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# quinn emanuel

**quinn emanuel urquhart & sullivan, llp** | business litigation report

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## Snooze? Think Again—Prosecution Laches and Why Applicants and Litigants Should Beware

Twenty-six years ago, the term of a patent was changed from 17 years from issuance to 20 years from filing. Before this change, it had been a common practice for applicants to file continuations of patents to delay their issuance to keep the patents alive for as long as possible. These patents are sometimes referred to as “submarine patents”—an name apt for their presumed purpose, which is to hide below the surface and emerge when needed. However, two recent rulings on a rarely-invoked defense—prosecution laches—may serve to force patentees to think twice about employing this strategy and give accused infringers an additional sword in their arsenal of defense.

Prosecution laches is an equitable defense that dates back to the early 1900s. An alleged infringer may invoke this defense to render a patent unenforceable if the patentee is found to have caused an unreasonable and unexplained lengthy delay in its prosecution. Unlike traditional laches that is aimed to protect a particular competitor, the purpose of prosecution laches is to serve the public interest. As

the Supreme Court has said, “[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 v. United States*, 263 U.S. 50 (1923).

An ancient but rarely used defense, prosecution laches made headlines this year after the Federal Circuit sank four submarine patents in *Hyatt v. Hirshfield* and Judge Gilstrap overturned a \$308 million verdict in *Personalized Media Communications v. Apple* on the ground of prosecution laches. This article examines these two cases and explores some of the implications for patent litigants.

### ***Hyatt v. Hirshfield*—Revival of Prosecution Laches**

Earlier this year, the Federal Circuit vacated a district court order to the PTO to issue four patents to Gilbert Hyatt, owner of a number of core patents

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### **Intellectual Property Litigator Robin McGrath Joins Atlanta Office**

Robin McGrath has joined the firm as a partner based in the firm's Atlanta Office. Robin is a first chair trial lawyer with twenty-six years of experience litigating patent and trademark disputes on behalf of plaintiffs and defendants in high-stakes cases involving a broad spectrum of technologies. She has secured many jury verdicts in patent and trademark infringement cases and regularly appears before the Federal Circuit. She has been recognized as a top “50 Woman Lawyer in Georgia” and was selected as the 2019 “Lawyer of the Year” in Atlanta for Patent Litigation and the 2017 “Lawyer of the Year” in Atlanta for Intellectual Property Litigation. [Q](#)

### **Quinn Emanuel Elects Eighteen New Partners – Most in Firm History see page 7**

Quinn Emanuel Urquhart & Sullivan, LLP announced that eighteen new partners have been elected to the partnership, effective January 1, 2022. Spanning eleven offices around the world, this year's partner class is the largest in firm history.

related to microchip and integrated circuit technology. *Hyatt v. Hirshfeld*, 998 F.3d 1347 (Fed. Cir. June 1, 2021). These four patents, if issued, could be extremely valuable. The PTO raised prosecution laches as a defense but the district court decided that the PTO failed to carry its burden of proof.

The patent applications at issue date back to 1995. The year 1995 is significant in understanding the background of the Hyatt case: in that year, because of its adoption of the Uruguay Round of the General Agreement on Tariff and Trade (“GATT”), the U.S. agreed to change the patent term from 17 years from date of issuance to 20 years from the date of filing the application or an earlier non-provisional application to which the subject application claims priority. The new law, which would become effective on June 8, 1995, triggered a flood of patent applications rushed to the PTO in the spring of 1995—a period that was later named the “GATT Bubble,” a name which figure prominently in the recent prosecution laches cases. Hyatt bulk-filed 381 patent applications during the GATT Bubble, each one a photocopy of one his eleven earlier parent applications. The four patent applications considered in the Hyatt decision come from Hyatt’s GATT Bubble applications.

Following the initial GATT Bubble application, Hyatt filed a series of amendments that were not only excessive in length but also featured an enormous number of claims—averaging hundreds of claims per application. Overwhelmed, the PTO gave Hyatt a series of notices and requirements to streamline the number of redundant claims, but Hyatt did not fully comply. The PTO eventually rejected these four applications.

In November 2005 and September 2009, Hyatt filed four § 145 actions seeking issuance of patents from these four patent applications. In each complaint, Hyatt alleged that the PTO had made factual errors and failed to comply with the law. The PTO countered that prosecution laches applied; Hyatt, the PTO argued, had engaged in a “pattern of delay in prosecuting his nearly 400 patent applications from 1969 through the present day” resulting in the forfeiture of his patent rights. His delaying tactics included claiming priority to applications more than 45 years old, bulk-filing over three hundred applications that were photocopies of his 11 prior applications on the eve of June 8, 1995, and agreeing with the PTO to focus each application on a different invention but then not doing so (and it was later revealed that he never planned to do so). After a five-day bench trial, the District Court found the PTO could have put in more effort and resources to

accommodate Hyatt’s pending applications, and that the PTO’s meetings with Hyatt were too informal and otherwise inadequate. Furthermore, because the PTO stayed prosecution of Hyatt’s patents from 2003 to 2012 pending the outcome of several litigations, the suspension of prosecution was not entirely caused by Hyatt. Ultimately, the district court found the PTO—not Hyatt—had failed to “take the actions necessary to advance the prosecution of Hyatt’s applications,” rendering prosecution laches inapplicable.

On appeal, the Federal Circuit reversed. First, the Federal Circuit examined the origin and history of prosecution laches and determined that it is still alive and available to both patent litigants and the PTO. In particular, the Federal Circuit analyzed three prior cases that regarding prosecution laches: *In re Bogese*, 303 F.3d 1362 (Fed. Cir. 2002), *Symbol Techs., Inc. v. Lemelson Med., Educ. & Research Found.*, LP, 422 F.3d 1378, 1385 (Fed. Cir. 2005), and *Cancer Research Tech. Ltd. v. Barr Labs., Inc.*, 625 F.3d 724 (Fed. Cir. 2010).

In *Bogese*, the Court found filing 12 continuations in an 8 year period—none of which addressed the reasons for previous rejections—triggered prosecution laches. Similarly, in *Symbol Technologies*, the Federal Circuit found the applicant’s repetitive filing, which caused a 18- to 39-year delay between the filing and the issuance of the patents, to be unjustifiable. More recently, in *Cancer Research*, the Federal Circuit added another element to proving prosecution laches, requiring the proponent to demonstrate (a) that the patentee’s delay in prosecution was unreasonable and inexcusable under the totality of circumstances, and (b) that the accused infringer suffered prejudice attributable to the delay. The Federal Circuit then denied the accused infringer’s prosecution laches defense because it has not proven prejudice.

Applying these precedents to the facts in *Hyatt*, the Federal Circuit held that the district court misapplied the legal standard for prosecution laches, did not properly evaluate the PTO’s conduct, and failed to consider the totality of the circumstances. The Federal Circuit applied the two prongs of prosecution laches established in *Cancer Research*:

### **Totality of the Circumstances**

The Federal Circuit first found that Hyatt’s four applications at issue all claim priority to applications filed in the early 1970s and 1980s, meaning that Hyatt had waited between 12 and 28 years to present his claims for prosecution. Similar delay was found to have occurred across all of his GATT Bubble patents. Hyatt

presented arguments that suggested his delay was only between 10 and 19 years, but even accepting that as true, the Federal Circuit found that these delays were sufficient to trigger prosecution laches.

The court also criticized Hyatt's prosecution approach which "all but guaranteed indefinite prosecution delay." Characterizing it as "the perfect storm that overwhelmed the PTO," the court found several of Hyatt's actions had caused the prolonged delay of the prosecution, including that:

- Hyatt claimed priority to a large number of early patent applications with different priority dates, causing great frustration to the examiners;
- Hyatt filed lengthy and complicated specifications, making it extraordinarily difficult and time consuming for the examiners to identify the elements; and
- Hyatt engaged in a pattern of filing amendments adding hundreds of claims to each application, some of them redundant and identical to the claims in prior filings, which further frustrated the review.

When considered in their totality, there was "no reasonable explanation . . . to justify Hyatt's prosecution approach." The Federal Circuit therefore concluded that Hyatt had engaged in unexplained and unreasonable delay and obstructed the PTO from examining his applications.

### Prejudice

In *Hyatt*, the court applied its precedent regarding prejudice in patent infringement cases to the § 145 action brought by Hyatt. This precedent generally required the accused infringer to establish prejudice attributable to the patentee's delay, typically by proving the infringer had invested in, worked on, or used the claimed technology in the period of delay—in other words, the accused infringer needs to show intervening rights. The Federal Circuit also borrowed from its precedents regarding the prejudice element in traditional laches defenses, which generally hold that a six-year delay is presumptively "unreasonable, inexcusable, and prejudicial." Combining these two lines of cases, the Federal Circuit held that, in the context of a § 145 action, the PTO must generally prove intervening rights to establish prejudice, but an unreasonable and unexplained prosecution delay of six years or more raises a presumption of prejudice, and the burden shifts to the applicant to prove lack of prejudice.

The court went on to hold that:

Where a patent applicant has committed a clear abuse of the PTO's patent examination system, the applicant's abuse and its effects meet the prejudice requirement of prosecution laches. A clear abuse of the patent system occurs when, for example, the applicant's conduct unduly increases the administrative burden on the PTO and thereby effectively taxes everyone using the system. Such abuse also demonstrates a dangerous likelihood that the applicant is harming the public's interests more broadly, diminishing the patent system's benevolent nature, and stifling innovation and creativity in the useful arts. In rare circumstances like these, an applicant's conduct and its effects on the PTO can alone suffice to prove prejudice for purposes of the prosecution laches defense in a § 145 action.

The Federal Circuit suggested that Hyatt's conduct during the prosecution, which caused unreasonable and unjustifiable delay, may alone suffice to satisfy the prejudice requirement. The court noted that, however, on remand, Hyatt would be entitled to present evidence to negate the presumption of prejudice. Thus, *Hyatt* ended with the PTO prevailing on its prosecution laches defense, leaving Hyatt with the task of rebutting prejudice on remand.

### Application of *Hyatt v. Hirshfield: Personalized Media Communications v. Apple*

Shortly after prosecution laches was given new life in *Hyatt*, it stormed the Eastern District of Texas to blow away a \$308 million jury verdict.

In a patent infringement case between Personalized Media Communications ("PMC") and Apple, the jury returned a verdict finding that Apple infringed PMC's patent and awarded PMC over \$308 million in damages. *Personalized Media Comm'ns, LLC, v. Apple, Inc.*, No. 2:15-CV-01366-JRG (E.D. Tex. Aug. 5, 2021). Three months later, Judge Gilstrap held a bench trial to determine Apple's equitable affirmative counterclaims, one of them being prosecution laches.

The evidence at the bench trial established that PMC's infringed patent originated from two patent applications it filed in 1981 and 1987. Between 1981 and 1995, PMC's prosecution strategy was to delay filing continuations "as late as the law allowed" with the goal of enabling it "to exercise far-reaching market control for as long as 30 to 50 years." Additionally, PMC kept its patent portfolio hidden until after the claimed subject matter became widely adopted in

the industry and only then —after infringement was engrained and widespread—engage in licensing or enforcement efforts.

Just as Hyatt had, PMC filed a huge number (328) continuation applications during the GATT Bubble shortly before June 8, 1995. These applications claimed priority back to 1981 and 1987 applications, each one containing only placeholder claims to allow PMC to amend later while enjoying the benefit of pre-GATT law. From these beginnings, the infringed PMC patent was not issued until 2012 and contained newly amended claims that were added shortly before issuance.

Judge Gilstrap found this case to be remarkably similar to the fact pattern in *Hyatt* and that, like *Hyatt*, the totality of the circumstances suggested that PMC had engaged in an unreasonable and unexplained delay in prosecuting its patents. In particular with respect to proof of prejudice, Judge Gilstrap noted that while PMC was prosecuting the patent that it would later assert, Apple had been developed its products over the intervening years without any awareness of PMC’s potential patent rights. Apple’s intervening rights thus satisfied the prejudice prong.

In his final disposition, Judge Gilstrap wrote, “[t]his Court takes very seriously the prospect of disturbing the unanimous verdict of a duly empaneled jury,” but “[a]t the same time, the Court cannot disregard the clear, timely, highly relevant, and—above all—binding authority from the Federal Circuit.” Facing the striking similarity between this case and *Hyatt*, the Court sided with Apple and found PMC’s patent to be unenforceable, a decision that overturned the \$308 million unanimous jury verdict.


**Takeaways**

So what are the implications of these two cases to patent litigants and applicants? First of all, *Hyatt* and

*PMC* represent egregious prosecution tactics; as the Federal Circuit made clear, patentees can certainly file continuations without triggering prosecution laches. The Federal Circuit provided three examples of permissible prosecution actions in *Symbolic Techs.*:

1. Filing a divisional application in response to a restriction requirement, even if the filing occurs immediately before issuance of the patent application;
2. Refiling an application to present new evidence of an invention’s unexpected advantages; and
3. Refiling an application to add subject matter in order to attempt to support broader claims as the development of an invention progresses.

This list is not exhaustive and there are many ways in which an applicant can file applications and rightfully pursue patentability without rising to the level of *Hyatt* and *PMC*. Further, even if a prosecution were delayed beyond six years (after which prejudice is presumed), the applicant still has an opportunity to present evidence to negate prejudice.

Second, applicants should keep in mind that it is the totality of the circumstances that matters. As *Hyatt* and *PMC* had demonstrated, the courts will look beyond the patents at issue and examine the applicants’ conduct before the PTO as a whole. Needless to say, seasoned litigants *will* (and should) diligently sift through prosecution histories—particularly voluminous histories—to uncover any unreasonable conduct to support claims of prosecution laches. The decisions in *Hyatt* and *PMC* stand as a warning to patent applicants to think twice before engaging in a pattern of continuations and other delays during prosecution to avoid jeopardizing their right to patent protections. 

# NOTED WITH INTEREST

## The Importance of IP Due Diligence in Bankruptcy Proceedings: The Sale of Il Mulino Restaurants’ Intellectual Property

On August 12, 2021, the U.S. Bankruptcy Court for the Southern District of New York issued an opinion after trial concerning the iconic *Il Mulino* Italian restaurants, reaffirming an acquirer’s rights (“Buyer”) to use all of the valuable intellectual property, including social media, domain names, and websites, that the Buyer acquired pursuant to a “credit bid”, in connection with Buyer’s

operation of *Il Mulino* restaurants. See *BSP Agency LLC v. Katzoff (In re KG Winddown, LLC)*, 2021 Bankr. LEXIS 2191 No. 20-11723 (MG) (Bankr. S.D.N.Y. Aug. 12, 2021). At the intersection of bankruptcy and intellectual property law, the court’s decision reflects the protection that buyers obtain in purchasing assets under the protection of the Bankruptcy Code. The decision



is also a very favorable development for the *Il Mulino* restaurants themselves, which are now financially stabilized and positioned for a return to excellence.

On July 28, 2020, the Debtors filed petitions for bankruptcy relief in the Southern District of New York; shortly thereafter, a chief restructuring officer was appointed. In the bankruptcy cases, the court approved the sale of substantially all of the Debtors' assets to the Buyer on December 22, 2020. Under the Asset Purchase Agreement, the Buyer was assigned a license (the "IP License") to utilize valuable intellectual property pursuant to an agreement that granted "an exclusive ... royalty-free right and license to use the Intellectual Property in connection with the Restaurants." Nevertheless, following the sale, the Debtors' former manager ("Former Manager") threatened to remove Buyer's access to the *Il Mulino* domain name and from all related web-based and social media accounts.

The order approving the sale ("Sale Order") provided, among other things, that "[a]ll Persons having Claims of any kind or nature whatsoever against the Debtors or the Purchased Assets shall be forever barred, estopped, and permanently enjoined from pursuing or asserting such Claims against the Buyer or any of its assets, property, Affiliates, successors, assigns or the Purchased Assets." In view of this broad, protective language, the court concluded that the Former Manager's threatened interference with the Buyer's rights under the IP License was barred by the Sale Order.


The court also interpreted the IP License in the context of a separate license between two of the Former Manager's non-debtor entities, which license was not acquired (the "Other License"). The court concluded that, while the two licenses did not conflict initially, a 2020 amendment to the Other License, which dramatically expanded the rights thereunder and was drafted by the Former Manager, conflicted with and breached Buyer's IP License. Indeed, during the course of the litigation, the Former Manager rescinded the amendment altogether; thus, the court awarded only nominal damages. Looking forward, the Other License is set to expire on its terms on September 23, 2022 and the IP License prohibits any active grants of competing licenses.

The court considered the Buyer's request for an injunction against the Former Manager in view of his breach of the IP License and the Sale Order and his "threats to strip [the Buyer] of some of the valuable assets [Buyer] acquired in the section 363 sale." After concluding that injunctive relief were "maybe" warranted, however, the court declined to exercise its

discretion to enter an injunction, noting that Buyer had not shown that, with respect to future breaches, damages would be an inadequate remedy. That said, the court admonished the Former Manager, stating that were the Former Manager to "repeat [his] folly, the harshest remedy would be in order."

Standing in the shoes of the Debtor, the Buyer also asserted claims against the Former Manager for breach of fiduciary duty pursuant to a "second tier" controller theory (because the Debtor's actual "managing member" was a corporate entity for which the Former Manager, in turn, was the manager thereof). See *In re USACafes, L.P. Litigation*, 600 A.2d 43 (Del. Ch. 1991). The court concluded that "it is clear under Delaware law that, where the individual manager [the Former Manager] of an LLC[], which is itself the manager of another LLC [the Debtor], exerts control over the property of the LLC-managed entity at the expense of the LLC-managed entity, the individual manager can be liable for breaches of the duty of loyalty." Nevertheless, because the Former Manager impacted the IP License, indirectly and not directly, by expanding the rights of the competing Other License, the *USACafes* doctrine was not satisfied.

Similarly, the court concluded that fraudulent transfer claims predicated on the Former Manager's unlawful amendment of the Other License were not sustainable because "[i]n the trademark context, ownership rights are only transferred in an assignment, rather than a license" and the relevant Debtor here was a mere licensee not an owner.

Chapter 11 bankruptcy is designed to provide a fresh start to viable businesses like *Il Mulino*. One of the ways that policy is furthered is through "free and clear" sales pursuant to section 363 of the Bankruptcy Code. In turn, the value of such sales are maximized by sale orders entered by bankruptcy courts protecting the purchased assets from disgruntled third parties. Pursuant to this decision, the value of the bankruptcy estate was maximized and *Il Mulino* is now positioned to thrive as a healthy, independent, and reorganized business. 

## Cannabis Litigation Update

### *Federal Illegality of Cannabis and Lawyers' Right to Practice Cannabis Law*

It is a truism that lawyers should not advise their clients to begin or continue illegal activity. Such actions are prohibited by Model Rule of Professional Conduct 1.2(d): “A lawyer shall not counsel a client to engage, or assist a client, in conduct that the lawyer knows is criminal or fraudulent . . . .” MODEL RULES OF PROF’L CONDUCT r. 1.2(d) (2020). This concept becomes less straightforward, however, when it comes to the murky legal status of cannabis, a topic recently commented on by Justice Clarence Thomas and which has been the subject of several recent state bar ethics rulings and opinions.

#### I. Justice Clarence Thomas’s Recent Statement

In a June 28, 2021 denial of certiorari in *Standing Akimbo, LLC v. United States*, 141 S. Ct. 2236 (2021), Justice Thomas made a point of describing United States cannabis policy as “a contradictory and unstable state of affairs that conceals traps for the unwary.” *Id.* at 2237. He also noted the strain on federalism caused by cannabis’ federal illegality, writing,

[i]f the Government is now content to allow States to act “as laboratories” “and try novel social and economic experiments,” [citation] then it might no longer have authority to intrude on “[t]he States’ core police powers . . . to define criminal law and to protect the health, safety, and welfare of their citizens.” [citation] A prohibition on intrastate use or cultivation of marijuana may no longer be necessary or proper to support the Federal Government’s piecemeal approach.

*Id.* at 2238. This statement was a landmark in the legality debate over cannabis, as it is rare for a Supreme Court Justice call out cannabis’s inconsistent legal status, particularly in a denial of certiorari. This inconsistency is also being addressed by state bar ethics committees, as many are deciding whether to amend Rule 1.2(d) to allow lawyers to advise clients on cannabis-related matters despite the fact that cannabis remains illegal federally.

#### II. New Regulations in New York and Montana

Both New York and Montana have addressed Rule 1.2(d) by permitting attorneys to counsel cannabis businesses. While the New York State Bar Association Committee on Professional Ethics previously opined Rule 1.2(d) allowed lawyers to advise clients on medicinal cannabis in 2014, the recent legalization of recreational cannabis

posed an important question: Can the state operate its complex recreational cannabis regulatory system without the help of lawyers (*i.e.* if Rule 1.2(d) is enforced for recreational cannabis)? The Committee agreed the answer is no, stating, “the need for lawyer assistance to clients to assure compliance with state regulatory requirements in the medical marijuana industry, which justifies continued federal forbearance, applies with equal if not more force to recreational marijuana.” N.Y. State Bar Ass’n, Comm. on Prof’l Ethics, Op. 1225 ¶ 17 (July 8, 2021). Indeed, “[w]ithout the aid of lawyers, the recreational marijuana regulatory system would. . . likely break down or grind to a halt.” *Id.* Further, the Committee opined that lawyers can accept equity interests in cannabis businesses in exchange for legal services, so long as the lawyers comply with other ethical rules addressing conflicts of interest and business transactions with clients. *Id.* ¶¶ 28-30. Montana also came to a similar conclusion on Rule 1.2(d) and inserted a clause into its Rules of Professional Conduct stating, “a lawyer may counsel and assist a client regarding Montana’s cannabis-related laws. In the event Montana law conflicts with federal or tribal law, the lawyer shall also advise the client regarding related federal and tribal law and policy.” MONTANA RULES OF PROF’L CONDUCT PREAMBLE § (6) (2020).

#### III. New Prohibitions in Georgia and South Dakota


Georgia and South Dakota, however, have taken a different approach. Since April 16, 2015, medicinal cannabis has been permitted in some form in the state of Georgia. *E.g.* GA. CODE ANN. §§ 16-12-190 to -19, 31-2A-18, 31-50-1 to -5 (2021); 2015 Ga. Laws. 49-59. Nevertheless, whether lawyers can assist with this highly regulated industry was not addressed until June 21, 2021, when the Georgia Supreme Court denied a motion by the Georgia State Bar Association to edit Rule 1.2(d). *In re: Motion to Amend 2021-3*, 1 (Ga. June 21, 2021), [https://www.gasupreme.us/wp-content/uploads/2021/06/Order\\_2021-3.pdf](https://www.gasupreme.us/wp-content/uploads/2021/06/Order_2021-3.pdf).

The decision is best summarized by its last few lines, which state, “this Court has long prohibited Georgia lawyers from counseling and assisting clients in the commission of criminal acts.” *Id.* 1-2. “The passage of a Georgia Statute purporting to permit and regulate conduct that constitutes federal crimes does not change that long-standing principle.” *Id.* at 2. Similarly, the State Bar of South Dakota’s Ethics Committee recently opined that South Dakota lawyers may not “ethically counsel, advise, provide legal services to, or represent a marijuana cultivator, processor, or seller.” State Bar

of South Dakota Ethics Comm., Ethics Op. 2020-07 (2020). The Committee reasoned that “Rule 1.2(d) does not distinguish between client conduct that is illegal under South Dakota law and client conduct that is illegal only under federal law. It applies to any conduct.” *Id.* Therefore, any legal advice must be limited to (1) addressing “the legal consequences” of running such a business “under either state or federal law” or (2) assisting such businesses “determine the validity, scope,

meaning, or application of the relevant state and federal law.” *Id.*

#### IV. Conclusion

As cannabis continues to be legalized both recreationally and medicinally in more states and the demand for legal services for cannabis businesses grows, we expect to see more disparate opinions on Rule 1.2(d) as it relates to cannabis. 

## Quinn Emanuel Elects Eighteen New Partners – Most in Firm History

Quinn Emanuel Urquhart & Sullivan, LLP announced that eighteen new partners have been elected to the partnership, effective January 1, 2022. Spanning eleven offices around the world, this year’s partner class is the largest in firm history.

*The newly elected partners are as follows:*



### Blair Adams

Blair Adams is a partner in the New York office. He joined the firm in 2013. He focuses on structured finance, derivatives, and other commercial litigation. Blair has extensive expertise and experience in cases involving complex financial products, including collateralized debt obligations, residential and commercial mortgage backed securities, credit default swaps, and other exotic swaps and derivative instruments. He has obtained trial victories for clients in multiple structured finance matters, including a two-week bench trial concerning disputed ownership of certain CLO assets, a bench trial seeking reformation of an RMBS indenture, and three-week arbitration concerning allegations of fraud in the sale of CDO notes. He has also represented clients in antitrust and appellate matters.



### Jack Baumann

Jack Baumann is a partner in the Los Angeles office. He joined the firm in 2013. Jack is an experienced litigator who has represented a diverse group of clients in high-stakes commercial litigation throughout the country. A large portion of Jack’s practice focuses on class action defense, and he has successfully defended more than 50 class actions, including cases involving the “right of publicity,” the Fair Credit Reporting Act (“FCRA”), wage-and-hour claims, the Americans with Disabilities Act, tribal lending, securities, and consumer fraud. Before joining the firm, Jack clerked for the Honorable Jerome Farris on the United States Court of Appeals for the Ninth Circuit.



### Kevin Chu

Kevin Chu is a partner in the Washington, D.C. office. He joined the firm in 2013. He focuses on intellectual property litigation, primarily Section 337 investigations before the International Trade Commission (ITC). Kevin has practiced before the ITC for more than eight years and represented complainants, respondents, and third parties in more than thirty Section 337 investigations. He has also successfully represented numerous clients in federal district court. Kevin is an engineer, having received dual degrees in Biomedical Engineering and Applied Science Chemical Engineering from Washington University in St. Louis. Prior to receiving his law degree, Kevin worked as a patent examiner at the United States Patent and Trademark Office.



### Alicia Cobb

Alicia Cobb is Co-Managing Partner of the Seattle office. She joined the firm in 2009. She focuses on complex commercial litigation, with particular experience in antitrust and class action litigation. Alicia litigates cases in a variety of industries on both sides of the “v.”, representing corporate plaintiffs and defendants, consumer classes, and individual opt-out clients. Prior to joining the firm, Alicia was a clerk for the Hon. Edward R. Korman of the U.S. District Court for the Eastern District of New York.



### Stacylyn Doore

Stacylyn Doore is a partner in the Boston office. She divides her practice between complex commercial litigation, where she represents plaintiffs and defendants in breach of contract, business torts, fraud, securities, trade secrets, and employment matters, and securities enforcement, where she focuses on insider trading, market manipulation, and Foreign Corrupt Practices Act investigations.



### Sandra Haberny

Sandy is a partner in the Los Angeles office. She has a Ph.D. in molecular pharmacology and an extensive patent litigation and trade secret practice with an emphasis in the life sciences. Sandy specializes in resolving complex intellectual property disputes. She has litigated, advised clients, and tried cases in a range of complex technologies including molecular diagnostics in the cancer and prenatal fields, DNA sequencing, oligonucleotide synthesis, CRISPR, monoclonal antibody-based therapies for cancer, CAR-T and other cell-based therapies for cancer, RNA interference, small molecule compounds and drugs, liquefied natural gas-based energy sources, and many others. Sandy is also admitted to practice before the United States Patent and Trademark Office, and has experience prosecuting patents, conducting inter partes review proceedings, and counseling clients on patent portfolio development and enforcement strategy.



### JP Kernisan

JP Kernisan is a partner in the New York and Washington, D.C. offices. JP practices in the areas of employment law, white collar defense, corporate investigations, and commercial litigation. JP represents companies and executives facing corporate crises involving difficult legal and regulatory challenges, with particular experience advising companies related to allegations of corruption, discrimination, and harassment and/or executive misconduct.



### Leo Kitchen

Leo Kitchen is a partner and solicitor advocate in the London office. His practice centers on complex commercial and financial litigation, with particular focus on competition-related collective proceedings and follow-on damages claims, as well as complex civil fraud and disputes arising under the ISDA Master Agreement. Leo’s experience encompasses acting for claimants and defendants in a wide variety of different courts and tribunals, both in the UK, and in various other jurisdictions as part of the large, multi-jurisdictional disputes. In recent years, Leo’s representations have included some of the largest competition-related disputes currently before the English Courts, such as the *FX* litigation, where he represents a group of asset managers and pension funds against a number of large investment banks, and the *Merricks* litigation, which is now the leading English authority in relation to the certification of collective proceedings. Leo has been recognized by *Legal 500 UK* in both their competition and banking litigation rankings, including being named as a Rising Star for banking litigation three years running.





### **Daniel Koffmann**

Dan Koffmann is a partner in the New York office. He represents companies, boards of directors, and senior executives in sensitive matters involving criminal investigations and indictments, internal investigations, congressional inquiries, and other disputes with the government. He advises clients on a broad range of white collar issues, including alleged corruption, securities fraud and insider trading, tax evasion, accounting fraud, the False Claims Act, money laundering, sanctions evasion, and civil and criminal forfeiture proceedings. He also brings affirmative claims against government regulators and agencies when statutes, regulations, and other government actions infringe on clients' rights. Dan's practice is global, and the majority of his matters involve defending foreign individuals and organizations facing scrutiny from U.S. prosecutors and regulators.



### **Joachim Lehnhardt**

Joachim is a partner and German qualified attorney (*Rechtsanwalt*) in the Hamburg office. He is a member of the Hamburg and the Brussels bar. Joachim has extensive trial and appellate experience and has represented numerous international clients in connection with the private enforcement of damages claims as well as in complex commercial and capital markets litigation including in model case proceedings (*Kapitalanlegermusterverfahren*).



### **Alexander Leventhal**

Alexander Leventhal is a partner in the Paris office. Alexander has extensive expertise in international commercial arbitration spanning multiple sectors, including the hospitality, telecommunications, entertainment, financial, and other sectors. His practice focuses in large part on the energy sector where he has represented clients upstream and downstream. He currently serves the Publications Co-Chair for ITA, an arbitration think tank with a focus on the energy sector. He also acts as Energy Committee Secretary of the Institute for Conflict Prevention and Resolution (CPR) and sat on a committee that amended CPR's Fast Track Rules.



### **Lucas Loviscek**

Lucas Loviscek is a partner in the Washington, D.C. office with over a decade of experience successfully representing clients in investment and commercial arbitration and complex litigation. Lucas represents clients in high-stakes disputes and arbitrations administered under major rules and institutions such as the International Chamber of Commerce (ICC), the London Court of International Arbitration (LCIA), the International Center for Settlement of Investment Disputes (ICSID), and UNCITRAL. His experience spans pre-dispute negotiation, discovery proceedings, merits hearings and enforcement of judicial decisions and awards. Lucas is qualified in the U.S. and in Argentina, and has extensive experience litigating under both civil and common law systems, including before courts in different jurisdictions throughout Latin America. Lucas has represented both plaintiffs and defendants in a variety of industries, including oil and gas, mining, maritime commerce, infrastructure, automobile, financial services, security, and telecommunications.



### **Catherine Mattes**

Catherine Mattes is a partner in the New York office. She focuses on complex litigation in the chemical, pharmaceutical, and biotechnology areas. She has extensive experience in patent litigation and counseling in a broad range of technologies, including all stages of patent litigation, ranging from pre-suit investigation and fact and expert discovery to trial, post-trial, and appeals. Catherine has represented innovative brand name pharmaceutical companies in complex Hatch-Waxman litigations against multiple defendants.



### **John McKee**

John McKee is a partner in the New York office. John focuses on high-stakes intellectual property disputes. He has a degree in electrical engineering from the University of Texas at Austin and has applied his technical training to patent litigation matters including technologies such as the Android operating system, DOCSIS, automotive wireless hotspots, anti-malware software, LEDs, magnetic backup tapes, cellular baseband processors, 3G/4G cellular standards, and cloud infrastructure. John has litigated in federal district courts throughout the country, the Court of Appeals for the Federal Circuit, the International Trade Commission, and the Patent Trial and Appeal Board. Since 2019, he has been nationally ranked as one of the top litigators for petitioners at the PTAB.



### **Adam McWilliams**

Adam McWilliams is a partner in the London office and represents clients in disputes around the world. With extensive experience acting in international arbitration and cross-border cases, Adam has represented energy, infrastructure, construction, and natural resources clients in all manner of complex claims, and he is particularly experienced with major projects in the renewable energy sector. Having previously worked on assignment in the global disputes group at a major international bank in London, Adam also acts in high value finance, commercial, and civil fraud disputes. Adam is qualified in England and New York, as well as his native Australia where he began his legal career with a judicial clerkship for a judge of the Federal Court of Australia.



### **Karabeth Ovenden**

Karabeth Ovenden is a partner in the London office. She focuses on insolvency matters, over-the-counter derivative products risk management and related disputes, and complex commercial and tax disputes. Karabeth's clients include insolvency officeholders, high-net-worth individuals and multi-national corporations. She has experience with a broad spectrum of disputes in both litigation and arbitration, often involving jurisdictional and cross-border elements.




### **Michelle Schmit**

Michelle Schmit is a partner in the Chicago office. She focuses on high stakes complex commercial litigation. Michelle has significant experience representing clients in antitrust, class action, contract, energy, environmental, product liability, patent, trade secret and securities disputes, among others. She has successfully represented plaintiffs and defendants in a variety of industries, including energy, pharmaceutical, and technology companies. Michelle has represented clients in a number of multi-billion dollar cases, and has substantial trial experience.



### **Dr. Simon Vorburger**

Dr. Simon Vorburger is a partner based in the Zurich office. He is a Swiss and New York qualified attorney. Simon's practice focuses on both international commercial and investment treaty arbitration. He also represents parties in domestic and international litigation and advises clients in cross-border multi-jurisdictional disputes as well as pre-litigation strategy. His areas of specialization include energy and infrastructure projects, construction and engineering, manufacturing, disputes involving the financial industry, and long-term delivery and sales contracts. He also has extensive experience in insolvency-related issues, in particular the interplay between international disputes and cross-border insolvency proceedings. 

## Appellate M&A Victory

In a path-breaking decision of significant importance to M&A parties and practitioners, the Delaware Supreme Court recently affirmed a complete trial victory for firm client Mirae Asset, the largest asset manager in South Korea. In September 2019, Mirae Asset agreed to buy 15 U.S.-based luxury hotels for \$5.8 billion from Anbang, a Chinese financial conglomerate. The deal was scheduled to close in April 2020. Then the COVID-19 pandemic hit. In response, Anbang shuttered some of the hotels, slashed operations in others, and laid off 5200 employees. Mirae Asset also learned about a defect in title that Anbang had concealed. Mirae Asset then terminated the deal based on several covenant and condition breaches, including Anbang's failure to operate the hotels "only in the ordinary course of business consistent with past practice" until closing. Anbang sued Mirae Asset in the Delaware Court of Chancery to force it to close the terminated deal. In a trial court victory for Quinn Emanuel and its client, the Court of Chancery ruled in favor of Mirae Asset based on Anbang's breaches of the ordinary course covenant and a covenant related to title insurance. The court ruled for Mirae Asset, ordering the return of its \$581 million deposit and awarding it all of its attorneys' fees and costs.


On appeal to the Delaware Supreme Court, Anbang sought to undo those ordinary-course and title insurance rulings. For Mirae Asset, members of the firm's appellate practice teamed with the trial team to defend the Court of Chancery's ruling. The Delaware Supreme Court, sitting *en banc*, affirmed. Chief Justice Seitz's opinion not only vindicated Mirae Asset's win but also made new textbook law on ordinary course covenants that will govern future mergers and acquisitions practice in Delaware.

After first faulting Anbang for the failure of the transaction, the court agreed with Mirae Asset's arguments on the meaning and application of the "ordinary course covenant," a common term in Delaware contracts. The covenant requires a seller to act "only in the ordinary course of business" between signing and closing. The court clarified that this term "in general prevents sellers from taking any actions that materially change the nature or quality of the business that is being purchased, whether or not those changes were related to misconduct." (Op. 24.) To be sure, the specific language of the contract term in question will likely control the outcome. The court noted that Mirae Asset's agreement with Anbang here contained additional language protecting the buyer:

the seller could act "only" in the ordinary course of business "consistent with past practice." Moreover, the agreement lacked any qualifier that seller need make only "commercially reasonable efforts" to act in the ordinary course. The court therefore concluded that the agreement here imposed an unconditional obligation "measured by [seller's] operational history, and not that of the industry in which it operates." (Op. 27.) Within this framework, there was "overwhelming evidence supported by a comprehensive factual record that the Seller made changes that were wholly inconsistent with past practice." *See* Op. 32 (cleaned up).

The Delaware Supreme Court also concluded that Anbang "was not hamstrung" by the ordinary course covenant from making reasonable changes to the business in response to the pandemic; it was merely barred from making such changes unilaterally without Mirae Asset's advance consent. The court noted that Mirae Asset "might have wanted to respond to the pandemic in different ways, to ensure the long-term profitability of the business or to prioritize one area over another." (Op. 37). If Anbang had sought Mirae Asset's prior consent and Mirae Asset had "unreasonably" withheld such consent, Anbang could have challenged that and gone forward with reasonable modifications, litigating the reasonableness of those changes later if necessary.

Going forward, this decision will likely cause more awareness among deal practitioners of the importance of the specific language of ordinary-course covenants and similar clauses, especially in a state like Delaware that enforces contracts as written. The court's interpretation of the notice-and-consent provision reminds parties that, when in doubt, they should seek a counterparty's consent and treat that process as more than a mere formality. And the decision also reminds deal lawyers that they may wish to insert "commercially reasonable efforts" qualifiers into any provisions, including notice-and-consent provisions, that a party wishes to be less than absolute unconditional obligations.

The case is captioned *AB Stable VIII v. MAPS Hotels*, No. 71, 2021, 2021 WL 5832875 (Del. Dec. 8, 2021). 

business litigation report

quinn emanuel urquhart & sullivan, llp

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