoing state judicial proceeding, 2) the proceeding implicates important state interests, 3) there is an adequate opportunity in the state proceeding to raise constitutional challenges, and 4) the requested relief seeks to enjoin or has the practical effect of enjoining a state judicial proceeding. *Id.* (citation omitted).

Later in 2019, a district court in Washington invoked *Burford* abstention, declining to hear a contract dispute concerning the rights to a license to distribute medical cannabis. *Left Coast Ventures Inc. v. Bill's Nursery*

Inc., 2019 WL 6683518, at *2 (W.D. Wash. Dec. 6, 2019). Under Ninth Circuit law, *Burford* abstention, which applies where a case presents difficult questions of state law bearing on substantially important policy problems, requires at least the first two of these three factors be satisfied: 1) the federal issues must not be easily separated from complicated state law issues, 2) federal review may disrupt state efforts to establish a coherent policy, and 3) the state must have concentrated suits involving the local issue in a particular court. *Id.* (citation omitted).

These three abstention doctrines should be considered by defendants seeking to avoid litigating in federal court and must be taken into account by plaintiffs seeking to sue in federal court and are increasingly invoked in cases involving the cannabis industry. 

D.C. Office Grows with Morabito and Nelson as New Restructuring Litigation Partners

Erika Morabito and Brittany Nelson have joined the firm as partners based in the firm's Washington, D.C. office. Morabito and Nelson bring a combined 40 years of experience representing unsecured creditors' committees, ad hoc groups, shareholders, trustees, receivers, debtors, individuals, businesses, non-profit organizations, and financial institutions in some of the nation's most high-profile and high-stakes bankruptcy matters. 

Defense Jury Verdict in Six-Patent Case in Eastern District of Texas

On April 12, Quinn Emanuel obtained a complete defense verdict on behalf of client KeyMe, LLC, from a jury in a six-patent case in the Eastern District of Texas, before Judge Gilstrap.

KeyMe provides more than 4,000 automated key-duplicating machines throughout the United States. Built with industry-leading software, KeyMe's machines use artificial intelligence to recognize hundreds of different key types and to create new keys for customers that work better than the original. Through KeyMe's technology, users can also store digital versions of their keys in the cloud, so that if a customer is locked out, they can visit any kiosk to get a replacement key made.

Plaintiff The Hillman Group also offers self-service key duplicating machines, using older technology. Hillman had put a self-service key duplicating machine into the market before KeyMe did, but once KeyMe entered, its superior technology allowed it to displace Hillman from multiple retailers. After KeyMe won a major retailer away from Hillman in early 2019, Hillman attempted to use the courts to do what it could not do in the market: beat KeyMe.

Hillman initially filed suit in June 2019, asserting two patents. In the meantime, Hillman was filing additional fast-track patent applications at the PTO. Each time a new patent issued, Hillman would add it to the litigation. Hillman ultimately asserted six different patents in two separate suits.

Just before claim construction, KeyMe's previous counsel was disqualified. Enter Quinn Emanuel.

The firm first convinced the Court to allow KeyMe to present different claim construction positions than it had presented through previous counsel. These claim construction positions ultimately provided KeyMe with a global non-infringement defense to all six patents. Also in pretrial, Quinn Emanuel successfully moved the Court to consolidate the two actions into one. This was a major victory, both because it prevented Hillman from taking two bites at the apple, and delayed the (now-combined) trial by a few months, allowing KeyMe to take additional discovery to fortify its case. Quinn Emanuel then developed a new trial narrative that focused on KeyMe's superior AI technology, which Hillman had never developed and which had not been captured by Hillman's patents. This AI-based narrative also provided the bedrock for multiple non-infringement positions at trial. Finally, at the pretrial conference, Quinn Emanuel successfully convinced the Court, over numerous objections from Hillman, to admit evidence of IPR proceedings against one of the

asserted patents which had gutted its alleged novelty.

Trial began on Monday, April 5. Hillman sought to capture a running royalty of 25% of KeyMe's profits for both past and future sales. Hillman also sought treble damages for willfulness and a permanent injunction.

In its opening statement, Hillman claimed that it had invented self-service key duplicating machines and that KeyMe was merely copying Hillman's technology. But this narrative never got off the ground, as Quinn Emanuel repeatedly demonstrated its trial theme that KeyMe, not Hillman, was the real innovator in the courtroom.

Over the week-long jury trial, the Quinn Emanuel team demonstrated, first, that Hillman had not invented self-service key duplicating machines, citing to prior art as well as the IPR proceedings. Second, the team demonstrated that from the very beginning, KeyMe had deliberately chosen to develop technology that differed from the technology used by Hillman. KeyMe's CEO testified that he had analyzed Hillman's product when he started his company—which Hillman tried to twist into a "copying" narrative—and determined that to differentiate his company from Hillman, KeyMe would need to build completely different technology, and not use the same systems that Hillman used. KeyMe's engineer in charge of AI described the watershed moment for the company when it switched from more basic image-recognition techniques to state-of-the-art convolutional neural networks (CNNs), a form of Artificial Intelligence. KeyMe's CTO explained to the jury that, unlike Hillman's machines which merely duplicate a customer's key, KeyMe's software is designed to cut a key that works better than the original, including by restoring for the wear and tear of a customer's key.

Following this affirmative testimony, Quinn Emanuel also used emails obtained through discovery to elicit admissions from Hillman that KeyMe was beating Hillman in the marketplace thanks to their more advanced feature set, and that the technology claimed in Hillman's patents was in fact decades old. Quinn Emanuel also showed that years after KeyMe had brought AI to the key-duplication market, Hillman had filed additional patents seeking to claim similar cloud-based techniques.

After a brief deliberation, the jury returned a verdict that KeyMe did not infringe any of the 18 asserted claims, and also invalidated a majority of the asserted claims. Q

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business litigation report

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