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Tips for Civil Litigators In Bankruptcy Court

Speaking as a general practice federal civil litigator who by luck became a bankruptcy judge sixteen years ago, my experience is that competent federal civil litigators are fully competitive with bankruptcy specialists when it comes to bankruptcy litigation. They have the key skills for effective bankruptcy litigation, but at times tend to overlook significant litigation strategies opened up by the bankruptcy law and process. Nonetheless, civil litigators need not automatically abdicate to bankruptcy lawyers. Indeed, if I were organizing a law firm's litigation department, I would expect (after a hard-headed review of the overall economics of the situation) litigators to retain primary responsibility over matters that migrate into bankruptcy court and require that they coordinate with bankruptcy specialists as to bankruptcy-specific issues.



Hon. Christopher M. Klein

The reason for keeping the litigator on board is that bankruptcy does not necessarily change the dispute that underlies the litigation. The basic rights of the parties are determined by the same substantive law that governs non-bankruptcy cases. The methods of proof are governed by the Federal Rules

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Injunction Relief in Intellectual Property Litigation: A View from the Trenches

Motions for injunctive relief in intellectual property ("IP") disputes present unique challenges to plaintiffs and defendants. These disputes tend to involve difficult fact situations, complex technologies, substantial expert testimony and arcane areas of law. The task of effectively presenting these often high-stakes cases in a hotly contested, expedited judicial proceeding is not an easy one. This article provides practical suggestions for making your best plaintiff or defense case in the context of the IP injunction motion.

Financial Burdens Associated with IP Litigation

IP litigation is expensive, and consequently so is obtaining or defending against injunctive relief in an IP case. According to a 2004 American Intellectual Property Law Association publication, the median fees and costs through trial (which are in addition to the financial risks that each party faces in the case) in California-based IP cases with more than \$25 million at risk are: patent infringement cases — \$5 million; trade secret misappropriation cases — \$3 million; copyright infringement cases — \$2.2 million; and trademark infringement cases — \$1.9 million.

Typical fees for a contested preliminary injunction motion (with expedited discovery) in a complex IP case range from \$300,000 to \$1 million, and that is without including the typical 1-1/2 points (1.5% of the bond's face value) the plaintiff will pay for the issuance of a preliminary injunction bond. The IP injunction plaintiff must seriously consider whether the cost of obtaining the injunction is worth the benefit obtained by the injunction's issuance (and the risk of not obtaining it).

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Claude M. Stern

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Injunctive Relief in IP Litigation

A similar cost benefit analysis informs the defendant's response to a preliminary injunction action. The defendant must assess the extent to which the technology, product, brand or other IP at issue is worth the fight. Spending \$750,000 to defend against an injunction may make sense where the target product is a "hit," but makes little sense where the accused product is a loser. Basic economics may dictate withdrawing the accused product from the market until the merits of the case are resolved. Even where the product is a hit, it may be more cost effective (and less stressful on the defendant's business) to modify the accused product and design around the asserted IP than to fight.

Choose the Right Forum

Once the decision is made to seek an IP preliminary injunction, the plaintiff asserting trade secret misappropriation or Lanham Act claims must select the appropriate forum. (Patent and copyright infringement complaints may only be brought in federal court.) The IP injunction plaintiff should consider the different advantages and disadvantages offered by state and federal law, such as:

Which rules of evidence lead to the most favorable result?

Which forum has more favorable injunction practices? For example, some state courts are more likely than federal courts to extend TROs without a stipulation.

What opportunities are there, should the motion fail, to obtain an expedited trial on the merits? See, e.g., Fed. R. Civ. P. 65(c) (authorizing consolidation of trial with injunction hearing).

Which forum gives the plaintiff the advantage in presenting its case? For example, in some courts TROs are typically only considered by clerks, not judges; and some courts may be less familiar with the IP or technology at issue.

Is the case removable? The defendant facing a state court TRO or preliminary injunction motion must immediately determine whether any of the claims are removable to federal court. Even where diversity jurisdiction is absent, removal may still be an option, particularly if the state law claims are preempted by federal copyright or patent law. See, e.g., *Kabebie v. Zoland*, 102 Cal.App.4th 513 (2002) (state law breach of contract claim held preempted by the Copyright Act); *Briarpatch Ltd. v. Phoenix Pictures, Inc.*, 373 F.3d 296 (2d Cir. 2004) (affirming removal based on federal preemption of copyright claim). Nothing is more disheartening to an IP plaintiff seeking injunctive relief than discovering that its case has been removed 15 minutes after the TRO papers have been filed.

Keep It Simple: Supporting Declarations and Evidence

The IP injunction plaintiff wants to avoid committing to evidence that which it will later regret should the case

move forward. At the same time, it must explain complex facts, technology and law to the court in a short period of time. The defense must poke holes in the plaintiff's case and demonstrate the need for further factual development under enormous time pressures. The solution? Moving and opposing papers that:

Focus on verifiable, unassailable evidence where possible. The plaintiff must be careful not to rest its injunction request on thinly supported or controversial evidence; otherwise, that evidence likely will be the focus of the defendant's attack. The defense must be sure to convey the complexity and nuances of the case, the need for further factual investigation, and the obvious holes in the plaintiff's evidence. For example, the defense should insist that an injunction would be entirely inappropriate:

- In a trademark infringement case where the plaintiff has failed to present empirical evidence of a likelihood of confusion. See, e.g., *Playboy Enterprises v. Netscape Communications Corp.*, Nos. SA CV 99-320/321 (C.D. Cal. 1999) (with no survey evidence, no injunction can issue).

- In a trade secret case, where the plaintiff has failed to present any credible evidence that the misappropriated information was in fact "secret" before the alleged theft. See, e.g., *Curtis 1000, Inc. v. Seuss*, 24 F.3d 941 (7th Cir. 1994).

- In a patent case, where the plaintiff offers no expert declaration regarding the patent's validity in the face of proposed invalidating prior art, or where the court has not yet construed the claims at issue. See, e.g., *Amazon.com, Inc. v. Barnesandnoble.com, LLC*, 239 F.3d 1343 (Fed. Cir. 2001); *International Communication Materials, Inc. v. Ricob Co.*, 108 F.3d 316 (Fed. Cir. 1997).

- In a copyright infringement case, where there are serious questions as to whether the plaintiff has licensed the work at issue to the defendant, or where expert testimony makes clear that the works at issue are not substantially similar. See, e.g., *Sun Microsystems, Inc. v. Microsoft Corp.*, 188 F.3d 1115 (9th Cir. 1999); *Palmer v. Braun*, 287 F.3d 1325 (11th Cir. 2002).

Make the IP or technology simple and understandable. IP injunction plaintiffs too frequently fall in love with their IP or technology, thereby sacrificing clarity for detail. This is a terrible mistake. The more complex the IP or technology, the greater the need for analogies or metaphors to explain it. If the judge finds the IP or technology confusing or overly complex, your chances of prevailing diminish enormously (and the more likely the defense will cite that complexity as the basis for deferring any ruling).

Don't include extraneous facts. Though it's tempting to include massive detail regarding the plaintiff's IP and the depravity of the defendant's conduct, when it comes to litigating difficult IP disputes, the plaintiff is always best advised to include a full discussion of only those facts necessary to secure the relief requested. This applies equally to the defense.

Make sure your IP plaintiff is not litigating from a glass house. It's remarkable how often in IP litigation —

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particularly trade secret litigation and trademark infringement/false advertising cases — the plaintiff files for injunctive relief only to learn from the defendant's opposition that the plaintiff has engaged in precisely the same conduct alleged against the defendant. This is not only embarrassing, but can result in the court's denial of the requested injunctive relief. Do your homework: make sure that your accusations against the defendant don't also fit your client.

Make your expert a helpful resource for the court. Expert witnesses are often essential to the IP injunction plaintiff's case. The expert is even more frequently critical to the defendant. Experts can simplify why the defendant is *not* infringing, or explain the practical implications the plaintiff's proposed injunction will have on the defendant. For both sides, the objective at the injunction stage should be to focus the expert's testimony on the issues around which the injunction will revolve. And, where the plaintiff offers no expert in an area that screams for expertise, the defense should emphasize this hole in the plaintiff's evidence.

Focus Any Expedited Discovery

Generally, the IP plaintiff seeking injunctive relief lacks sufficient access to the defendant's evidence to make its case as compellingly as it would like. Thus, IP plaintiffs routinely need expedited discovery to support their motion for injunctive relief. Consider the following:

Make a request for expedited discovery along with the TRO application. IP plaintiffs too frequently threaten to take expedited discovery, without actually submitting the proposed discovery to the court. By including proposed discovery with the application for the TRO, plaintiffs stand a better chance of persuading the court to order discovery even if the court denies the TRO and only sets a hearing on a preliminary injunction motion.

Keep the discovery pointed. The discovery should be tailored to the plaintiff's specific needs. Identify the persons whom you want to depose by name or title. Ask for the specific design documents or product specifications you think are most likely to reflect the defendant's copying. Go for the jugular. The defendant, on the other hand, should resist any discovery that is overbroad or burdensome; equally important, the defense should demand the right to conduct reciprocal, pointed discovery from the plaintiff or third parties, including necessary expert depositions.

Do whatever you can to facilitate expedited discovery. If this means agreeing that the defendant's depositions — in fact all depositions — take place in defense counsel's office, do it. If it means conceding (or temporarily tabling) extraneous discovery issues for the sake of expediting proceedings, do it. Don't seek to depose every witness you may need for the trial, or request every relevant document. Also, don't create obstacles that delay the discovery you seek. For example, a trade secret misappropriation plaintiff may not conduct any discovery regarding the misappropriation claim unless it first identifies

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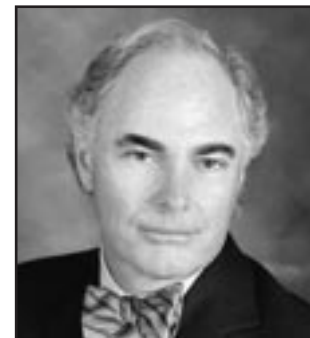
How to Succeed with Discovery Referees

It is now common in complex business and tort cases for a special master or referee to be appointed to oversee discovery — either by agreement of the parties or on the court's own motion. Based on the author's experience serving as a referee or special master in close to fifty cases, this article recommends procedures, tactics and behavior that will greatly improve the results for your clients in discovery disputes. The article focuses on working with a master or referee who has been appointed to oversee all discovery in a case.

Powers of Special Masters and Referees

A federal judge may refer discovery matters to a special master pursuant to Federal Rule 53(a)(1). Note that Rule 53 was extensively revised in 2003. Such references may be made with the parties' consent, or without the consent of the parties. Rule 53(a)(1)(A and C). However, a court must afford the parties notice and an opportunity to be heard before appointing a master. The master's powers are set forth in Rule 53, as amplified by the order of reference, and are typically very broad. Rule 53(c). The court may appoint a master to a one-off assignment to decide a particular motion or to conduct an investigation and prepare a report. Or the court may designate the master to manage and decide all facets of discovery during the case. The master's orders must be filed with the court, and any party may object to an order within 20 days. Review of findings of fact (such as in connection with determinations of privilege) are reviewable *de novo* unless the parties stipulate to a review "for clear error;" or when the order of reference provides that the master's findings will be final. All legal conclusions are reviewable *de novo*. Procedural decisions (such as discovery scheduling) are reviewable only for abuse of discretion, unless the reference order prescribes a different standard. Rule 53(g).

California procedure is more complex. In California courts, a court may appoint a discovery referee with the consent of all parties pursuant to CCP section 638 and Rule of Court 244.1, or over the objection of one or more parties pursuant to CCP section 639 and Rule 244.2. It is more common and far easier to proceed with consent under section 638, because a section 639 appointment of a discovery referee carries a lot of baggage. The court must make detailed findings of the reasons for the appointment, the referee's hourly rate, the number of



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How to Succeed with Discovery Referees

hours for which the referee may charge, the parties' ability to pay, and the "exceptional circumstances...specific to the circumstances of the particular case" that require the appointment of a referee. CCP section 639(d). Also, in every recommended order, a section 639 referee must state the number of hours spent, the fees charged, and how the fees are to be allocated among the parties. CCP § 643(c).

A California discovery referee — whether appointed under section 638 or 639 — does not have the authority to issue final orders that are reviewable by writ in the court of appeal. Only a referee appointed pursuant to section 638 to try the entire case (a "consensual general reference") may issue final appealable orders. CCP section 644(a). Therefore, a discovery referee (or any referee appointed for other limited purposes) must issue a recommended order that has no binding effect until it is adopted by the court. *Doyle v. Superior Court*, 50 Cal.App.4th 1878, 1884, n. 1 (1996). The court must "independently consider" the referee's findings, regardless of whether any party objects to them. CCP § 644(b). In practice, this limited power does not hinder the efficient use of referees.

How to Appoint a Master or Referee

In complex cases, counsel and the court are frequently interested in appointing a qualified referee or master to handle all discovery disputes. Care taken in drafting the appointment order will pay off in greater efficiency. In drafting a state court order of reference, counsel need to include all the required information and the appropriate code citations. See CCP § 639(d); Rules of Court 244.1(a) and 244.2(a) and (h). But more importantly, counsel should draft the order of reference to give the master or referee the appropriate powers. Experienced referees will often provide counsel with draft reference orders to adapt to the needs of the particular case.

First, select a referee or master who has experience with managing discovery, likes to do it, and will devote priority time to your case. Many neutrals who are prominent in other facets of dispute resolution have no interest in discovery issues, and may allow their mediation and arbitration assignments to push the discovery work aside. A retired judge must be an active or inactive member of the State Bar to serve as a referee. Rules of Court 244.1(a) and 244.2(d). Experienced referees will provide resumes and referrals to lawyers who have worked with them.

Second, give the master or referee broad powers not only to decide discrete disputes, but also to manage, organize and schedule discovery. With this added authority, a referee will achieve genuine savings in time and cost. A good discovery referee should save the parties more in litigation costs and time than the fees the referee charges.

Third, describe carefully the procedure for issuing, correcting and reviewing the referee's orders. Since there is no standard practice, counsel and the referee need to be sure the procedure they adopt will satisfy the trial judge and the court clerks in the particular federal district or

county. Having tried many approaches, the author recommends the following procedure. Require the referee to issue a recommended written order within 10 days following a hearing. (Otherwise, a California referee will have 20 days to file an order with the court. CCP § 643.) Allow 10 days for any party to offer corrections to the recommended order, and require the referee to act on the corrections within 5 days. (In a long case involving many orders, the referee should number each order. The original recommended order should bear a number and letter, e.g., Discovery Order No. 12A. If it is corrected, the subsequent versions become 12B or 12 C. When the order is ready to file with the court, the letter is removed and the order becomes simply Discovery Order No. 12.) The reference order should set a deadline of 10 days after service for counsel to file objections with the court. If no deadline is specified, the time to object is 10 days in federal court; in California courts, the time to object is 15 days under section 638 and 10 days under section 639.

Fourth, authorize the master to act flexibly and informally — to hear and decide matters on letter briefs, by e-mails, and in conference calls.

Fifth, expressly provide that the master or referee may conduct settlement conferences to resolve discovery disputes without formal motions. A California referee is barred from conducting a "mediation," but may conduct "mandatory settlement conferences." Rules of Court 244.1(b) and 244.2(b).

How to Succeed with Your Referee

Discovery disputes seem to provoke intense feelings, name-calling, and lots of unproductive "he said / she said" accusations. Referees hate this. A brief that scatters around accusations of lying and bad faith and is otherwise dripping with purple prose is not persuasive. While referees appreciate colorful writing, pages of invective make them tune out and turn the pages until they come to something approaching a rational, practical argument. So scratch the polemics, and focus on being professional, rational and practical.

Referees are rarely interested in hearing much about the birth, infancy and adolescence of a discovery dispute — they want guidance on how to solve it. So be practical and future-oriented. Of course, give a succinct, calm summary of the background. But a referee is far less interested in "who did what to whom" than in what needs to be done to make it right. It is particularly annoying to be constantly reminded that Party A got away with something six months ago, so Party B should now be afforded comparable latitude. Offer a practical solution — one that of course favors your client — and tell the referee why your solution is fair to all parties. Remember that most discovery disputes do not turn on the statutory or case law, which rarely offer more than general principles, but on the practical needs of the case. So focus on the present of the dispute and the future of the case, not on past indignities.

Be willing to proceed informally. A referee can accomplish as much in a 15-minute conference call with parties, or in an e-mail exchange, as in ruling on a formal motion.

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How to Succeed with Discovery Referees

So use your referee early, often and flexibly. Consult the referee when a dispute first emerges; don't wait until you and the other side have exchanged 10-page "meet-and-confer" letters (that are rarely read by anyone!) and you've wasted two months of valuable discovery time. Letter briefs are welcome. If the issue requires evidence, of course submit a declaration. But only rare issues require full formal briefing with points and authorities, separate statements and admissible evidence. Use court reporters sparingly. Unless the issue is so important that you will take it to the trial judge if the referee rules against you, don't bother with a reporter.

Innovative Case Management and Settlement

A competent referee provides value in three ways: by facilitating the informal resolution of minor disputes; by deciding formal motions quickly and clearly; and by helping counsel manage and schedule discovery effectively.

Counsel at first may resist a referee's hands-on involvement in discovery management, but invariably they come to appreciate its benefits. The most effective management tool is the monthly discovery status conference. Local counsel typically attend in person; out-of-town counsel attend by telephone. Each side submits a bullet-point agenda, usually by e-mail, a few days before the conference. The referee works through each issue, determining whether it can be resolved on the spot, scheduled for a later informal meeting, or set for resolution by formal motion. If a motion is required, the referee sets a briefing and hearing schedule.

Immediately following the conference, the referee should prepare a summary of the conference, issue by issue, stating succinctly the resolution that was achieved. Although such decisions are not formal court orders — and are never reviewed by the trial court — the summary should say that the referee expects the parties to abide by them unless they challenge them by a formal motion within a specified time. In practice, counsel treat these informal decisions as binding and rarely challenge them, because they do not deal with truly critical issues.

Another tool for discovery management is the guided meet-and-confer. In too many cases counsel become unable to agree on anything, and so their own meet-and-confer sessions and letters are useless. But put counsel in a room with an effective, hands-on referee, and magic occurs. Disputes melt away; compromises emerge; meaningful discovery responses are served. Counsel need to alert the referee to an emerging dispute, and get themselves in front of the referee for their meet-and-confer efforts.

Improved Forms of Communications

Take advantage of new technologies that provide far more effective ways of communicating about discovery issues.

Find a referee who is willing and able to use e-mail. In a large case with 10-plus counsel, the referee should immediately create an e-mail mailing list to communicate

quickly and simultaneously with all parties. Remember that most referees do not have vast support staffs — so faxing a letter or order to 30 counsel can be challenging. Not all, but many communications can be accomplished electronically.

In cases involving dozens of counsel, such as construction or insurance coverage disputes, counsel can consider setting up a website for the case. Counsel and the referee can then post communications and documents on the website with great ease and speed. And in most cases, the conference call can effectively deal with counsel who are not locally based. Few discovery issues require counsel to fly in from New York or even Los Angeles. Referees will not afford any preference to counsel who appear in person over those who appear by telephone.

Conclusion

In summary, to get the best results from a master or referee, follow these steps:

- Select an experienced referee or master who likes to manage discovery, and is technologically adept.
- Give the referee or master broad powers to manage discovery, not simply decide motions.
- Be willing to work with the referee or master flexibly and informally to resolve disputes before they require formal motions.
- Don't engage in name calling or polemics.
- Downplay past disputes and "who did what to whom." Focus on a practical solution to the problem and the future best interests of the case.
- Encourage the referee or master to hold periodic status conferences to decide minor issues that don't require motions, and to plan and schedule discovery.

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Injunctive Relief in IP Litigation

with reasonable particularity the trade secrets that were misappropriated. *See, e.g., C.C.P. § 2019(d); Computer Economics, Inc. v. Gartner Group, Inc.*, 50 ESupp.2d 980, 984-92 (S.D. Cal. 1999) (in diversity case, holding that C.C.P. section 2019(d) is substantive California trade secret law applicable in the federal forum). The trade secret injunction plaintiff should satisfy this requirement as part of its moving papers. This may avoid a delay in ruling on the motion or, worse, an outright denial of the request for expedited discovery or even the TRO itself. The defense should argue, where appropriate, that plaintiff's failure to allow expedited discovery, along with the complexities of the case, require the denial of injunctive relief in order to allow the parties to develop a more complete record.

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If you ask for expedited discovery, be prepared to reciprocate. The last thing the plaintiff should do is ask for expedited discovery when it is either unwilling to reciprocate, or where the defendant's discovery will reveal gaping holes in the plaintiff's case.

Propose a form of protective order as part of the TRO application. IP disputes invariably require disclosure of the parties' sensitive technical, financial and business records. To facilitate its request for expedited discovery, the plaintiff should immediately propose an appropriate mutual protective order. To enhance its credibility, the plaintiff may wish to insert (or, if it fails to do so, the defense should demand) certain provisions that are becoming more common in IP protective orders, such as: (i) a provision limiting the plaintiff's patent prosecution counsel from gaining access to any of the defendant's proprietary, non-public technology or ideas; and/or (ii) a provision addressing how the parties' technical experts can gain access to and/or possession of the parties' respective proprietary/technical information or source code.

Choose an Appropriate Remedy

Federal and state IP decisions caution against the issuance of overbroad injunctions. See, e.g., *A&M Records, Inc. v. Napster, Inc.*, 239 F3d 1004 (9th Cir. 2001) (copyright injunction held overbroad); *Sunward Elecs., Inc. v. McDonald*, 2004 U.S. App. LEXIS 4070 (2d Cir. 2004) (trademark injunction held overbroad). Courts are likely to have an immediate negative reaction to an overreaching proposed injunction. Make the punishment fit the crime. Resist the temptation to seek injunctive relief that is broader than the injury sustained or threatened, especially when a narrower or more specific option is available. This being said, where appropriate, don't be afraid to seek a form of injunction with real teeth (including a seizure or recall order).

The Hearing:

Come to Court Ready to Teach

Plaintiff and defendant must come to the TRO or preliminary injunction hearing with all available tools to make the case understandable for the court. Remember to:

Use demonstrative evidence. Present the case through PowerPoint or other demonstrative tools that make the technology and the IP easy to understand.

Bring the IP or accused product/method to the courtroom. If the offending product is a hand-held product, hand it to the court; if the offending product is trade dress packaging, have an exemplar for the court to view. It is not unusual for judges to come off the bench to observe the technology, product or IP at issue.

Wire the courtroom. Use whatever technology is necessary to make the case understandable for the court. If this means monitors at counsel's desk, on the court's bench, the witness box and the clerk's desk, so be it. In some courts such technology may already be available, but most courts will require a court order in advance of

the hearing to allow you to bring this technology into the courtroom.

Offer the court the opportunity to interrogate percipient and expert witnesses. Counsel should think broadly about the opportunities to influence or teach the court. For example, in two entirely different cases — one a copyright infringement case, the other a trademark infringement case — different federal judges asked my defendants' technicians who were operating the accused products about certain product features; in both cases, the technicians' unrehearsed response played a material role in the court's denial of the requested injunction.

Prepare for an Adverse Ruling: The Press Release

If and when the plaintiff secures an injunction against the defendant in an IP case, the plaintiff will make it a media event. Plaintiff's counsel should have input into this process to ensure that the plaintiff's press releases are accurate, non-misleading and consistent with ethical rules regarding pre-trial publicity.

Defense counsel should anticipate and discuss this reality with the client even before an injunction issues, and should assist in preparing the defendant's press release or other media response. In the event of the injunction's issuance, the defense press release should characterize the result as non-binding and not a reflection of the likely result at trial; in addition, it should identify what has not been adjudicated. Insulting the court is not only unprofessional but counter-productive (particularly if you ever intend to appear before the issuing judge again). The defense should work with the client's public relations representatives to develop a series of FAQs, to make sure that media inquiries are responded to quickly and accurately.

For most companies, defeating an IP injunction motion is not an appropriate subject of a press release, since the conventional wisdom is that any news of a business being sued is bad news, even where the company provisionally prevails. But where the plaintiff has widely publicized its injunction motion, the defendant may have little choice but to issue a press release announcing the defeat of the injunction motion.

Conclusion

All IP injunction motions are ultimately decided by a judge, who has the ultimate "issue-or-not-issue" decision. By focusing on the heart of the case, minimizing extraneous proceedings, and presenting a simple yet compelling view of the facts and IP or technology at issue, you stand a better chance of establishing your credibility with the judge who makes the final (even if ultimately appealable) call.

Claude M. Stern is a partner with the Silicon Valley office of Quinn Emanuel Urquhart Oliver & Hedges LLP, and also serves as Treasurer of the Northern California Chapter of ABTL. He thanks Quinn Emanuel associates John van Loben Sels and Evette Pennypacker for their assistance in preparing this article.

BILL HIRSCH

On CLASS ACTIONS

The California Supreme Court's recent decision in *Sav-On Drug Stores v. Superior Court of Los Angeles County*, 34 Cal.4th 319 (2004), highlights California's class action legacy, reaffirms long-established class action principles that are often forgotten or ignored, and invigorates wage and hour cases — a burgeoning area of practice.

In *Sav-On*, managers and assistant managers seeking overtime wages claimed that a class should be certified because: (1) their employer uniformly misclassified them as exempt from overtime laws on the basis of their job descriptions, not the work they actually performed; and (2) their employer's uniform policies and practices compelled them to spend insufficient time on exempt tasks. In opposition, *Sav-On* argued that whether a manager was exempt depended on the tasks they performed and the amount of time spent, which varies depending on the store and the employee.

The Supreme Court reversed the appellate court, holding that the trial court had not abused its discretion in certifying the class based on its determination that there was substantial evidence that common questions predominated over individual issues.

A Trial Court's Certification Decision May Not Be Overturned if Based on Substantial Evidence

Sav-On unequivocally holds that trial courts, not appellate courts, are authorized to weigh the evidence supporting class certification, and that decisions based on substantial evidence, employing proper legal criteria, must stand. Appellate courts must determine whether there is substantial evidence supporting the theory of recovery advanced, but may not substitute their evaluation of the evidence for that of the trial court. It does not matter that the evidence is disputed, or that a trial court, believing other evidence, could have reached a contrary decision or drawn other inferences. Moreover, the Supreme Court gave its imprimatur to the use of different types of evidence, including pattern and practice evidence, statistical evidence, sampling evidence, expert testimony and other indicators of a defendant's centralized practices, or even the testimony of a single credible witness.

The Test for Predominance is Comparative

Sav-On also reaffirms the important principle that class certification turns on "whether...the issues which may be jointly tried, when compared with those requiring separate adjudication, are so numerous or substantial that the maintenance of a class action would be advantageous to the judicial process and to the litigants." *Id.* at 326. This test is necessarily comparative — it involves weighing the costs and benefits of a class action versus numerous indi-

vidual actions, and deciding which is better. It is not — and this is critical — a comparison "between the complexity of a class suit that must accommodate some individualized inquiries and the absence of any remedial proceeding whatsoever." *Id.* at 339 n.10. Assuming, or hoping, that the whole matter will disappear if certification is denied is not an option.

Since predominance is a comparative concept, class certification is not necessarily defeated because courts need to make individual determinations regarding such things as eligibility to recover or damages. The test is whether such individual questions can be "effectively managed" and courts are encouraged to use innovative case management techniques (*e.g.*, mini-trials, special masters) to handle individual questions and achieve the benefits of class treatment.

Common Questions Predominate in Wage and Hour Cases

The Supreme Court found that a reasonable court could conclude that both of plaintiffs' theories — that *Sav-On* deliberately misclassified managers as exempt and that its uniform policies and practices compelled managers to spend insufficient time on exempt tasks — raised common questions that predominate over individual questions regarding the time spent and tasks performed by each manager. The key issue — whether the various tasks performed should be classified as exempt or non-exempt — can "easily" be determined on a class-wide basis by assigning each task to one category or the other. *Id.* at 331. And courts may rely on statistical sampling of the work performed by managers or on other evidence of uniform policies or practices, notwithstanding contrary evidence.

The Supreme Court also emphasized that its decision in *Ramirez v. Yosemite Water, Inc.*, 20 Cal.4th 785 (1999), does not bar class certification. The key holdings are: (1) *Ramirez* did not discuss or change certification standards; (2) an employer's reasonable expectations, a factor that must be compared to the actual work performed, is susceptible to common proof; and (3) the need to assess the actual work performed does not compel a court to assess an employer's affirmative defense of exemption against every employee before certifying a class and does not oblige plaintiffs to demonstrate that every employee was incorrectly classified, since the employer has the burden of proof on affirmative defenses.

The future of overtime wage class action litigation is bright. *Sav-On* emphasizes that public policy promotes the enforcement of the state's overtime wage laws, and the use of class actions to avoid a multiplicity of suits and to provide small claimants with a method of obtaining redress. This is good news to countless misclassified employees throughout the state.

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Bankruptcy Court Tips

of Evidence. The basic procedure is drawn from the Federal Rules of Civil Procedure (“FRCP”).

Bankruptcy affects remedies and procedures and may change litigation dynamics. By focusing on financial remedies, it accelerates the litigation process by opening the door to a prompt resolution on the merits through an early hearing. In such proceedings, the lawyers who do well are those who are able to marshal evidence efficiently in the manner used in federal civil practice for making out a case for a preliminary injunction, temporary restraining order or similarly fast-paced litigation.

Common Procedural Ground

The first point of commonality is the poorly-understood fact that the Federal Rules of Civil Procedure apply in bankruptcy. Although FRCP Rule 81(a)(1) says that the FRCP “apply to proceedings in bankruptcy to the extent provided by the Federal Rules of Bankruptcy Procedure (‘Bankruptcy Rules’),” the extent of incorporation is not readily apparent from the Bankruptcy Rules, which are vulnerable to the criticism that their structure operates as a barrier to entry to competent non-bankruptcy specialists. To assist the general federal litigator in surmounting this barrier, I have written an article that details the bankruptcy court’s incorporation of 77 rules of the FRCP: Christopher M. Klein, *Bankruptcy Rules Made Easy (2001): A Guide to the Federal Rules of Civil Procedure that Apply in Bankruptcy*, 75 Am. Bankr. L.J. 35 (2001).

The second point of commonality is that the Federal Rules of Evidence apply in bankruptcy cases. The presentation of evidence regarding disputed material factual issues, even in short-fused motion matters, generally must be in the same manner as trial of a federal civil action. The common reliance in bankruptcy court on affidavits as shortcuts reflects acquiescence by parties who elect not to interpose meritorious hearsay objections. When objection is made and testimony ensues, it can be entertaining to see the extent to which affiants are (or are not) familiar with facts stated in their affidavits. The pertinent considerations and techniques underlying the litigation decisions are well known to those skilled in temporary restraining order and preliminary injunction practice.

Effects On Pending Non-Bankruptcy Litigation

Non-bankruptcy litigation is affected by bankruptcy in two respects.

First, the automatic stay (11 U.S.C. § 362) applies to most pending civil actions against the debtor. (Although actions by the debtor are not ordinarily stayed, the trustee becomes the real party-in-interest.) The stay cannot be ignored. In the Ninth Circuit, acts in violation of the stay are void *ab initio*. *Schwartz v. United States (In re Schwartz)*, 954 F.3d 569 (9th Cir. 1992). Thus, if one wishes to continue to proceed in a non-bankruptcy court, relief from stay may be necessary.

Second, if the action by or against the debtor is pending in state court, any party may remove it, in whole or in part, to federal court (28 U.S.C. § 1452), although the removal is subject to an unusually liberal remand provision (“any equitable ground”). This affords an opportunity to proceed in a federal forum that is comparatively unclogged.

A removed action is automatically “referred” to the bankruptcy court (which is a “unit” of the district court), though the district court has the power to “withdraw the reference” on motion. Although withdrawal of the reference is generally discretionary, the district court must hear any personal injury or wrongful death action. As with any other removed action, discovery and the balance of pretrial and trial process will be governed by the FRCP (as adopted in bankruptcy).

Bankruptcy Trials

Trial probably will be to the bench. The debtor (by filing the bankruptcy case) and the removing party (by invoking bankruptcy process) probably will be deemed to have waived any jury demand, as will any party that has filed a claim in the bankruptcy case.

A bankruptcy judge may “hear and determine” any “core” proceeding within the meaning of 28 U.S.C. section 157(b)(2), which is a non-exclusive laundry list of matters that are central to the bankruptcy process, including case administration, claim allowance, obtaining credit, recovery of property, avoiding actions, discharge issues, lien status determinations, plan confirmation, sale/use of property, and other matters affecting liquidation or adjustment of debtor-creditor status (except personal injury and death claims).

A bankruptcy judge may also hear “non-core” proceedings (except personal injury and death claims). Although the statute and rules regarding “non-core” proceedings prescribe an elaborate procedure for the bankruptcy court to submit reports and recommendations to the district court for *de novo* review, bankruptcy judges rarely are required to do so because the parties generally consent to have the bankruptcy judge hear and determine the “non-core” matter, which is then subject to ordinary appellate review.

If a jury trial is available, the case will be tried before the district court unless every party expressly consents that the bankruptcy judge may conduct the jury trial. In practice, jury trials in bankruptcy courts are rare.

Claims

Regardless of whether the non-bankruptcy litigation is removed to bankruptcy court, the bankruptcy proceeding cannot safely be ignored. An unsecured creditor that does not protect its interest by filing a proof of claim risks being left out in the cold with no recovery through the bankruptcy case and, because of the discharge, no further rights against the debtor.

The primary way to protect one’s rights is to file a proof of claim, regardless of whether pending non-bank-

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HOWARD ULLMAN

On ANTITRUST

Last term, in *Verizon Communications, Inc. v. Law Offices of Curtis V. Trinko, LLP*, ___ U.S. ___, 124 S.Ct. 872 (Jan. 13, 2004) (“*Trinko*”), the Supreme Court barred, in all but the most exceptional circumstances, application of *Aspen Skiing Co. v. Aspen Highlands Skiing Corp.*, 472 U.S. 585 (1985), the landmark case that held a competitor can have a duty to cooperate with rivals under the Sherman Antitrust Act. Following *Trinko*, a monopolist defendant has a duty to cooperate with a rival only when: (1) the defendant voluntarily engaged in a course of dealing with its rivals from which it later withdrew; (2) the plaintiff seeks to purchase a product that the defendant already sells at retail; and (3) the defendant refuses to sell that product to the plaintiff at the retail price.

In *Trinko*, plaintiff was a local telephone customer of AT&T. Verizon is the local exchange carrier in New York. Plaintiff *Trinko* alleged that Verizon’s failure to implement certain network access requirements imposed by the Telecommunications Act of 1996 (*codified at* 47 U.S.C. § 151, *et seq.*) (“1996 Act”) vis-à-vis its competitors (including AT&T) violated Section 2 of the Sherman Act (15 U.S.C. § 2). According to the complaint, Verizon had filled rivals’ orders for network access on a discriminatory basis as part of an anti-competitive scheme to discourage customers from becoming or remaining customers of competing local exchange carriers such as AT&T, thus impeding competitors’ ability to enter and compete in the market for local telephone service.

The Supreme Court held that *Trinko* failed to state a claim. The Court first determined that *Trinko*’s antitrust claims were not barred by the 1996 Act, which contains an express antitrust savings clause. The Court then analyzed *Aspen Skiing*, a case in which a ski resort was found to have violated Section 2 for refusing to cooperate with a rival in the marketing of an all-Aspen ski ticket, and limited *Aspen Skiing* to those rare instances presenting the three factors mentioned above. *Trinko*, 124 S.Ct. at 879-80. In doing so, the Court emphasized that the possession of monopoly power will not be found unlawful unless accompanied by anti-competitive conduct. Indeed, the Court went as far as to say that the mere possession of monopoly power, and the concomitant charging of monopoly prices, is not only lawful, but “is an important element of the free-market system. The opportunity to charge monopoly prices — at least for a short period — is what attracts ‘business acumen’ in the first place” *Id.* at 879.

The Court was particularly concerned about the administrative problems a court encounters when attempting to supervise forced cooperation. Enforced sharing requires courts to act as “central planners,” “identifying the proper

price, quantity, and other terms of dealing — a role for which they are ill-suited.” *Id.* Also, in the Court’s view, compelling negotiation between competitors may facilitate collusion.

Applying the three factors it identified, the Court determined that: (1) Verizon did not voluntarily engage in a course of dealing with its rivals, but was instead compelled to do so by statute; (2) Verizon did not sell access to its network elements at retail, and was only required to open them up to its competitors by the 1996 Act; and (3) Verizon’s unwillingness to interconnect at a cost-based rate of compensation did not indicate anything about “dreams of monopoly.” *Id.* at 880.

Having rejected the application of existing antitrust standards to Verizon’s behavior, the Court then examined whether an extension of antitrust liability was warranted. It concluded that the answer to that question was “no,” for three reasons. First, given the extensive regulatory structure under the 1996 Act to deter and remedy anti-competitive harm, the Court was reluctant to intervene. *See id.* at 881. The Court also expressed concern about the cost of antitrust enforcement, including the cost of “false positives,” which are particularly likely in technical and complex areas such as telecommunications. *Id.* at 882. Finally, the Court observed that conduct consisting of anti-competitive violations of the 1996 Act might be beyond the practical ability of a judicial tribunal to control. In the Court’s view, antitrust law is ill-suited to solve problems where the remedy would require the court to assume day-to-day controls characteristic of a regulatory agency.

Interestingly, the Court reached the merits of *Trinko*, rather than dismissing on antitrust standing grounds as urged by Justices Stevens, Souter and Thomas, who concurred in the judgment. (Usually the Court will decide the antitrust standing question first.) The Court also dropped a small bombshell in footnote 4, summarily rejecting the Second Circuit’s monopoly leveraging theory, and holding that such a theory requires an allegation (and ultimately proof) of a dangerous probability of success in monopolizing a second market. Because that is also the standard for a traditional attempted monopolization claim, *Trinko* may spell the end of monopoly leveraging as a distinct theory of liability.

Many have thought that *Aspen Skiing* was an aberration that opened the door to murky questions of a monopolist’s purpose and intent. By narrowly confining *Aspen Skiing* in *Trinko*, the Supreme Court has confirmed that view, finding that a duty to cooperate with rivals exists only in certain limited circumstances under objectively-measurable criteria.

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Howard Ullman



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Bankruptcy Court Tips

ruptcy litigation is removed to the bankruptcy court. While, in Chapter 11 cases, a creditor's claim designated in the debtor's schedules as undisputed, non-contingent and liquidated is automatically "deemed" allowed, that will rarely be the case where there is pending litigation with the debtor. The best practice, almost always, is to file a proof of claim.

Failure to file a timely proof of claim can be catastrophic. In Chapter 11 cases, late claims are disallowed *per se* even though the debt may be discharged; in Chapter 7 cases, late claims are statutorily subordinated to timely claims. Case reports are littered with the bodies of creditors who were frozen out by not filing a timely proof of claim. The Supreme Court's leading case on "excusable neglect," *Pioneer Investment Services, Co. v. Brunswick Associates Ltd. Partnership*, 507 U.S. 380 (1993), is such a case.

The primary downside to filing a proof of claim is that the claimant loses the right to a jury trial on any counterclaim against it by the debtor. That should not, however, be much of an impediment. If the defense to a counterclaim turns on whether the trier of fact is a jury, instead of a judge, one wonders about its merits.

A properly-filed proof of claim is "deemed allowed" to the extent prescribed by 11 U.S.C. section 502(a)-(b), unless somebody objects. If the claim is contingent, unliquidated, or arises from a right to an equitable remedy for a breach of performance, it must be "estimated" under section 502(c). One trap for the unwary in a claims dispute is that a litigant whose claim has not yet been allowed (as when an objection to the claim is pending) is not permitted to vote on a plan of reorganization unless, under Bankruptcy Rule 3018(a), the court "temporarily allows" the claim.

Claims litigation triggered by an objection to claim is a flexible process that is largely under the control of the court. The process typically takes its lead from the manner in which the parties frame the dispute. An objection to claim can be resolved in a summary procedure or may lead to full litigation either as a "contested matter" or an "adversary proceeding."

When it comes to actual distributions on claims, one of the most frequent problems is that the claimant has not kept the court informed of its current address. If you file a proof of claim, be sure to keep the claimant's address current.

Contested Matters

The vast majority of bankruptcy litigation is conducted as a "contested matter" under Bankruptcy Rule 9014. A contested matter is a foreshortened civil action that can be adjusted to fit the exigencies of the situation. A motion serves the function of the complaint (the motion must be served "in the manner" of a summons and complaint), but the other pleading and pretrial scheduling rules of the FRCP do not apply. Most of the rest of the FRCP, however, does apply in contested matters, includ-

ing the civil discovery rules (except for mandatory disclosure).

Upon hearing the merits, unless the parties stipulate otherwise, Bankruptcy Rule 9014(d) requires that testimony be taken in the same manner as in an adversary proceeding. The court is required to make findings pursuant to FRCP Rule 52, and defaults are governed by FRCP Rule 55. Moreover, the order disposing of a contested matter is treated as a judgment under FRCP Rules 54 and 58.

The dynamics of a contested matter resemble those in a federal injunction case, where prompt relief is needed. The attributes that enable a savvy federal litigator to succeed in such practice in a district court enable the same litigator to successfully handle a bankruptcy contested matter. The key to success is proactive use of the procedural opportunities.

Adversary Proceedings

The bankruptcy adversary proceeding is fundamentally a federal civil action. Virtually all of the FRCP apply. Indeed, a federal district court that withdraws the reference of an adversary proceeding is required to proceed under the Bankruptcy Rules (most people ignore this technicality because it makes almost no difference).

Adversary proceedings are "different" primarily in the sense that the bankruptcy court will be focused on prompt resolution of the dispute. The median adversary proceeding pending in this author's court is concluded in about seven months; few are older than that one year. Discovery is necessarily shorter, which leaves less time for gamesmanship. Discovery disputes are resolved by the trier of fact. Trials are conducted in the same manner as bench trials in district courts.

Preclusion

An understanding of the principles of *res judicata* (claim preclusion and issue preclusion) is vital to whomever is dealing with the effects of a bankruptcy. The outlines of the doctrine are precisely the same as the substantive law applicable in non-bankruptcy litigation and should be familiar to generalist federal litigators. Although this subject warrants treatment in separate articles, an example of the application of preclusion principles in bankruptcy is provided by *Alary Corp. v. Sims (In re Assoc'd Vintage Group, Inc.)*, 283 B.R. 549 (9th Cir. BAP 2002).

Conclusion

In short, bankruptcy litigation is garden-variety federal civil litigation. There is no reason, particularly in the instance of disputes to be determined by non-bankruptcy law, why a competent civil litigator should be afraid of the bankruptcy forum.

Christopher M. Klein is a United States Bankruptcy Judge, in the Eastern District of California. He is also a member of the Bankruptcy Appellate Panel of the Ninth Circuit Court of Appeal.



JAMES YOON

On PATENTS

In defending a patent case, one of the toughest decisions a litigator must make is whether to produce a non-infringement opinion. This opinion, often called an opinion letter, is a legal opinion that is typically prepared by a patent attorney that sets forth the factual and legal basis for the defendant's belief that it does not infringe the plaintiff's patent. In litigation, the function of an opinion letter is to: (1) rebut a claim of willful patent infringement; and (2) reduce the likelihood that the plaintiff may be able to collect treble damages.

The decision regarding whether to produce a patent opinion letter creates the classic "Scylla and Charybdis" situation for a litigator. On one hand, production of the opinion letter results in an extremely broad subject matter waiver of the attorney-client and work product privileges. After production of the opinion letter, the plaintiff can obtain discovery on all documents and communications relating to: (1) the preparation of the opinion letter; and (2) the reasonableness of the defendant's reliance on the produced opinion letter. Some courts have ruled that the subject matter waiver extends to the defendant's communications with its litigation counsel during the course of the lawsuit because such communications relate to the reasonableness of any reliance on the opinion letter.

In addition to claiming waiver of privilege, a smart plaintiff's attorney will exploit any differences between the pre-lawsuit opinion letter and the position a defendant takes in the lawsuit. At trial, it is extremely damaging if the opinion letter makes admissions regarding key facts and legal issues.

On the other hand, failure to produce the opinion letter can have dire results. Traditionally, failure to produce an opinion letter resulted in an adverse inference of willful infringement. Clever plaintiff attorneys exploited this inference by employing a "patent law" expert to testify at trial that the defendant acted in a reckless manner. The "patent law" expert would testify that the defendant failed to meet its legal duty to obtain an opinion letter showing non-infringement. This "your guilty until you prove yourself innocent" aspect of a willful infringement analysis can quickly turn a jury against a defendant at trial.

The decision regarding whether to produce an opinion letter became easier with the recent *en banc* Federal Circuit decision in *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GMBH v. Dana Corp.*, 2004 U.S.App. LEXIS 19185 (Fed. Cir. Sept. 13, 2004). In *Knorr*, the Federal Circuit reversed precedent and declared:

1. There is no adverse inference of willfulness when a defendant invokes the attorney-client and work product

privileges and refuses to produce an opinion letter; and

2. There is no adverse inference of willfulness when the defendant fails to obtain an opinion letter in response to an allegation of infringement.

The *Knorr* decision altered the playing field regarding whether a defendant should produce an opinion letter. With the removal of the adverse inference, it has become clear that there are many situations where it is prudent for a litigator to maintain privilege and refuse to produce an opinion letter. Patent litigators should be cautious about producing an opinion letter that conflicts with the defendant's position in litigation.

In closing, it is important to make two practice points. First, nothing in the *Knorr* case changes the fact that it is good practice for a potential defendant to obtain a patent opinion letter. An opinion letter provides a potential defendant an early "read" regarding its potential risks in a patent case. Also, in litigation, there will still be many instances where production of an opinion letter will advance a defendant's case. For example, if the opinion letter is consistent with a defendant's theory of the case, the opinion letter is powerful evidence that the defendant acted in a responsible manner. Presenting helpful portions of an opinion letter to a jury provides the defendant with a unique opportunity to make an "argument" during fact testimony.

Second, as a matter of good practice, a defendant should request a discovery schedule that permits the production of an opinion letter late in the discovery process. In the Northern District of California, the local patent rules dictate that a defendant can wait to produce its opinion letter until 50 days *after* the district court issues its claim construction order interpreting the patent. This rule provides litigators with the ability to make an informed judgment regarding the production of the opinion letter since the production need not occur until *after* the completion of substantial discovery. In other judicial districts, there are no set rules regarding the production of opinion letters. In these district courts, a defendant should advocate for a scheduling order that permits production of the opinion letter late in the discovery process. An analysis of the defendant's position after substantial discovery is essential for a patent litigator to make a well-informed and reasonable decision regarding whether production of an opinion letter will help or hurt his or her case.

In sum, *Knorr* provides important authority for the patent litigator deciding whether to produce a non-infringement opinion.

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James Yoon

Letter from the President

As I finish my term, let me say how much I have enjoyed serving as the President of the Northern California Chapter of the ABTL. Under the outstanding leadership of our program co-chairs, Fred Brown of Gibson Dunn, and Steve Lowenthal of Farella Braun, our programs have maintained, if not exceeded, the high standards set for us in the past.

Two programs in particular stand out: *Winning On Appeal Starting At Trial* with Judge Marsha Berzon from the Ninth Circuit, Justice Ming Chin from the California Supreme Court, ABTL Board member Justice Mark Simons from the First District Court of Appeal, and Dan Kolkey, of

Gibson Dunn, as moderator; and *Bulls-Eyes and Blunders, What Lawyers Do Right and Wrong In Jury Trials*, with Judge Bill Alsup and our Board member Judge Sue Illston, from the U.S. District Court for the Northern District of California, Judge Jim Warren from the San Francisco Superior Court, and Raoul Kennedy of Skadden Arps as moderator.

Both programs displayed the hallmark of great ABTL programs — utilization of the exceptional lawyer and judicial talent we have in the business litigation community in Northern California

to convey fresh and extremely useful insights into how we may better advocate our cases at the trial and appellate levels. These programs, not coincidentally, also drew very large audiences, greatly enhancing the collegial and social aspects of our meetings which are such a large part of why ABTL has been so successful.

On the membership front, this year has seen significant growth under membership chair, Steve Hibbard of Shearman & Sterling. We expect to end the year at 1,550 members which is the highest number in the history of our chapter. Further, the publication you are reading, the *ABTL Northern California Report*, under the leadership of Ben Riley of Cooley Godward and Tim Nardell of the Coblenz firm, has continued its tradition of outstanding and useful articles and columns.

Finally, ABTL is in the process of hiring, on an experimental basis, a part-time Executive Director. This is a step which the Board has been debating for a long time, and now has decided to try. We hope that an Executive Director will not only provide the level of administrative support which can boost program attendance, membership, and financial performance, but also will create the kind of “institutional memory” which has been notably lacking due to the yearly rotation in the officer positions.

One perennial issue which we have not resolved is whether ABTL should continue to be primarily a program and social organization, or whether it should utilize the

unique pool of talent in our membership to branch into other activities, such as *pro bono* projects. Good arguments can (and have) been made on both sides of this question. For myself, despite a deep commitment to *pro bono*, I tend to come down on the side of sticking to our historical strengths. On the other side of the debate, the Los Angeles Chapter has made a commitment to embark on a number of creative *pro bono* projects. If you have opinions on this issue, please share them with the Board or the Officers.

It has been a great year and I thank you for the privilege of serving as your President.

Mr. Goodin is a partner with the San Francisco firm of Goodin, MacBride, Squeri, Ritchie & Day, LLP, and is the 2004 President of the ABTL Northern California Chapter. rgoodin@gmssr.com.



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