ASSOCIATION OF BUSINESS TRIAL LAWYERS

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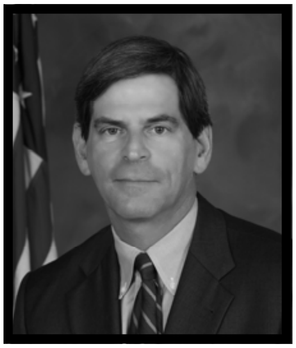
Q&A with the Hon. William D. Claster
By Timothy J. Heggem



[Editorial Note: In December 2010, Governor Arnold Schwarzenegger appointed Judge Claster to fill a newly created seat on the Orange County Superior Court. Judge Claster now sits on the Complex Civil Panel. Prior to his appointment, Judge Claster served as an associate, then partner, for Gibson, Dunn & Crutcher since 1976, where he specialized in employment defense litigation. Judge Claster received his undergraduate degree from Stanford University and his J.D. from UCLA. Judge Claster is a current member of the ABTL Judicial Advisory Council.]

Q: Why did you decide to become an attorney?

A: When I was in college, I had a traditional liberal arts education. At the time, for someone like me—I was a political science major—the default was to try something like law school. I sort of fell into it. I didn't have a burning desire my whole life to become a lawyer. It just seemed like a logical follow-up on my undergraduate work. It is really nothing more complicated than that.

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The Proliferation Of ADA Website Lawsuits
By Michael J. Chilleen

Disabled plaintiffs have traditionally brought lawsuits under the Americans with Disabilities Act ("ADA") against retail, hospitality, and food service providers. Under the ADA, a company's physical location must comply with specific architectural requirements that are designed to ensure equal access by persons with disabilities, such as wheelchair users. When a company's facility is not constructed in accordance with these standards, it can be held liable under the ADA and required to remove architectural barriers.

While these claims are often frustrating for companies that normally use their best efforts to make their properties accessible and assume they are compliant because the local building officials approved the building permits and issued certificates of occupancy, at least it is often clear what standard a particular physical feature needs to meet. For instance, counters and tables must be at a certain height. A business can determine compliance for most features with simple measurements.

The same is not true of the latest trend in ADA litigation – websites. When the ADA was enacted in 1990, the Internet was only in its early stages, and the e-commerce of today was unheard of. Nevertheless, courts have extended the ADA's reach to websites that sell goods or services to the public. It was first extended to companies that had a physical presence in addition to a website under the logic that the ADA only applies to "places of public accommodation" and the understanding that this language refers to actual physical places. As a result, it was initially held that the website had to have some nexus to an actual physical place in order to be governed by the ADA. More recently, some plaintiffs have argued that the ADA applies to all websites, including those

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The President's Message
By Scott B. Garner

As I write this, the temperature outside is a crisp 100 degrees, so it must be summer. How quickly the first half of 2016 has gone. For me, it has been a year of change and adjustment. After nearly 25 years in the large law firm world, I have spent the last eight months as a partner at litigation boutique Umberg/Zipser. Although the work itself is not much different, the atmosphere and sense of "ownership" has been a very welcome change.

The world, too, continued to change in the first half of 2016, as it is wont to do. For the first time in our country's history, a woman is going to earn the presidential nomination of one of the two major political parties. On the other side is an entrepreneur who is anything but business as usual. Whoever wins in November, history will have been made.

And the international world continues to surprise and perplex. When 2016 started, who could have envisioned that British citizens would vote to exit the European Union, leading to the resignation of the Prime Minister. For those of you planning to travel to London this summer, at least you can enjoy a seriously cheap Pound. But for those of you planning to attend the Rio Olympics later this summer, beware of the Zika virus, which has been one of the big stories not only of the Olympics, but of 2016.

The sports world, too, has been rolling along with many surprises. Most recently, LeBron James and the Cleveland Cavaliers stunned the basketball world by coming back from 3 games to 1 against the most successful regular season team in NBA history and, in the process, brought the first professional sports championship to Cleveland in over 50 years. Here at home, we had some disappointments, most prominently the Anaheim Ducks' fourth straight loss in a home game 7, which cost Coach Bruce Boudreau his job. The Angels have lived up to expectations – unfortunately. But at least we have Mike Trout. Of course, for me, the highlight of the sports year unquestionably has been the homecoming of our Los Angeles Rams. As my 8-year-old twin daughters are fond of saying, "Daddy, your babies are coming home!"

The first half of 2016 has not been without its losses. Sticking with my sports theme, the world lost not only a

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Three Years After *FTC v. Actavis*: The Evolving Landscape Surrounding Reverse Settlements
By James Miller and Vahe Mesropyan

In the 2013 landmark decision, *Federal Trade Commission v. Actavis*, 133 S. Ct. 2223 (2013), the United States Supreme Court held that reverse settlements may be subject to antitrust scrutiny. In short, a reverse settlement (or a pay-for-delay settlement) occurs when a patent holder brings a patent infringement suit, but then settles the case by paying the alleged patent infringer to stay out of the market. Following the precedent set by *Actavis*, subsequent decisions have extended the scope of settlements that constitute reverse payments in violation of antitrust laws. This article will track how *Actavis* has extended to non-cash settlements, and has also been interpreted to apply to state antitrust laws.

Background

In *Actavis*, the Federal Trade Commission ("FTC") sued Solvay Pharmaceuticals Inc.—a drug manufacturer—and several generic manufacturers, which had each sought to introduce a generic version of a drug manufactured by Solvay under the Abbreviated New Drug Application process as provided by the Hatch-Waxman Act. The FTC alleged that Solvay brought a patent infringement suit against the generic manufacturers and ultimately paid large sums of money to settle the case in exchange for the generic manufacturers' agreement to stay out of the market for several years. The FTC argued that the settlement was anticompetitive and designed to keep competitors out of the market, and not merely an enforcement of Solvay's patent rights. The district court dismissed the challenge in favor of the drug manufacturers, and the Eleventh Circuit affirmed the dismissal. The Supreme Court, however, held that the lower court erred in dismissing the FTC's challenge of the settlement, observing that such reverse settlements could be anticompetitive and should therefore be analyzed under the rule of reason if large and unjustified.

Prior to *Actavis*, courts generally did not invalidate reverse settlements, reasoning that they fell within the scope of the exclusionary potential of the patent. Howev-

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Shifting Expert Fees In Intellectual Property Litigation
By Anne Brody and Natalie Dygert

Current case law, along with current and pending legislation, relaxes the standard for courts to award attorney fees in intellectual property cases. Despite this recent trend, the second highest cost in intellectual property litigation, expert witness fees, remains overlooked. The current fee-shifting statutes in all areas of IP do not explicitly mention "expert witness fees." Because Supreme Court and Federal Circuit case law require an explicit statutory authority to shift expert fees, courts are bound to continue to treat these fees under the original "American Rule," where each side pays their own fees. Expert fees, along with attorney fees, contribute to the exorbitant litigation costs that can force defendants to settle even frivolous lawsuits. This article proposes that as expert fees become increasingly costly in complex IP litigation, Congress should amend current IP legislation and grant explicit statutory authority for courts to shift expert fees under the same standard as attorney fees.

"Attorney Fees" in Section 285 of the Patent Act Do Not Include Expert Fees

Section 285 of the Patent Act states in whole that "[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party." 35 U.S.C. § 285 (1952). Prior to 1991, the Federal Circuit held that "attorney fees" of Section 285 included expert fees, thus allowing expert fees to be shifted along with attorney fees. *Mathis v. Spears*, 857 F.2d 749, 759 (Fed. Cir. 1988) ("[U]nder Section 285, which authorizes an award of fees only upon a finding of 'exceptional case,' a district court may, in the exercise of its discretion . . . include an award of reasonable expert witness fees in excess of the $30/day attendance fee specified in 28 U.S.C. § 1821."). But in 1991, the Supreme Court in *West Virginia University Hospital, Inc. v. Casey* held that the term "attorney fees" in a statute does not provide courts with the explicit authority to award expert fees. 499 U.S. 83, 102 (1991). In *West Virginia*, the Supreme Court addressed whether a statute that states in relevant

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The Young Lawyers Division Report
By Adrianne E. Marshack

The Young Lawyers' Division calendar has been active in the first half of 2016 with a diverse roster of events intended to introduce Orange County attorneys with ten years of practice experience or less to one another and to the outstanding members of the Bench. Since the First Quarter update in March, on April 21, YLD hosted a Brown Bag Lunch with United States Magistrate Judge Jay Gandhi. Judge Gandhi and his clerks were extremely engaging in question and answer dialogue that ended with Judge Gandhi taking the attendees to the roof of the Ronald Reagan Federal Courthouse to see the incredible views of nearly the entire county. We thank Judge Gandhi and his clerks for their tremendous hospitality.

May 10 found YLD members and several Judges tasting "Whiskey Across America" and delicious southern-inspired food at Bosscat Kitchen & Libations, graciously sponsored by Network Deposition Services. Thank you to Todd Williams of Network Deposition Services and "Mustache Matt"—Bosscat's director of libations—for sharing their expertise with us and providing YLD members with a fun opportunity to socialize.

On June 1, YLD hosted an MCLE presentation entitled "Stand and Deliver: Preparing for Oral Argument," presented by Certified Appellate Specialist Benjamin Shatz to a packed house. Thank you to Re-Qwest for sponsoring the wine.

As a follow-up to this MCLE on appellate oral argument, Justice David Thompson of the Court of Appeal for the 4th District, Division 3, hosted a Brown Bag Lunch on June 23, 2016, and invited all attendees to attend oral argument that morning. Thank you to Justice Thompson for his candor and phenomenal insights.

There are several upcoming YLD events to look forward to in the next several months. Please look for emails and announcements about them. Upcoming events include:

July 26, 2016—Brown Bag Lunch with Federal Court Judge David O. Carter.

July 27, 2016—Trivia Night at Tavern + Bowl in Costa Mesa.

August 9, 2016—Brown Bag Lunch with Judges Gail Andler, Josephine Staton, Glenda Sanders, and Presiding Justice Kathleen O'Leary.

We hope to see more of you at our YLD events!

♦ *Adrianne Marshack is a partner at Manatt, Phelps & Phillips and Chair of the Young Lawyers Division of the ABTL Orange County Chapter.*

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Q: Why did you decide to become a judge?

A: I decided to become a judge because I had worked in private practice for almost 35 years. I enjoyed it, but I was ready for a change. I looked at being a judge as both a challenge and an opportunity to take on an important public function. By the time I finally applied to become a judge, I realized I was at the stage of my life where it was either do it now, or you may never get another chance. And while I may not have had a lifelong desire to be a judge, having practiced that long and having done what I did in my private practice, I thought it was something I'd like to try.

Q: You were a civil litigator at Gibson Dunn before you were appointed to the bench in 2010. Have you noticed any changes to civil practice since leaving private practice and becoming a judge?

A: I don't know that I've noticed any significant changes other than (a) an ever-increasing effort to get cases into arbitration, and (b) the use of more technology in both pretrial and trial. From a personal standpoint, I've certainly become much more familiar with areas of the law in which I never practiced. I find it both interesting and energizing to learn about new things. But in terms of actually how law is practiced, there are still lawyers who seem to enjoy discovery disputes and others who try to avoid them. And there still are lawyers who seem to be quite anxious to try a case and others who very much want to settle.

Q: Was it difficult for you to give up private practice to become a judge?

A: No, it wasn't difficult. As I said, I worked in private practice for many years. I had a very rewarding career. But I was ready for a change. Since I've become a judge, I look back fondly on my career in private practice, but I really don't miss it. I like what I'm doing. And so the short answer is it was not hard at all to give it up.

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Q: Attorneys frequently make assumptions about what it is like being a judge and how judges make decisions. What do you think is the most significant *wrong* assumption attorneys make about judges?

A: I think attorneys—and I was probably guilty of this too when I was an attorney—assume that a judge might rule one way or another in a case based on his or her background. For example, I primarily defended employment and labor related cases in my private practice. Presumably, some lawyers who appear before me might think I have a bias in favor of defendants in those types of cases. I don't think I have such a bias, but I certainly understand why that perception might exist. I remember when I was practicing and I would have a case assigned to a judge who was a former plaintiff's personal injury lawyer, I would think, "I'm in trouble because he or she is going to favor the plaintiff in the case." It turns out this is really not true—at least as far as I have seen. I think most judges look at the case and try to rule on it the best they can based on the information they get. So I think for a lawyer to assume a judge is going to rule one way or the other based on his or her background is probably a mistake.

Q: How often do you see cases go to trial that should have settled earlier?

A: From where I sit, it is often hard to understand why almost every case hasn't settled at one point or another. Your use of the word "earlier" is significant because I generally don't know what the parties knew at any given stage in a case, and, therefore, it's difficult to criticize the timing of any settlements. On the other hand, my general reaction is that cases that go to trial involve a miscalculation by one side or the other. One side thinks their case is better than it really is or overrates it in some way. In my view, a good litigator must do a serious risk analysis on their case and only go to trial when that risk analysis is undercut by what they have concluded is the other side's unreasonable position. But from my standpoint, most cases should settle, and when they don't, it's because one side or the other has made a miscalculation about the case.

Q: What advice do you have for young civil litigators?

A: First, in order to enhance their marketability and their reputations in the community, young litigators should seek to develop expertise in a substantive area of law. To market yourself as a general litigator—although it certainly has worked for many senior lawyers—is difficult, especially these days when young lawyers often don't get many trial opportunities. Second, they should try to carve out time to watch a trial so that they can become more comfortable with the actual process. While this time may not be billable, it can go a long way towards relieving the fear of the unknown when that first trial actually occurs. As to the trial process itself, rehearse your presentation. Hearing yourself give an opening statement—even trying it out on a non-lawyer—can go a long way towards improving performance.

Q: If younger attorneys want trial experience, how do you recommend they get it?

A: That's a hard question to answer because, as a practical matter, it's not easy to get. There are two things, though, that come to mind. One is taking and defending depositions since that process gives a lawyer some feel of the give and take of questioning, objections and answers. The other avenue, particularly for those who work at firms that typically have their most senior lawyer handle trials, is to take on a pro bono case. Often, these cases are the best way for new lawyers to get trial experience that they might not otherwise be able to get. Of course, taking on such a case is also rewarding in a number of other ways.

Q: What is the most significant mistake you see attorneys make in their written submissions to the court?

A: Perhaps the most significant mistake is when an attorney misrepresents an important fact of the case or the holding of an appellate decision. Every attorney should realize that there is probably nothing more important to their career and their success than their reputation. Once they get a reputation (either with a judge or in the community) for not being fully forthcoming on some aspect of a case, the natural tendency is to question everything they say. Another common mistake is the desire to use every single page of the page limits on the theory that the more you say the better chance you have of winning. By doing so and throwing in unnecessary, weaker and less succinct arguments and citations, the stronger, perhaps winning, arguments tend to get buried. When a lawyer becomes more confident in his or her abilities, they don't feel compelled, in my experience, to use every single page and will let their best arguments shine through.

Q: Conversely, what is the best practice you see attorneys employ in their written submissions to the court?

A: To reiterate, the good ones get to the point quickly. They tee up the issue in an introduction and hammer it home without a lot of fluff. They don't repeat themselves and they don't throw in unnecessary information that otherwise makes it hard for the judge to figure out exactly what the key issues are.

Q: What is the most significant mistake you see attorneys make in their oral advocacy before the court?

A: First, lawyers who don't carefully read our tentative rulings and simply reargue the points in their papers are

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not going to get anywhere. Related to that is the fact that there are some lawyers who are reluctant to ever concede a point regardless of the facts or whether it is truly disputable. To me, the lawyers that are the most effective concede points where they need to concede them and reserve their arguments for points that are important and ultimately winnable. Believe it or not, conceding points in an oral argument can go a long way towards gaining a favorable result.

Q: Conversely, what is the best practice you see attorneys employ in their oral advocacy before the court?

A: Again, conceding arguments. I don't mean to suggest that a lawyer should throw in the towel just for the sake of doing so. Conceding arguments means that there is a point that you know is against you, and that you are not going to fight over it simply because that is what lawyers are supposed to do. By doing so, you enhance your credibility with the judge and get the judge to focus more carefully on the issue(s) that are truly determinative.

The ABTL thanks Judge Claster for his time.

♦ *Timothy J. Heggem is a litigation associate at Payne & Fears.*

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of purely web-based companies. In *Earll v. eBay Inc.*, the Ninth Circuit became the first circuit court of appeals to hold that online-only companies are not covered by the ADA. However, a district court in Vermont has recently held the opposite.

In the past year, a myriad of companies across the country have received demand letters from plaintiffs' firms and some disability rights advocacy groups alleging the company is violating the ADA because its website is not sufficiently accessible to individuals with disabilities. These demands mainly relate to vision impairments, but hearing impairments are at issue too if a website includes audio. The demand letters claim that unless the company modifies its website to meet the standards in the World Wide Web Consortium's Web Content Accessibility Guidelines ("WCAG"), the company will continue to violate the ADA. The demand letter then asks recipients to pay a settlement (based on fees and costs) and agree to modify their websites and permit the plaintiffs' experts to assist and monitor whether the websites stay in compliance with WCAG. WCAG are not legal standards, but a set of technical standards developed through an open, collaborative process involving both individuals and organizations around the world. The goal of WCAG is to provide a single, shared standard for web content accessibility that meets the needs of individuals, organizations and governments internationally.

There are several online audit tools, such as WAVE, that test a company's website for compliance with WCAG. The report will identify any "violations" found. However, these guidelines are more properly understood as principles that leave much open to debate and interpretation. This leaves little assurance for companies that are constantly changing their websites and want to reduce their exposure to litigation. It is also possible for a website to be independently operable by blind, visually impaired, or deaf users, but not fully comply with WCAG. In addition, these guidelines were issued in 2008, which is an eternity ago in Internet years.

The DOJ has yet to issue any accessibility standards for websites. Due to this lack of legally mandated standards for websites, plaintiffs and the courts have relied on the general provisions of the ADA. These general provisions include the requirement of "effective communication" with the blind and deaf. This puts the burden on the court in each lawsuit to determine whether a particular website feature is accessible and, if it is not, how the company must modify that feature. These are not always easy questions. As a result, a conflicting and murky body of law is developing with no clear guidelines. At this time, determining whether a particular website complies with the ADA requires a fact-intensive, feature-by-feature inquiry.

Several website features are recurring targets of ADA lawsuits. Individuals who are blind or have low vision may require assistive devices and specialized software to access the Internet. These devices often include software that enables them to magnify the content of a web page, reads the content to them, or enables them to use a braille reader to read a website. Some individuals with disabilities cannot use a mouse and can only navigate with a keyboard, touchscreen, or voice recognition software. For persons with hearing impairments, the visual aspects of a website are accessible, but audio on a website may not be. Plaintiffs claim that many websites or elements of companies' websites are not compatible with reading devices and deprive individuals with disabilities the ability to use and enjoy the services offered online. For example, screen-reading software currently cannot read an image and relies on the background programming of a website to work properly. This is the most common alleged "barrier" to website accessibility: an image or picture without corresponding alternative text describing the image. If the information is not provided, the screen reader is unable to accurately describe the image. Another problem might be navigational headings that fail to provide information that can be interpreted by a screen reader. Similarly, individu-

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als who are deaf may be unable to access aural information that is broadcast through web videos or other multimedia presentations that do not provide captions. These are just a few common examples of allegations involving website accessibility.

In April 2016, the Department of Justice issued a lengthy supplemental Advance Notice of Proposed Rulemaking ("ANPRM") for state and local government websites. While this ANPRM would apply only to public entity websites, it reveals the DOJ's current thinking on website accessibility generally. The DOJ previewed its position and requested feedback on various website accessibility issues.

First, the DOJ is considering broadening the scope of the future rule from websites to "web content." This expansion could potentially cover web content, such as advertising, that an entity places on its website, but that it does not own or control. The DOJ proposes WCAG as the mandated standard. The DOJ is considering giving public entities two years to make their websites compliant after publication of a final rule. The DOJ wants to know if there are sufficient consultants who can bring web content into conformance with the proposed WCAG standard. The DOJ is considering exempting "archived web content" from compliance with WCAG. To be considered "archived web content," the content would have to be: (1) maintained exclusively for reference, research, or recordkeeping; (2) not altered or updated after the date of archiving; and (3) organized and stored in a dedicated area or areas clearly identified as being archived. The DOJ may permit the use of conforming alternate versions of a web page and/or web content when it is not possible to make web content directly accessible due to technical or legal limitations. The DOJ states that compliance with WCAG would not necessarily provide a safe harbor. If a disabled person is not able to access the public entity's WCAG compliant website, then the public entity would have to utilize an alternative method of providing the disabled individual with equal access to the information, service, program, or activity on its website unless the public entity can demonstrate that alternative methods of access would result in a fundamental alteration in the nature of the service, program, or activity or undue financial and administrative burdens. The DOJ is seeking public comment on how compliance with WCAG should be assessed or measured, particularly for minor or temporary noncompliance. Should the measurement be based on the percentage of web content that is accessible, or some minimum threshold of compliance? Finally, the DOJ also wants to know if there are circumstances where website accessibility errors may not create significant barriers to accessing the information or functions of a website.

What would it take for a company's website to comply with WCAG? In general, WCAG ask owners of websites to: (1) provide text alternatives for any non-text content so that it can be changed into other forms people need, such as large print, braille, speech, symbols or simpler language; (2) provide alternatives for time-based media; (3) create content that can be presented in a simpler layout without losing information or structure; (4) make it easier for users to see and hear content by, among other things, separating foreground from background; (5) make all functionality available from a keyboard as opposed to having to use a mouse; (6) make text content readable and understandable to web navigation tools; (7) make web pages appear and operate in predictable ways; and (8) maximize compatibility with assistive technologies.

Recent litigation settlements provide a good example of the potential exposures businesses face when their websites are not accessible. To settle a class action lawsuit brought by blind individuals alleging that its website was not accessible, Target agreed to pay $6 million to eligible class members and to make substantial modifications to its website. The court in the Target case also awarded plaintiffs almost $4 million in attorney fees and costs. Similarly, as part of a settlement, Netflix agreed to include closed captioning for all of its Internet streamed movies and to pay $755,000 in fees to the plaintiff's attorneys.

Such settlements are likely to embolden plaintiffs' attorneys and disability rights groups to aggressively pursue accessibility claims against businesses that operate websites. The number of ADA lawsuits targeting websites will only grow as courts continue to grapple with the question of what a website must and must not do to comply with the ADA. Since many website cases were filed in late 2015 and early 2016, it will take time for trial courts to rule and for any appeals to be heard. The bottom line is that businesses should anticipate their online activities receiving increased ADA scrutiny and challenges. This includes both large online retailers as well as smaller "mom and pop" businesses. Until some clarity is brought to the legal landscape, it would be prudent for businesses to assess the accessibility of their websites. Businesses should ask themselves how their websites can be used independently by individuals with a variety of disabilities. In doing so, not only will they be able to manage their exposure to ADA lawsuits, they may also increase the number of potential customers who can effectively purchase their goods and services. If a company is contemplating rolling out a new website, it may want to work with its website designers and vendors on designing the website to meet the requirements of WCAG, to the extent practicable and readily achievable. The cost of such an approach, however, is an important consideration. Companies that are not developing a new website may still opt to assess their level of accessibility and collabo-

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rate with their website designers and vendors with experience in website accessibility regarding other available options to promote accessibility, as well as the risks and benefits inherent in such alternatives.

♦*Michael J. Chilleen is Special Counsel in Sheppard Mullin's Orange County office. He specializes in defending disability access class action claims under the ADA and state law. He can be reached at MChilleen@SheppardMullin.com.*

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er, the *Actavis* Court set precedent when it concluded that, because such settlements prevent the adjudication of the patent's actual validity and scope, they should be scrutinized under the antitrust laws' traditional "rule of reason." *Actavis*, 133 S. Ct. at 2237. The Court provided five reasons why the settlement in question could have been anticompetitive and held cash settlements that were "large and unjustified" were potentially anticompetitive. However, the Court stopped short of providing a bright-line rule of reason analysis for lower courts to apply. Since *Actavis*, district courts and state courts have struggled with the broad implications of the decision, which is no surprise. As Chief Justice John Roberts stated in the dissent, "[g]ood luck to the district courts" that must analyze reverse settlements based on the Court's discussion in *Actavis*.

Post-*Actavis* Decisions Have Extended Antitrust Scrutiny to Non-Cash Settlements

In earlier years, pay-for-delay cases typically challenged settlements involving large cash payments by the branded manufacturer to a would-be generic manufacturer. Subsequent to *Actavis*, challenges to settlements under pay-for-delay theories have expanded to include non-cash consideration provided in exchange for the generic challenger's delayed entry to the market.

The Third Circuit was the first court of appeals to issue a decision post-*Actavis*. It held that non-cash settlements could constitute a "payment" under *Actavis*, and are thereby subject to a rule of reason analysis. *King Drug of Florence, Inc. v. Smithkline Beecham Corp.*, 791 F.3d 388, 403-04 (3d Cir. 2015) (holding that *Actavis* condemns payments that "negatively impact consumer welfare by preventing the risk of competition"). In *King Drug*, in exchange for the generic manufacturer's delayed entry, the branded manufacturer granted the generic early entry shortly before expiration of the patent and agreed not to launch any authorized generics during that period of exclusivity. The court found that the no authorized generic ("no-AG") agreement in question could constitute a payment under *Actavis*, stating "[t]he no-AG agreement transfers the profits the patentee would have made from its authorized generic to the settling generic – plus potentially more, in form of higher prices, because there will now be generic monopoly instead of a duopoly." *Id.* at 405.

For the most part, district courts have agreed that non-cash settlements, such as no-AG agreements, are within the scope of *Actavis*, and in February 2016, the First Circuit became the second appellate court to make such a finding. *See In re Loestrin*, 814 F.3d 538, 549-50 (rejecting the lower court's holding that only reverse settlements involving cash fall within the scope of *Actavis* and citing eight decisions from district courts across the country holding the same).

However, the presence of a no-AG agreement may not itself conclusively compel a finding of anticompetitive harm. The district court in *In re Wellbutrin*, 133 F. Supp. 3d 734, 754 (E.D. Penn. 2015), agreed with the defendants in that matter and granted summary judgment, finding that the settlement at issue—which included a no-AG provision—did not rise to the level of an antitrust violation. That decision is likely attributable to the overall reasonableness of the analyzed settlement, which involved, among other procompetitive provisions: (1) permitting patent litigation brought by one of the generic manufacturers to continue, which—if successful—would result in immediate market entry for all generics; (2) the patent-holder granting two sublicenses to produce a version of its patented drug, which is good for consumers; and (3) relatively early generic entry, even if the underlying patent was held to be valid. *See id.* at 746-48.

In analyzing the potential anticompetitive effects of the no-AG provision, the *Wellbutrin* court found significant the fact that no settlement agreement was ever contemplated between the parties that did not involve such a provision. *Id.* at 756-57. Consequently, the court was not convinced that "generic competition would have occurred earlier" absent the settlement. *Id.* In other words, the *Wellbutrin* court declined to give the settlement agreement terms a "quick look" and declare that the mere existence of a no-AG provision resulted in anticompetitive harm; it instead grappled with alternate hypothetical litigation scenarios in assessing whether consumers were actually harmed by the allegedly anticompetitive settlement provision. *Id.* at 756-58. Citing *Actavis*, the court explicitly refused to make a finding that reverse settlements are presumptively unlawful. *See Actavis*, 133 S. Ct. at 2234 ("[S]ettlement on terms permitting the patent challenger to enter the market before the patent expires

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would also bring about competition . . . to the consumer's benefit.”). The court reasoned that settlement itself may entail procompetitive benefits, and therefore each challenged settlement should undergo a full rule of reason analysis. *Wellbutrin*, 133 F. Supp. 3d at 757.

Finally, the *Wellbutrin* court found significant the fact that the FTC had an opportunity to object to the settlement, but did not object. *Id.* at 749. However, the FTC filed an amicus brief with the Third Circuit on appeal specifically stating that the district court’s reliance on the FTC’s inaction was flawed and that the FTC supports the notion that no-AG settlements fall within the scope of *Actavis*. Subsequently, the FTC solidified its position on no-AG settlements when it challenged two no-AG settlements in March 2016. *See Federal Trade Commission v. Endo Pharmaceuticals Inc. et al.*, No. 2:16-cv-01440-PD (dated March 31, 2016).

In sum, the First and Third Circuit’s decisions, as well as the FTC’s decision to challenge no-AG settlements, evidence a trend towards expanding the scope of *Actavis* to include non-cash settlements. The federal courts have not yet established a test, but courts seem likely to invalidate settlements that appear “large and unjustified” on their face, and each settlement will be analyzed in a case-by-case basis. However, the manufacturers involved in *King Drug* have asked the Supreme Court to review the Third Circuit’s decision and on June 6, 2016, the Supreme Court asked the United States government to weigh in on its position. Therefore, there is some indication of the Supreme Court’s willingness to make a conclusive finding on the relevance of non-cash settlements in the context of reverse settlements.

Actavis Has Been Extended To Apply To State Antitrust Laws

Although there is no established test in the federal courts, there is guidance from the California Supreme Court. The California Supreme Court in *In re Cipro Cases I & II*, 61 Cal. 4th 116 (2015), held reverse payment cases could be brought under California’s competition laws. The challenged settlement involved a large cash payment by the branded manufacturer to the generic manufacturer. The California Supreme Court established a four-part test necessary to establish a prima facie case of an antitrust violation. The plaintiff must establish that:

> (1) the settlement includes a limit on the generic challenger’s entry into the market; (2) the settlement includes cash or equivalent financial consideration flowing from the brand to the generic challenger; and the consideration exceeds (3) the value of goods and services *other* than any delay in market entry provided by the generic challenger to the brand, as well as (4) the brand’s expected remaining litigation costs absent settlement.

Id. at 151 (emphasis in original). The court further explained that “once a plaintiff has shown an agreement involving a reverse payment and delay [the first two elements], the defendants have the burden of coming forward with evidence of litigation costs and the value of collateral products and services” since the defendants are more likely to have this information. *Id.* at 153.

Although the test is only applicable in California, the California Supreme Court’s establishment of a clear rule of reason test for analyzing reverse settlements has potential implications in federal jurisdictions. A New Jersey district court has already adopted the analytical framework established by the California Supreme Court. *See In re K-Dur Antitrust Litigation*, 2016 WL 755623, at *13 (D.N.J. Feb 25, 2016). This suggests that other federal courts might be willing to adopt the same framework.

Conclusion

Cases interpreting the Supreme Court’s decision in *Actavis* demonstrate that the full scope of the decision is far from established. The cases surveyed above indicate that courts are willing to expand the applicability of *Actavis*, but are taking a case-by-case basis approach due to the lack of higher court guidance on reverse settlement analyses. The California Supreme Court’s establishment—and a New Jersey district court’s subsequent adoption—of a four-part test gives hope that there may soon be a bright-line approach for analyzing reverse settlements under the rule of reason. Ideally, such a test will govern both cash and non-cash reverse settlements. Until then, courts are reviewing settlements on a case-by-case basis. Companies and practitioners should closely monitor the development of the case law in this area.

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part that "the court, in its discretion, may allow the prevailing party . . . a reasonable attorney's fee as part of the costs" includes expert fees. *Id.* at 85 n.1. The Supreme Court determined the term "attorney's fee" does not provide the explicit statutory authority to award expert fees beyond § 1821's limit. *Id.* at 102. Citing several fee-shifting statutory provisions that explicitly shift both attorney fees and expert witness fees, the Court concluded "[s]uch [expert witness] fees are referred to *in addition* to attorney's fees when a shift is intended." *Id.* at 90 (emphasis in original). Consequently, the Federal Circuit, in *Amsted Industries v. Buckeye Steel Castings Co.*, reversed its prior ruling in *Mathis*, finding that Section 285 does not "provide the explicit statutory authority . . . to award expert fees beyond [Section 1821]." 23 F.3d 374, 377 (Fed. Cir. 1994).

Congress subsequently amended the statute at issue in *West Virginia* to include expert fees, which now reads, "[i]n awarding an attorney's fee under subsection (b) of this section . . . the court, in its discretion, may include expert fees as part of the attorney's fee." 42 U.S.C. § 1988(c) (2000). But Congress has not similarly amended Section 285 of the Patent Act to include expert fees. Thus, as of now, courts must rely on their inherent equitable power to award expert fees in a patent infringement case. The standard for shifting expert fees under the court's inherent power is limited to instances in which the party engaged in vexatious conduct, committed a fraud on the court, or there was an abuse of the judicial process. *See e.g.*, *Takeda Chemical Ind. v. Mylan Laboratories*, 549 F.3d 1381, 1391 (Fed. Cir. 2008).

After *Octane Fitness*, Courts Are Shifting Attorney Fees While Denying Expert Fees

From 2005 to 2014, the standards for shifting attorney and expert fees were similarly rigorous. The Federal Circuit in *Brooks Furniture Manufacturing. Inc. v. Dutailier International, Inc.* laid out a strict framework for courts to award attorney fees under Section 285 of the Patent Act. 393 F.3d 1378, 1381 (Fed. Cir. 2005). Under that framework, courts could award attorney fees only if there was "some material inappropriate conduct related to the matter in litigation" or, alternatively "if both (1) the litigation [was] brought in subjective bad faith and (2) the litigation [was] objectively baseless." *Id.* During these years, very few district courts awarded attorney fees and/or expert fees.

On April 29, 2014, the United States Supreme Court altered the legal landscape governing fee awards in patent cases. On that day, in a sea change decision arising from a petition for certiorari review in *Octane Fitness LLC v. ICON Health & Fitness, Inc.*, the Supreme Court rejected the analytical framework of *Brooks Furniture* calling it "unduly rigid" and an "impermissibl[e] encumbr[ance]" on "the statutory grant of discretion to district courts." 134 S. Ct. 1749, 1755 (2014). The Supreme Court instead endorsed a "flexible" analysis that does not require proof of frivolousness or bad faith, and that requires proof of exceptionality only by a preponderance of the evidence. *Id.*

Since *Octane Fitness*, the divergent standards for attorney and expert fee awards have become more apparent. While courts have increasingly awarded attorney fees to prevailing parties in IP cases, they continue to deny expert fee awards in most cases. For example, a Florida federal district judge recently awarded the defendant $684,000 in attorney fees for defending a patent case that was "exceptionally weak" and "designed to extract settlement not based on the merits of the claim but on the high cost of litigation." But recognizing that the patent statute did not allow an award of expert fees, the judge refused to award the defendant $335,000 in expert fees incurred in defending the case. *Advanced Ground Information Systems, Inc. v. Life 360, Inc.*, No. 14-cv-80651 (S.D. Fla. Dec. 1, 2015).

Other IP and Pending Legislation Also Do Not Shift Expert Fees

As of now, no current IP legislation explicitly grants authority for courts to shift expert fees. The relevant provision of the Copyright Act states "the court in its discretion may allow the recovery of full costs by or against any party . . . and may also award a reasonable attorney's fee . . . ." 17 U.S.C. § 505 (1976). Similarly, the relevant provision of the Lanham (Trademark) Act states "[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party." 15 U.S.C. § 1117 (2008). Section (3)(D) of the Defend Trade Secrets Act, signed into law by President Obama this year, allows a court to award attorney fees if the other party acts in bad faith. None of these statutes mention expert fees.

Even more troublesome is the fact that pending legislation also fails to mention expert fees. For example, Section 285 of the pending Innovation Act states that the court "shall award, to a prevailing party, reasonable fees and other expenses incurred by that party . . . unless the court finds that the position and conduct of the non-prevailing party or parties were reasonably justified in law and fact or that special circumstances make an award unjust." Innovation Act of 2015 (H.R. 9). This proposed provision makes it even easier than the current Patent Act to shift attorney fees by placing the burden on the party seeking to avoid fee-shifting, and stating that the court *must* award fees to the prevailing party, absent specified circumstances. However, this provision does not provide the explicit statutory authority for courts to award expert fees.

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sports icon, but also a great human being with the recent passing of Muhammad Ali. We also lost one of the toughest men ever to put on a uniform in any sport, Mr. Hockey, Gordie Howe (he of the "Gordie Howe Hat Trick," which consists of a goal, an assist, and a fight). Not long before that, we lost a man who once dropped his name and replaced it with an unpronounceable symbol to prove a point – the eminently talented Prince – as well as rock icons David Bowie and Glenn Frey. And let's not forget Nancy Reagan, Doris Roberts, Merle Haggard, Abe Vigoda, Morley Safer, and so many more.

Locally, we said good bye to appellate lawyer extraordinaire Bill Kopeny, as well as former OCBA members Larry Bemis, Hon. Kenneth Black, Brian Brandmeyer, Mina Chang, Victor DeWitt, Harold Ducote, Jr., Lewis Janowsky, Diane Nordby, Joseph Schuchert, and Comm. Pamela Thatcher. We will miss you.

Although ABTL's first half of 2016 may not have been as dramatic as some of the other world and national events, we are nonetheless very proud of our first six months. At our April dinner program, we heard from national radio celebrity Hugh Hewitt, who discussed the 2016 presidential election. Although his prediction of a brokered Republican convention seems pretty unlikely to come true, if we have learned anything this year, it is to expect the unexpected.

In June we held our annual Robert Palmer winetasting fundraiser for the Public Law Center, where we shattered previous records for raising money for this bedrock pro bono law organization. Consistent with our dedication to pro bono service, our dinner program featured a team of lawyers from Orrick discussing their representation of an 82-year-old nun who, along with two co-conspirators, broke into the nation's (supposedly) most secure nuclear facility in order to spray paint peace messages and sing songs. Following what was by all accounts a disturbing embarrassment, the government charged the trio not only with destruction of government property, but also with sabotage, resulting in two of the defendants being sentenced to 62 months and the third to 35 months. With Orrick's help, the nun's sabotage conviction was overturned, and the nun was set free.

Our penultimate dinner program of the year will be September 14, featuring the ever-entertaining and educational Dean Erwin Chemerinsky. You won't want to miss that one.

Of course, our ABTL year includes more than just our dinner programs. The highlight of any ABTL year, and particularly even numbered years, is the Annual Seminar, which will take place in Kapalua, Maui from October 5-8. Although space is tight for this very popular event, we can still squeeze you in if you act fast.

Our Young Lawyers Division has been active in the first half of 2016 as well. Among the highlights was the May 10th whiskey tasting event, and brown bag lunches with Judges James Crandall, Jay Gandhi, Martha Gooding, Walter Schwarm, and Justice David Thompson. These lunches are great opportunities for our younger lawyers to hear from, and get to know, the members of our Bench, thereby fostering the ABTL's mission of promoting dialogue between the Orange County Bench and Bar – not just for our more experienced lawyers, but for all lawyers willing to engage.

In July, we will continue our ABTL tradition of giving with two days of building with Habitat for Humanity. Look for an announcement and sign up fast before space runs out.

We hope you have enjoyed ABTL's first half of 2016, and we look forward to seeing you at events during the second half of 2016 and beyond.

♦ *Scott Garner is a partner at Umberg/Zipser LLP and the 2016 ABTL Orange County Chapter President.*

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Expert fees continue to contribute to exorbitant litigation costs that play a role in settlement decisions. Yet current and pending IP legislation fails to grant explicit authority for courts to shift expert fees. As courts are bound by the Supreme Court's statutory interpretation, they cannot shift expert fees under a more flexible standard without Congressional action. Congress should amend current legislation in all areas of IP to shift expert fees under the same standard as attorney fees.

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