July 2013

quinn emanuel

quinn emanuel urquhart & sullivan, llp | business litigation report

los angeles | new york | san francisco | silicon valley | chicago | washington, d.c. | tokyo | london | mannheim | moscow | hamburg | paris

"Gray-Market" Goods Now Less Gray

Companies selling goods internationally frequently seek to maximize their profits by charging different prices in different countries in response to national market conditions. Often, goods sold in the United States can be purchased more cheaply abroad. As a consequence, arbitrageurs attempt to purchase the lower-priced goods abroad and re-sell them in the United States at prices below those demanded by their manufacturers.

There is no law expressly prohibiting the importation of goods made by, or under the authority of, a product's manufacturer. Manufacturers have, therefore, sought to keep out "gray-market" or "parallel" imports by trying to invoke the protections of laws enacted for other purposes. To that end, many have sought to use the United States Copyright Act. Copyright protection has been claimed not only in the appearance of, and artwork on, product packaging and logos, but also in labels, product inserts, and instructions for use.

Invocation of the copyright laws relied on the premise that the "first sale" doctrine—which allows a person who has purchased a product to re-sell it—does not apply to goods first sold abroad. Rather, Section 602(a)(1) of the Copyright Act provides that the importation into the United States—without the authority of the copyright owner—of copies of works acquired outside the United States "is an infringement of the exclusive right to distribute copies" conferred by Section 106 of the Copyright Act. However, Section 109(a) limits the scope of Section 106. It provides that owners of particular copies "lawfully made under this title" may, "without the authority of the copyright owner, . . . sell or otherwise dispose of the possession of that copy."

Goods Made for Export and Re-Imported

In *Quality King Distributors, Inc. v. L'Anza Research*

(continued on page 2)

INSIDE

Partners Diane Doolittle and Karin Kramer Named "2013 Top Women Lawyers"

The *Daily Journal* named Silicon Valley partner Diane Doolittle and San Francisco partner Karin Kramer to its annual list of the top 100 women lawyers in California. Doolittle, co-chair of the firm's national trial practice group, earned this award for the sixth time. This year, the *Daily Journal* recognized her ongoing work on behalf of Yandex N.V., the leading Russian Internet search engine, against Perfect 10's claims of tens of thousands of copyright infringements. Kramer was recognized for getting quick results for her clients, including resolving class actions through early motions and early settlements for clients such as Charles Schwab, IBM, and Associated Materials. The *Daily Journal* also praised her success in defending IBM in a series of class actions regarding major data breach. Q

Manisha Sheth Recognized Among *Crain's* "40 Under 40"

New York partner Manisha Sheth was selected as one of 40 rising stars in the New York business community. Each year, *Crain's* receives hundreds of nominations for the award across diverse industries, including technology, education and government. Ms. Sheth was honored for her precedent-setting work in lawsuits filed against many of Wall Street's leading banks for their role in sponsoring and issuing residential mortgage-backed securities, including a $22 billion suit against Countrywide Financial/Bank of America on behalf of insurance company MBIA. Q

International, Inc., 523 U.S. 135 (1998), the Supreme Court held unanimously that products manufactured in the United States and then exported are subject to the "first sale" doctrine, meaning that the copyright laws cannot be invoked to prevent their importation into the United States. The *Quality King* court also suggested in *dictum* that products lawfully manufactured and purchased abroad would not fall within the "first sale" doctrine and, hence, would be infringing under Section 602(a)(1) if imported into the United States:

> If the author of [a] work gives the exclusive United States distribution rights—enforceable under the [Copyright] Act—to the publisher of the United States edition and the exclusive British distribution rights to the publisher of the British edition, . . . presumably only those [copies] made by the publisher of the United States edition would be "lawfully made under this title" within the meaning of § 109(a).

Id. at 148.

Goods Lawfully Made Abroad

That *dictum* has now been rejected. In *Kirtsaeng v. John Wiley & Sons*, 568 U.S. ____, 133 S. Ct. 1351 (2013), Justice Breyer, writing for a six-person majority, concluded that even though copyright laws are national in character, works "lawfully made under this title" include works made abroad for purposes of the "first sale" doctrine.

The case arose after Supap Kirtsaeng, a Thai student who earned mathematics degrees from Cornell and USC, discovered that he could buy his text books far more cheaply in Thailand than in the United States. Following that epiphany, Kirtsaeng imported text books from Thailand and sold them on e-Bay, earning a profit of $1.2 million. Wiley sued and prevailed in both the district court and the Second Circuit.

Justice Breyer's majority opinion, in which Justices Roberts, Thomas, Alito, Sotomayor and Kagan joined, offered numerous reasons for refusing to apply the *Quality King dictum*. Several of those reasons were based on admissions made by the Solicitor General, after being given leave to participate in the oral argument. Relying on the Solicitor General's concession that pirated works made abroad are nonetheless "subject to" the Act, the Supreme Court majority concluded that the Copyright Act is *not* strictly territorial in its application. The Court later cited further examples: the "display" right conferred by the Copyright Act is not violated by a display in this country of a copyrighted work purchased abroad; there is no violation of the right to "publicly perform" a copyrighted work when a consumer uses a video arcade game manufactured abroad; and Section 110(1) of the Copyright Act is not violated when a teacher performs or displays copyrighted works in the course of face-to-face teaching activities, even if those works were made abroad.

The majority also noted that in *Bobbs-Merrill Co. v. Straus,* 210 U.S. 339 (1908), the Supreme Court first recognized the "first sale" doctrine. Based on the Solicitor General's acknowledgment that, "a straightforward application of *Bobbs-Merrill*" would not prohibit purchasers of authorized copies purchased abroad from asserting the "first sale" defense, the Court held that principles of statutory construction could be applied to construe the current Copyright Act, enacted in 1978, in a manner consistent with earlier law. Justice Breyer buttressed those conclusions with frequent references to legislative history, including "for those who find legislative history useful" a jab at Justice Scalia, who, along with Justice Kennedy, had joined in Justice Ginsburg's dissenting opinion.

The majority additionally relied on various *amicus* briefs to enumerate a parade of horribles that could result from adopting the dissenters' position. Among other potential problems, libraries having imported books in their collections could be sued for infringement, as could be any person selling a foreign-made car that contained software, as all modern cars do. Naturally, the dissent pointed out that those horribles were likely illusory given that it had been generally believed for 15 years that *Quality King's dictum* expressed the law yet such suits never materialized.

For their part, the dissenters were persuaded that the manufacturers' ability to engage in differential pricing should be preserved and that, in enacting the 1976 Act, Congress had intended to "protect copyright owners against the unauthorized importation of low-priced, foreign-made copies of their copyrighted works."

Limited Application of the Copyright Act

Although *Kirtsaeng* diminished the role that the copyright laws can play in blocking the importation of lawfully-made products, it did not entirely eliminate the Copyright Act as a source of protection. Section 602(a)(1), for example, still forbids the unauthorized importation of certain copies lawfully made abroad, including books brought into the United States prior to their authorized sale here; copyrighted goods made by a foreign printer who is not the copyright owner; and leased films sent to the United States by foreign film distributors.

Application of the Tariff Act

In some instances, Section 526(e) of the Tariff Act, 19 U.S.C. § 1526(e), can be invoked to prevent the importation of "gray-market" goods. Notwithstanding that in *K Mart Corp. v. Cartier, Inc.*, 486 U.S. 281 (1988), the Supreme Court held that Section 526 should benefit only domestic U.S. trademark owners having no corporate affiliation with the foreign manufacturer, the Third Circuit has held that a U.S. importer that is a wholly owned subsidiary of a foreign manufacturer can invoke Section 526 to bar parallel imports. *See Weil Ceramics & Glass, Inc. v. Dash*, 878 F.2d 659 (3d Cir. 1989). Further, the Fifth Circuit has held that even if a foreign manufacturer and the U.S. trademark owner maintain a close business relationship, the U.S. trademark owner may nonetheless invoke Section 526 to bar parallel imports. *United States v. Eighty-Three Rolex Watches*, 992 F.2d 508 (5th Cir.), *cert. denied*, 510 U.S. 991 (1993). *See, also, Vittoria N. Am., L.L.C. v. Euro-Asia Imports Inc.*, 278 F.3d 1076 (10th Cir. 2001) (evidence of close cooperation did not disqualify U.S. importer and trademark owner from invoking the Tariff Act against a parallel importer).

Application of Lanham Act

Section 42 of Lanham Act, 15 U.S.C. § 1124, may be used to prevent the importation of goods bearing marks or names that infringe a registered trademark under certain circumstances. Some courts have held that Section 42 is violated if the imported goods are materially different from the U.S. goods. *Lever Bros. Co. v. United States*, 981 F.2d 1330 (D.C. Cir. 1993). *Accord, Société Des Produits Nestle, S.A. v. Casa Helvetia, Inc.*, 982 F.2d 633 (1st Cir. 1992). The Second and Third Circuits, however, have held that Section 42 does not apply to prevent parallel imports. *See Weil Ceramics; Olympus Corp. v. United States,* 792 F.2d 315 (2d Cir. 1986). *Accord, Yamaha Corp. v. ABC Int'l Traders Corp.*, 703 F. Supp. 1398 (C.D. Cal. 1988). Based on the *Lever Bros.* case, the U.S. Customs Service amended its regulations to permit U.S. trademark owners, upon application, to restrict the importation of goods that bear genuine trademarks identical to, or substantially indistinguishable from, those appearing on articles authorized for importation by the U.S. trademark owner. To invoke such protection, there must be a likelihood of consumer confusion caused by physical and material differences between the "gray market" articles and those bearing the authorized U.S. trademark. A ban is possible even if, as in *Kirtsaeng*, the foreign manufacturer is a subsidiary of the U.S. trademark owner, and even if, as in *Quality King*, the goods are manufactured in the U.S. The Customs Service regulations do, however, provide a significant exception. An importer is not subject to the ban if the goods are labeled in accordance with disclosures prescribed by the Customs Service.

When claims are brought under Sections 32(1)(a), 42, and 43(a) of the Lanham Act, the "material difference" test is used to determine whether the imported goods should be allowed into the marketplace. As the First Circuit held in *Nestle*, "Liability necessarily turns on the existence *vel non* of material differences between the products of a sort likely to create consumer confusion." The Federal Circuit has explained that even small differences can be material if consumers "would be likely to consider the differences between the foreign and domestic products to be significant when purchasing the product." *Gamut Trading Co. v. United States Int'l. Trade Comm'n*, 200 F.3d 775 (Fed. Cir. 1999). Even purely esthetic differences have been found to be material because consumer demand is "necessarily subjective or even fanciful." *Martin's Herend Imports, Inc. v. Diamond & Gem Trading USA Co.*, 112 F.3d 1296 (5th Cir. 1997). Similarly, failing to offer product labeling in English has been found to be a material difference. *See Original Appalachian Artworks, Inc. v. Granada Elecs., Inc.*, 816 F.2d 68 (2d Cir. 1987). In other instances, material differences between products intended for sale in the United States and products intended for sale abroad have been found when there is inferior warranty protection or inferior post-sale support services for the imported products. *See SKF USA Inc. v. Int'l Trade Comm'n*, 423 F.3d 1307 (Fed. Cir. 2005); *Perkins School for the Blind v. Maxi-Aids, Inc.*, 274 F. Supp. 2d 319 (E.D.N.Y. 2003).

State Regulations

California, New York, and certain other states require retailers of parallel imports to disclose various types of information to consumers, including product incompatibility with U.S. standards, lack of English language instructions, lack of coverage by the manufacturer's warranty, incompatibility with U.S. broadcast frequencies, unavailability of replacement parts, and the like. *See, e.g., Cal. Civ. Code* §§ 1797.8-1797.86; *N.Y. Gen. Bus.* § 218-aa. The failure to make all statutorily required disclosures to consumers can result in injunctive relief and monetary penalties. Q

Supreme Court Provides More Guidance on Class Certification Requirements

Over the past few years, the Supreme Court has issued several decisions addressing certification of class actions. In *Wal-Mart Stores, Inc. v. Dukes*, 564 U.S. 277, 131 S. Ct. 2541 (2011), the Court denied certification to a class of female employees alleging gender discrimination because the plaintiffs had failed to identify any company-wide discriminatory policies and the alleged discrimination resulted from a series of discretionary decisions made by local and regional managers. Earlier this year in *Amgen Inc. v. Connecticut Retirement Plans and Trust Funds*, 568 U.S. __, 133 S. Ct. 1184 (2013), the Court noted that "Rule 23(b)(3) requires a showing that *questions* common to the class predominate, not that those questions will be answered, on the merits, in favor of the class" (emphasis in original).

Most recently, in *Comcast v. Behrend*, 569 U.S. __, 133 S. Ct. 1426 (2013), decided March 27, the Court again discussed certification requirements. *Comcast* involved antitrust claims on behalf of a putative class of cable subscribers. The plaintiffs alleged four theories of liability but the District Court accepted only one, and certified based on that theory. The Third Circuit affirmed.

The Supreme Court reversed in a 5-4 decision written by Justice Scalia. The majority found that Federal Rule of Civil Procedure 23(b)(3)'s requirement that common issues predominate had not been satisfied because the plaintiffs' economic expert's analysis was not based on the theory of liability the District Court had credited. The Supreme Court concluded this mismatch meant there was no evidence damages could be calculated based on common evidence. The Court acknowledged that, although the calculation of damages "need not be exact" at the certification stage, the model supporting damages must be "consistent with [the plaintiff's liability case]." *Comcast*, 133 S. Ct. at 1433. Given that the expert report in *Comcast* was found to be inconsistent with the only viable liability theory, the Court concluded that questions of individual damage calculations would "inevitably overwhelm questions common to the class."

The dissent, co-written by Justices Ginsburg and Breyer, objected both procedurally and on the merits. As to procedure, the dissent noted that the majority failed to address the question as to which certiorari had been granted – namely, whether the plaintiffs' expert reports constituted admissible evidence. Instead, the Court addressed whether the plaintiffs had satisfied Rule 23(b)(3)'s predominance requirement. On the merits, the dissent believed the damages model of plaintiffs' expert did suffice to supply classwide evidence of injury.

It remains to be seen what impact *Comcast* will have on class certification generally. The dissent commented that the decision "breaks no new ground on the standard for certifying a class action," and was "good for this day and case only." Some district courts have seen it that way as well, while several others have relied on *Comcast* to deny certification based on lack of evidence to prove classwide injury and/or damages.

Like *Wal-Mart* before it, *Comcast* reflects a trend begun in the lower courts to give increased scrutiny to the evidentiary showing in support of certification, rather than permit mere speculation or promises of proof at trial to suffice. This trend creates a premium for both plaintiffs and defendants to develop an adequate evidentiary record before the certification stage, and to delve into the merits during that motion practice to the extent relevant to Rule 23's criteria. Q

Quinn Emanuel Moscow Earns Tier One Ranking from *Legal 500*

Just over a year after its opening, the firm's Moscow office has been ranked in Tier 1 for Dispute Resolution in Russia by *Legal 500: Europe, Middle East & Africa*. Moscow Managing Partner, Ivan Marisin, was named a leading individual in the category. *Legal 500* publishes annual reports on the top global firms and attorneys across various practice areas. The publication, referring to Quinn Emanuel as a "litigation heavyweight," recognized the firm's breadth of involvement in both domestic and international disputes, with its Russian efforts being led by the "highly regarded" Ivan Marisin and Vasily Kuznetsov. Q

Trial Practice Update

Second Circuit Judge Advocates for System to Certify Questions of Foreign Law. In its recent decision reversing Citigroup's jury win over Terra Firma, the Second Circuit Court of Appeals found the trial court misapplied English law. In *Terra Firma Invs. (GP) 2 Ltd. v. Citigroup Inc.*, 2013 U.S. App. LEXIS 10967 (2d Cir. May 31, 2013), the Second Circuit held that a jury instruction incorrectly placed the burden of proving reliance on Terra Firma. Reversing the trial court's determination, the Court of Appeals held that under English law a claim of misrepresentation gives rise to a rebuttable presumption of reliance, thereby shifting the burden of persuasion to the defendant.

Writing a separate concurring opinion, Circuit Judge Ray Lohier agreed with his colleagues' interpretation of English law, but expressed concern about "[a] growing number of international commercial disputes, [in which courts] are asked with increasing frequency to decide issues that require us to determine and apply foreign law." Judge Lohier warned of the escalating challenge of resolving "unsettled questions" and invoking "important [foreign] policy preferences." He advocated for a "formal certification process," a foreign-law analogue to the domestic certification procedure used to resolve questions of state law that are raised in federal court.

The *Terra Firma* case joins a larger judicial dialogue regarding the resolution of civil disputes with pivotal foreign-law elements. Judges are experts in American law. As the *Terra Firma* concurrence observed, the Federal Rules of Civil Procedure recognize this limitation and directly address a federal court's interpretations of foreign law under Rule 44.1, but that only begins the discussion. For example, some courts have focused on the manner by which a court determines questions of foreign law, *e.g.*, *Bodum U.S.A., Inc. v. La Cafetiere, Inc.*, 621 F.3d 624, 629 (7th Cir. 2010), whereas others have considered the independent weight to afford these expert materials on foreign law, *e.g. Karaha Bodas Co. v. Perusahaan Pertambangan Minyak Dan Gas Bumu Negara*, 313 F.3d 70, 92 (2d Cir. 2002). In *Karaha Bodas*, the Second Circuit stated that "a foreign sovereign's views regarding its own laws merit—although they do not command—some degree of deference." *Id.* Judge Lohier proposes formalizing a mechanism for learning foreign sovereigns' views of their own laws, and to codify that deference then owed to that view. It remains to be seen if his suggestion is acted upon by the Supreme Court and Congress.

Cal. Appellate Court Reverses Conviction Due to Juror's Review of Prior Judicial Opinion. In a case that will likely further call into question the test for juror bias, a California appellate court reversed the conviction of Michael Antonio Pizarro, whose first-degree murder charges had already been the subject of two trials, an evidence-screening hearing, and now three appeals. *People v. Pizarro*, 2013 WL 2321442 (Cal. App. May 21, 2013). Although the court also reviewed the trial court's handling of the evidence-screening hearing for procedural error, the court ultimately reversed the conviction due to one juror's use of extraneous material—namely, the appellate court's own 2003 opinion reversing the defendant's first conviction. The juror admitted to seeking out the judicial opinion because "[he] was lost . . . [and wanted] to understand how the series of events had happened." (second and third alterations added).

The *Pizarro* court applied the two-part test for identifying and remedying the prejudicial effects of extraneous material, as described in *In re Carpenter*, 9 Cal.4th 634 (1995). However, the court criticized the California Supreme Court's test from *Carpenter*, calling it "confusing . . . contradictory . . . [and] undermin[ing] the integrity of our jury system." The *Carpenter* test requires an inquiry, first, into whether extraneous material had an inherent and substantially likely influence on the jury's verdict or consideration of the defendant's case; and, second, into whether the material actually biased the juror. The court criticized *Carpenter* primarily for that decision's internal inconsistencies, conflicts with other lines of authority, and failure to protect a defendant's right to an impartial jury.

The *Pizarro* court repeatedly referred to its concern regarding *Carpenter*'s invocation of harmless error analysis and a presumption of prejudice rebuttable by "overwhelming" evidence as to the defendant's guilt. Judge Kane, writing for a unanimous panel, called on the California Supreme Court to reconsider *Carpenter*. He cited, in particular, a desire for explicit recognition that, in addition to or instead of causing a different voting outcome, extraneous material can influence a juror by variously "lowering the prosecutor's burden, shifting the burden to the defense, making the juror skeptical of defense evidence or theories, depriving the complaining party of thorough consideration, [or] depriving the complaining party of thorough consideration of his case." The court observed that, in cases when error is of a type that undermines the integrity of a trial—such as actual or inherent juror bias—harmless error analysis is out of place.

The *Pizarro* court ultimately determined that the juror's misconduct warranted reversal of the conviction due to his inherent bias, using either *Carpenter*'s two-step inquiry or a pre-*Carpenter* analysis, which was based on *People v. Marshall*, 50 Cal.3d 907 (1990), and *People v. Holloway*, 50 Cal.3d 1098 (1990). But given the rare request by the California appellate court for the California Supreme Court to reconsider its test, and the extreme circumstances of a thrice reversed conviction, further consideration of the appropriate test for juror bias is likely to come.

Structured Finance Litigation Update

New York's Evolving Reasonable Reliance Standard. Among the more hotly contested issues facing structured finance investors and insurers bringing fraud claims in New York is the requirement that plaintiffs establish that they reasonably relied upon the alleged fraudulent misrepresentations. Commonly, the first defense of banks or other defendants in such suits is to seek dismissal of the claims on the ground that, regardless of any misrepresentation they may have made, the plaintiff's reliance was not reasonable because the truth could have been ascertained on the basis of due diligence conducted at the time of the investment. Given the large amount of information that was theoretically—but often not practically—available to investors or insurers in structured finance transactions, this standard has presented an unfair and insurmountable bar in some cases. But that standard may be changing. The New York State Supreme Court (Justice Bransten), recently held in *MBIA v. Countrywide* that an insurer is not required to meet a "reasonable reliance" standard to show that it would not have issued a policy. In addition, two recent appellate decisions from the First Department have suggested some softening and clarification of New York's reasonable reliance standard.

First, in *CIFG Assurance North American v. Goldman, Sachs & Co.*, the plaintiff insurer, CIFG claimed that Goldman Sachs fraudulently induced it to provide guaranty insurance on an RMBS securitization by misleading CIFG as to the quality and origination of the mortgage loans backing the securitization. The lower court dismissed the fraud claims on the pleadings reasoning that CIFG could not show reasonable reliance because it failed to review the underlying mortgage loans. On appeal, however, the First Department recently reversed the trial court's decision. *See CIFG Assur. N. Am., Inc. v. Goldman, Sachs & Co.*, — N.Y.S.2d —, 2013 WL 1876243 (1st Dep't May 7, 2013). In reinstating the fraud claims, the First Department found that the alleged misrepresentations concerning the characteristics of the underlying loans "were not demonstrably known by plaintiff to be false when made." *Id.* at *1. It thus concluded that the plaintiff "was not required, as a matter of law, to audit or sample the underlying loan files" and that whether CIFG's reliance on Goldman Sachs' representations was reasonable was a question of fact, precluding dismissal. *Id.*

Second, in *ACA Financial Guaranty Corp. v. Goldman, Sachs & Co.*, the plaintiff insurer, ACA, alleged that it was fraudulently induced by Goldman Sachs to issue a financial guaranty on CDO notes on the basis of misrepresentations that a hedge fund, Paulson & Co. ("Paulson"), that was involved in selecting the CDO's collateral was taking a long position through investing in the CDO's equity when in fact it was short. In a 3-2 decision, the First Department affirmed the lower court's dismissal of ACA's claim. *See ACA Fin. Guar. Corp. v. Goldman, Sachs & Co.*, — N.Y.S.2d —, 2013 WL 1953751 (1st Dep't May 14, 2013). The Court reasoned that ACA could not have reasonably relied on Goldman's alleged misrepresentation because the deal's offering materials disclosed that "no-one was investing in the first-loss tranche" of the CDO and that, despite this fact, ACA failed either to investigate Paulson's role or to include in its guaranty policy an "appropriate prophylactic provision to ensure against the possibility of misrepresentation." *ACA*, 2013 WL 1953751, at *1-2. While seemingly in tension with the *CIFG* decision only one week prior, the *ACA* decision can be reconciled with *CIFG* in that the Court in *ACA* took note of 'red flags' that it concluded triggered heightened duties of investigation which the Court in *CIFG* expressly found did not exist in that case. In any event, the

ACA decision included an unusual and vigorous dissent by two of the Court's justices which makes it likely that the case will be reviewed by the New York Court of Appeals, which may very well reverse on grounds that the decision sets too high a threshold for showing reasonable reliance, even in the face of arguable 'red flags.'

Russia Litigation Update

Case Study: Russian Courts Adopt Practical, Less Formalistic Analysis of Activities of Foreign Entities in Russia. In two recent cases, the Presidium of the Supreme Arbitrazh Court of the Russian Federation (the "Presidium") addressed important issues concerning activities of representative offices of foreign companies in Russia and disclosure of beneficial owners of offshore companies.

Both cases could be of great importance for Russian business and foreign investors. They demonstrate Russian courts' recent inclination to depart from formalistic tests and apply more flexible approaches to transnational commercial disputes.

Olympia LLC v. Parex Banka AS & Citadele Banka AS. Olympia LLC ("Olympia") filed a claim with the Moscow Arbitrazh Court seeking recovery of US $21 million from two Latvian banks, Parex Banka SA ("Parex") and Citadele Banka ("Citadele"). Parex, facing bankruptcy, was reorganized in 2008 and ceased trading in 2010. Olympia purchased debt under deposit agreements with Parex from a Latvian national and depositor of Parex, and filed a claim in March 2011. Olympia argued that Parex acted in bad faith when it transferred assets to Citadele, while leaving liabilities with Parex itself.

Parex contested jurisdiction. The court ruled that its jurisdiction should be determined based on a bilateral treaty between the Latvian Republic and Russia. The treaty envisages three instances in which Russian courts are competent to hear commercial cases against Latvian entities:

(1) If the respondent's executive body is located in Russia;
(2) if the respondent has a branch in Russia; or
(3) if the respondent has a representative office in Russia.

The Moscow Arbitrazh Court terminated the proceedings, since Parex and Citadele did not have local branches or representative offices. The 9th Appellate Court affirmed.

The case finally went to the Presidium. The Presidium found that both Parex and Citadele were operating in Russia in violation of local legislation, running their business through offices acting on their behalf. The offices were formally accredited as representative offices of third parties with almost identical company names, Citadele Asset Management and Parex Asset Management, and had not obtained permissions from the Bank of Russia as required under local law. However both offices *de facto* delivered banking services in Russia and enabled clients to conclude transactions with Parex and Citadele in Russia without direct contacts with main offices in Latvia. This scheme allowed Parex and Citadele to avoid Russian supervision laws. As a result, the Presidium ruled that the offices in Russia should be treated as representative offices of Parex and Citadele.

The Presidium ultimately concurred with findings of the inferior courts regarding lack of jurisdiction, but for different reasons. The Presidium noted that Parex and Citadele in fact had representative offices in Russia, but these offices were not parties to deposit agreements in question and therefore there was no factual or legal connection between the dispute and Russian jurisdiction.

TSJ Skakovaya 5 v. Arteks Corporation LLC. A Russian entity, TSJ Skakovaya 5 ("Skakovaya") initiated proceedings against Arteks Corporation ("Arteks"), a Dominican company, seeking transfer repossession of non-residential premises registered to Arteks. Skakovaya's title to the premises was previously confirmed by Russian courts upon Skakovaya's claim against KomEx LLC ("KomEx"), a Russia company. However, KomEx sold the premises to Arteks before the judgment against KomEx (the "KomEx Judgment") was enforced. As a result, Skakovaya had to file a new claim against Arteks.

Arteks argued that it had purchased the premises from KomEx as a *bona fide* purchaser. The lower courts agreed and dismissed Skakovaya's claim.

The judicial panel of Supreme Arbitrazh Court referred the case to the Presidium. The panel noted, *inter alia,* that there were indications of affiliation between KomEx and Arteks, and that Skakovaya could not access information on Arteks' beneficial owners, since the latter was an offshore company. As a result, the panel ruled that the burden to prove good faith should shift to Arteks. The panel also concluded that if a Russian law provision protecting third parties is to be applied in relation to an offshore company, then the latter bears the burden of proving that it is a separate entity not affiliated with other participants in the dispute. Ultimately, this means that an offshore company might have to disclose its principal.

On 26 March 2013 the Presidium reversed the judgments of the lower courts and returned the case to the court of first instance for reconsideration. Although the reasoned decision of the Presidium is not yet available, this case shows that the Russian courts are becoming reluctant to respect asset ownership structures with offshore companies that might infringe rights of third parties.

These decisions can have a significant impact on various types of disputes involving foreign parties in Russian courts. The courts' positions will be further clarified and expanded in the guidelines of the Supreme Arbitrazh Court—the Review of Case Law Involving Foreign Parties—to be issued in the coming months. The Review will address approaches of the Supreme Arbitrazh Court to public policy defense, jurisdictional and arbitration clauses, conflicts-of-law and recognition and enforcement of foreign judgments and arbitral awards.

White Collar Litigation Update

Supreme Court Permits Prosecution's Comments Regarding Suspect's Silence Where Suspect Did Not Specifically Invoke Fifth Amendment. During government investigations, counsel regularly advise their clients that if a law enforcement agent unexpectedly shows up at their home or office, the client should decline to be interviewed and instead direct the agent to counsel. A recent decision by the Supreme Court highlights the risks of failing to precisely follow that advise. In *Salinas v. Texas*, the Court held that a suspect must affirmatively invoke the Fifth Amendment and cannot simply remain silent in response to non-custodial questioning in order to avoid potential adverse inferences.

Petitioner Genovevo Salinas was asked to come to the police station to voluntarily answer questions regarding a murder investigation. He was not arrested and the police did not give him Miranda warnings. During the interrogation, Salinas agreed to give the police his shotgun. He was then asked whether a ballistics test would show that the shotgun shells found at the murder scene would match his shotgun. Salinas did not answer the question, but instead "looked down at the floor, shuffled his feet, bit his bottom lip, clenched his hands in his lap, and began to tighten up." After a few moments of silence, the officer asked additional questions, which Salinas answered.

Salinas was later charged with murder, but fled. He was arrested 15 years later. He did not testify at trial. During closing argument, the prosecutor highlighted his silence in response to the question about the shotgun and argued that his silence was evidence of guilt because an innocent person would have provided an exculpatory response when asked whether the shotgun shells would match those recovered at the murder scene. Salinas was convicted and his conviction was upheld on appeal.

The Supreme Court granted certiorari to resolve a split in the lower courts as to whether the prosecution may use evidence of a defendant's assertion of the privilege against self-incrimination during a noncustodial police interview as part of its case in chief. However, the Court did not resolve that issue because it concluded that defendant had not even asserted the privilege. Justice Alito and two justices concluded that before petitioner could rely on the privilege against self incrimination, he was required to invoke it, which by remaining silent, he had not done. Justice Thomas wrote a separate opinion, to which Justice Scalia joined, concurring in the judgment.

Justice Alito began his analysis by restating the rule that "a witness who 'desires the protection of the privilege . . . must claim it' at the time he relies on it" (quoting *Minnesota v. Murphy*, 465 U.S. 420, 427 (1984). The Court identified two exceptions to this general rule. The first exception was delineated in *Griffin v. California*, which held that criminal defendants do not need to invoke the privilege at their own trials in order to benefit from its protection. 380 U.S. 609, 613-615 (1965). The second exception applies in inherently coercive situations where the forfeiture of the privilege cannot be said to have been voluntary. Justice Alito concluded that petitioner's situation did not fall within either of the two exceptions because he was not a criminal defendant at trial when he made the statement, and there were no allegations that his failure to assert the privilege was involuntary.

Petitioner argued that the Court should adopt a third exception to the invocation requirement for situations where a witness stands mute and declines to give an answer. The plurality declined to create this additional exception, stating that prior decisions established that invocation of the privilege must be express. The Court emphasized the importance of putting courts on notice of the reason for remaining silent so that they can evaluate the merits of the Fifth Amendment claim, which requires express invocation. Finally, the Court rejected petitioner's argument that requiring express invocation would be unworkable in practice.

Justice Thomas suggested that petitioner's claim would have failed even if he had expressly invoked the privilege because he was not "compelled" to give the self-incriminating testimony. Thomas rejected the Court's holding in *Griffin*, that adverse inferences could not be drawn from a defendant's failure to testify.

Justice Breyer wrote a dissent, to which three other justices joined, stating that, in his view, the Fifth Amendment precluded the prosecution from commenting on petitioner's silence in response to a question during a voluntary interrogation. The dissent's analysis differs from that of the majority because the dissent argues that the Court's precedent does not require that a witness expressly mention the Fifth Amendment in order to invoke the privilege and receive its protection, and that invocation can be inferred from the circumstances. Under this approach, a witness only needs to invoke the privilege explicitly where it is not clear from the circumstances that the witness intends to invoke the privilege or where the questioner has a special need to know whether the witness is invoking the privilege—neither of which apply to petitioner. Justice Breyer argued that the circumstances surrounding petitioner's questioning gave rise to a reasonable inference that he intended his silence to serve as an exercise of his Fifth Amendment rights. Thus, he reasoned that because petitioner properly invoked the privilege by remaining silent, it was impermissible for the prosecutor to comment on petitioner's silence.

Although *Salinas* involves police questioning in the context of a murder investigation, there is nothing about the decision that would limit its application to any law enforcement questioning where the witness is not in custody. Thus, whenever a witness declines to speak to an agent without expressly referencing the Fifth Amendment, the government would appear to be free to argue that the refusal to answer questions was an indication of guilt. *Salinas* did not identify the specific words that would invoke the privilege and prohibit an adverse inference. In order to minimize the risk of any such adverse inference, in-house and outside counsel may wish to remind witnesses not to speak to law enforcement without counsel present and that if approached they should utter the magic words, "I invoke my Fifth Amendment right to remain silent." The assertion of constitutional protections would not seem to require such a formalistic approach, but the current Court appears to believe otherwise. Q

Quinn Emanuel Partners Sean Pak, Nadine Herrmann and Steig Olson Named 2013 "Rising Stars" by *Law360*

San Francisco partner Sean Pak and Hamburg Managing Partner Nadine Herrmann were named "Rising Stars" in intellectual property by legal publication *Law360,* while newly elected New York partner Steig Olson was recognized as a "Rising Star" in the competition category. *Law360* received over 1,000 nominations for this year's awards. Sean Pak was recognized for his "big wins" on behalf of tech industry leaders Symantec, Google, and HTC. Nadine Herrmann was recognized for her successes on behalf of tech companies, in particular for warding off Apple's attempts to ban sales of Samsung smartphones and tablets in Germany. Steig Olson was recognized for his high-profile antitrust matters, including multidistrict litigation over railroad fuel surcharges and his defense of Travelport Ltd. against American Airlines. Q

AIG Freed from Edge Act Jurisdiction Hook

On April 19, 2013, the United States Court of Appeals for the Second Circuit ruled that a lawsuit by American International Group ("AIG") against Bank of America and its affiliates was improperly removed from New York state court pursuant to the federal Edge Act, 12 U.S.C. § 632, which confers federal jurisdiction over certain disputes involving federally chartered banks and arising out of foreign or territorial banking transactions. AIG had sued the banks for over $10 billion, alleging misrepresentations in the offering materials that AIG relied upon to purchase residential mortgage-backed securities ("RMBS"). Only 27 of the almost two million loans at issue in the case originated in Guam and other U.S. territories.

Quinn Emanuel attorneys successfully argued on behalf of AIG that the Edge Act does not confer jurisdiction over RMBS claims where the underlying territorial mortgages were not themselves transactions "of" a federally chartered bank (in this case, Bank of America N.A.). The Second Circuit, reversing former Judge Barbara Jones of the Southern District of New York, held that, "in order for [the Edge Act's] grant of federal jurisdiction and removability to apply, the suit must have a federally chartered corporation as a party, and the suit must arise out of an offshore banking or financial transaction of that federally chartered corporation." *Am. Int'l Grp. v. Bank of Am.*, 712 F.3d 775 (2d Cir. Apr. 19, 2013). The court of appeals remanded the case to the Southern District of New York to determine whether the case should return to New York state court.

The decision already has had a significant effect on other cases in which defendant banks sought to remove RMBS cases to federal court. For example, on May 17, 2013, in *Dexia v. Bear Stearns*, a Southern District of New York judge voided his prior summary judgment on an RMBS case that had been removed under the Edge Act, ruling that the *AIG* decision showed jurisdiction to have been improper. The decision opened: "Those who don't believe in ghosts have never been in court, where legal claims are regularly seen rising from the grave."

Quinn Emanuel Helps Pro Bono Tenants Obtain Valuable Settlement in Tenant's Rights Case

The firm partnered with the Inner City Law Center (ICLC) to take on the pro bono representation of over 40 residents in seven families that had been living in a dilapidated apartment building in downtown Los Angeles. The tenants sued the owner of the building, San Pedro Mart, LLC, on a variety of claims arising out of the allegedly sub-standard condition of the residential units. The tenants contended that as soon as the owners acquired the building in 2006, conditions had significantly deteriorated, with repairs coming to a halt, rent increasing dramatically, and the living conditions at the apartments becoming uninhabitable and unsafe. The tenants alleged bedbug and cockroach infestations; faulty plumbing; inoperable heating units; mold; and broken windows and door locks, among other things. Many of the tenant families had young children who were often unable to get enough sleep to make it through the school day unaffected by the conditions. To make matters worse, despite repeated notices and orders to comply issued by the Los Angeles Housing Department, as well as frequent repair requests made by our clients, the units have been left in a constant state of disrepair.

By 2012, the tenants, represented initially by the ICLC, fought back, and called upon Quinn Emanuel to litigate the case. After defeating an early motion to dismiss filed by the building owner, Quinn Emanuel and ICLC quickly produced voluminous discovery on behalf of its clients and took the depositions of the building manager, repairman, and an Los Angeles Housing Department inspector, all of which revealed substantial deficiencies in the maintenance of the building. Shortly after completing those initial depositions, the case settled for an agreement to pay $750,000, which is a potentially life-altering amount to the plaintiffs—a multiple of the yearly income for each of the families. Additionally, the pendency of the litigation itself served to insure that many of the outstanding repairs and maintenance were completed.

Victory for YouTube and Google in Landmark Digital Copyright Case

Quinn Emanuel obtained another major victory on behalf of our clients YouTube Inc. and Google Inc. in its ongoing defense of YouTube's path-breaking internet service against claims by Viacom International that YouTube's service violates Viacom's copyrights. The case began in 2008, when Viacom sued YouTube for one billion dollars, alleging that nearly 80,000 clips containing Viacom's copyrighted material appeared on YouTube's website without Viacom's authorization. Google and YouTube, however, contended that YouTube's website was protected under the Digital Millennium Copyright Act (DMCA), which provides a safe harbor for services such as YouTube that store and provide access to user-uploaded materials. In 2010, Judge Louis L. Stanton in the Southern District of New York agreed with YouTube, granting YouTube's motion for summary judgment on all grounds.

Viacom then appealed to the Second Circuit. In April 2012, the Second Circuit affirmed in part, reversed in part, and remanded the case for further proceedings. The Second Circuit largely agreed with YouTube on its view of the law, especially regarding the standard necessary to show that YouTube "knew" or had "awareness" of infringing material on its website. However, the Second Circuit remanded the case back to the district court, instructing the district court to conduct additional inquiries into the facts based on the Second Circuit's opinion.

Upon returning to the district court, Quinn Emanuel quickly brought the case back to summary judgment on all four issues. On April 18, 2013, the district court granted YouTube's renewed summary judgment motion in full. The district court's decision continues to set precedent that sets the rules of the road for the information superhighway. The district court held that there was no evidence to meet the Second Circuit's "knowledge or awareness" standard, especially in light of evidence showing Viacom's longstanding practice of using stealth marketing techniques to upload its own clips onto YouTube under disguised names and accounts. The district court also agreed that there was no evidence that YouTube had willfully blinded itself to any alleged copyright infringement. Last, the district court agreed with YouTube that YouTube does not have the "right and ability to control" any alleged infringement on its service, even if YouTube removed content from its website for business reasons. This final ruling sets an important precedent that websites may take decisions about what content they allow on their service without losing the protection of the DMCA.

Viacom has promised to appeal the case back to the Second Circuit.

Arbitration Victory on Motion to Vacate

The firm recently succeeded in vacating an eight figure arbitration award issued against one of its clients based on errors of law and legal reasoning in the Panel Majority's award. The claimant asserted causes of action for breach of contract and other claims against a firm client and sought tens of millions of dollars in damages. The arbitration panel majority ruled in favor of the claimant—over a vigorous dissent of the third arbitrator—by disregarding or misapplying a number of basic legal principles regarding contract interpretation, including parol evidence, ratification, and set-off.

Quinn Emanuel immediately filed a motion to vacate the arbitration award based on the arbitrators' legal errors in issuing the award and argued that the award should be vacated because the arbitration provision at issue provided that "the arbitrators shall not have the power to commit errors of law or legal reasoning and the award may be vacated or corrected on appeal to a court of competent jurisdiction." The firm argued that Supreme Court precedent preventing parties from expanding the scope of judicial review of arbitrations under the Federal Arbitration Act was inapplicable here because the contract, and the review of the award, was governed by the California Arbitration Act, which allows parties to (1) contractually limit the powers of arbitrators to make legal errors; and (2) agree to expanded judicial review. Quinn Emanuel then argued the Panel Majority erred as a matter of law by, among other things, failing to apply the correct standard regarding ratification, ignoring the plain language of the agreement, improperly relying on legally irrelevant parol evidence, and awarding damages that were expressly precluded by the agreement.

The Los Angeles Superior Court adopted Quinn Emanuel's argument regarding the scope of judicial review, *i.e.*, that it was permitted to review the arbitrators' reasoning, and vacated the award in its entirety, finding in favor of the firm client on every ground of error asserted. Q

quinn emanuel
865 South Figueroa Street, 10th Floor, Los Angeles, California 90017

PRESORTED
STANDARD
U.S. POSTAGE
PAID
PERMIT NO. 4338
INDUSTRY, CA

business litigation report

quinn emanuel urquhart & sullivan, llp

Published by Quinn Emanuel Urquhart & Sullivan, LLP as a service to clients and friends of the firm. It is written by the firm's attorneys. The Noted with Interest section is a digest of articles and other published material. If you would like a copy of anything summarized here, please contact David Henri at 213-443-3000.

- We are a business litigation firm of more than 600 lawyers — the largest in the world devoted solely to business litigation.
- As of July 2013, we have tried over 2167 cases, winning 88.7% of them.
- When we represent defendants, our trial experience gets us better settlements or defense verdicts.
- When representing plaintiffs, our lawyers have garnered over $17 billion in judgments and settlements.
- We have won four 9-figure jury verdicts.
- We have also obtained ten 9-figure settlements and six 10-figure settlements.

Prior results do not guarantee a similar outcome.

LOS ANGELES
865 S. Figueroa St., 10th Floor
Los Angeles, CA 90017
213-443-3000

NEW YORK
51 Madison Ave., 22nd Floor
New York, NY 10010
212-849-7000

SAN FRANCISCO
50 California St., 22nd Floor
San Francisco, CA 94111
415-875-6600

SILICON VALLEY
555 Twin Dolphin Dr., 5th Floor
Redwood Shores, CA 94065
650-801-5000

CHICAGO
500 West Madison St., Suite 2450
Chicago, IL 60661
312-705-7400

WASHINGTON, D.C.
1299 Pennsylvania Ave. NW, Suite 825
Washington, DC 20004
202-538-8000

TOKYO
NBF Hibiya Bldg., 25F
1-1-7, Uchisaiwai-cho, Chiyoda-ku
Tokyo 100-0011
Japan
+81 3 5510 1711

LONDON
One Fleet Place
London EC4M 7RA
United Kingdom
+44 (0) 20 7653 2000

MANNHEIM
Mollstraße 42
68165 Mannheim
Germany
+49 (0) 621 43298 6000

MOSCOW
Paveletskaya Plaza
Paveletskaya Square, 2/3
115054 Moscow
Russia
+7 499 277 1000

HAMBURG
An der Alster 3
20099 Hamburg
Germany
+49 (0) 40 89728 7000

PARIS
25 rue Balzac
75008 Paris
France
+33 (0)1 53 53 68 97

©2013 Quinn Emanuel Urquhart & Sullivan, LLP | To update information or unsubscribe, please email updates@quinnemanuel.com.