September 2012

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

Court Quashes Summons of Indictment in Economic Espionage Act Prosecution Against Quinn Emanuel Chinese Client

Last month, Quinn Emanuel won an important victory for its clients the Pangang Group and three of its subsidiaries in a closely watched criminal prosecution brought under the Economic Espionage Act (EEA). Pangang is one of the largest manufacturers of steel, titanium, and vanadium products in China. The government alleged that the Pangang defendants are state-owned companies controlled by a special government agency of the PRC and that Pangang had violated the EEA by misappropriating titanium dioxide (TiO2) production technology from E.I. du Pont de Nemours & Company (DuPont). On July 23, 2012, a United States District Court quashed the service of the summons, which may have ended the criminal prosecution, by ruling that the government had failed to properly serve the Pangang defendants under Rule 4 of the Federal Rules of Criminal Procedure. On August 16, 2012, the government indicated that it is exploring alternative methods to effect service. The next status conference is scheduled for October 11, 2012.

The Defendants

The firm's clients are Pangang Group Co. Ltd. and its subsidiaries Pangang Group Steel Vanadium & Titanium Company, Ltd., Pangang Group Titanium Industry, Ltd., and Pangang Group International Economic & Trading Company, which manufacture and market steel, titanium, and vanadium products. Other defendants include several individuals and a corporate defendant associated with one of the individuals, Walter Liew. One individual pled guilty and awaits sentencing. All other defendants who were served await trial.

Indictment

The criminal prosecution arises out of a civil suit filed by DuPont against an individual named Walter Liew, his company, and one of his employees, for allegedly misappropriating trade secret materials that provided detailed specifications for DuPont's chloride-route TiO2 process.

(continued on page 2)

INSIDE

Trial Update
Page 4

Internet Litigation Update
Page 4

Russia Litigation Update
Page 5

Analysis: The Federal Circuit's *Transocean* Decision on Offer-To-Sell Infringement
Page 6

Securities Litigation Update
Page 8

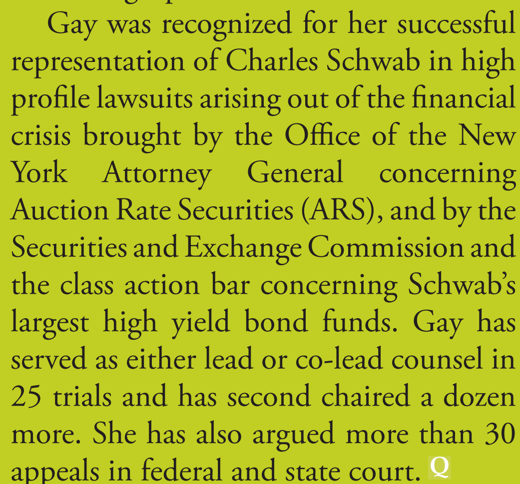
Victory in Criminal Case and Other Victories
Page 11

New Intellectual Property Partners Yury Kapgan and Jay Neukom Join Quinn Emanuel *see page 7*

Diane Doolittle and Faith Gay Named "Top Female Trial Attorneys" by *Law360*

Diane Doolittle and Faith Gay, Co-Chairs of the firm's National Trial Practice Group, have been selected as "Top Female Trial Attorneys in the U.S." by *Law360.*

Doolittle, a former prosecutor, was honored for her successful representation of Southern California real estate developer Donald Bren in a jury trial against his children and their mother, who accused Bren of cheating them out of millions in child support payments. The jury verdict in favor of Bren was recently affirmed by the California Court of Appeal. Doolittle was also recognized for her representation of Dr. Henry Nicholas, III, billionaire co-founder and



former CEO of Broadcom Corp., in several high-profile matters.

Gay was recognized for her successful representation of Charles Schwab in high profile lawsuits arising out of the financial crisis brought by the Office of the New York Attorney General concerning Auction Rate Securities (ARS), and by the Securities and Exchange Commission and the class action bar concerning Schwab's largest high yield bond funds. Gay has served as either lead or co-lead counsel in 25 trials and has second chaired a dozen more. She has also argued more than 30 appeals in federal and state court. Q

Attorney Advertising

(continued from cover)

On July 27, 2011, the government filed a criminal complaint charging Mr. Liew and his wife with witness tampering in the civil case and lying to federal investigators. A grand jury indicted the Liews on those and other charges on August 23, 2011.

The government then filed a superseding indictment against additional defendants, including our clients, and with expanded charges. The Pangang defendants were indicted under the EEA for an alleged conspiracy to commit economic espionage, conspiracy to commit theft of trade secrets, and attempted economic espionage. The indictment alleges that the defendants conspired to steal trade secrets regarding DuPont's process for manufacturing TiO2, a white pigment commonly used in paint, plastics, and paper. The indictment also alleges that DuPont has the largest share of the $12 billion global titanium dioxide market and that the Chinese government had identified the development of TiO2 production as a scientific and economic priority.

The Economic Espionage Act

The EEA criminalizes two types of trade secret misappropriation: "economic espionage," as defined by 18 U.S.C. § 1831, and "theft of trade secrets," as defined by 18 U.S.C. § 1832. These offenses share three elements: (1) misappropriation of information; (2) with knowledge or belief that the information is a trade secret; and (3) that the information is, in fact, a trade secret. Only section 1831 requires a nexus with a foreign government, punishing those who steal trade secrets "intending or knowing that the offense will benefit any foreign government, foreign instrumentality, or foreign agent." 18 U.S.C. §1831(a).

Penalties under the EEA can be severe. Section 1831 and 1832 violations can result in up to 15 and 10 years in prison, respectively, and the statute carries a range of fines up to $15,000,000. Depending on the nature of the offense, those fines can be substantially increased given that the EEA is subject to the alternative fines provision of 18 U.S.C. § 3571(d), under which a defendant "may be fined . . . the greater of twice the gross gain or twice the gross loss" caused by the unlawful conduct. Violators are also subject to the provisions of the Mandatory Victim's Restitution Act.

Although the law was passed in 1996, economic espionage prosecutions were rare until very recently. The DOJ is now investigating and prosecuting economic espionage cases on an unprecedented scale and two bills are pending before Congress seeking to amend the EEA to provide for enhanced penalties and broader civil remedies. Significantly, this is the first case in which the government charged an alleged foreign instrumentality directly rather than an individual who was allegedly trying to benefit the foreign government. The outcome will likely have an important impact on enforcement and amendment efforts.

Quinn Emanuel's Motion to Quash

Pre-indictment, the government asked the General Manager of Pan America, a separate U.S. company and subsidiary of two of the defendants, to accept a letter to Pangang Group's chairman and legal representative. The General Manager refused. His counsel advised the government that neither he nor Pan America were authorized to accept service for the Pangang defendants. The government nonetheless delivered the summons to serve the indictment to Pan America's office manager on February 9, 2012. The government also sent copies of those four summons via certified mail to Pan America's office in New Jersey.

The Pangang defendants moved to quash service of the summons on the basis that the government failed to comply with the service requirements of Federal Rule of Criminal Procedure 4(c). Rule 4(c) has both a delivery and a mailing requirement: a summons may be served "on an organization by delivering a copy to an officer, to a managing or general agent, or to another agent appointed or legally authorized to receive service of process" and the summons must be mailed "to the organization's last known address within the district or to its principal place of business elsewhere in the United States." The Pangang defendants argued that neither requirement was met in this case. The government argued that it complied with both requirements because Pan America is the general agent and the principal place of business in the United States for the Pangang defendants. It argued alternatively that Pan America is each of the Pangang defendants' alter ego.

The court heard argument on the motion to quash over two days before taking the matter under submission. On July 23, 2012, the judge issued his opinion.

Prior Precedent

The jurisdictional conundrum that this case poses is rare. Normally, service is straightforward in the criminal context because defendants are either individuals who are arrested and brought into the court's jurisdiction or corporate defendants with a U.S. presence that enables the government to comply with the Rule 4 requirements. Unlike the civil rules, the criminal rules have no provision for foreign service — the only way to serve corporate criminal defendants without a U.S. presence is to demonstrate alter ego. It is therefore not surprising that the government rarely attempts to serve

summons on non-defendants in criminal cases.

As noted by the court, although the "interplay between personal jurisdiction, sufficiency of service, agency, and alter-ego has been addressed frequently in civil cases . . . there appear to be only four criminal cases" on this issue. In all four of those cases, service of criminal process on an affiliate or subsidiary was found sufficient as to a foreign defendant only where there were compelling facts supporting an alter-ego finding. *See United States v. Johnson Matthey* PLC, 2007 WL 2254676, *1 (D. Utah Feb. 26, 2007) (granting motion to quash); *United States v. Alfred L. Wolff GmbH*, 2011 WL 4471383 (N.D. Ill. Sept. 26, 2011) (granting motion to quash and refusing to endorse the notion that an alter ego analysis even applies to Rule 4 compliance); *United States v. Chitron Electronics Co., Ltd.*, 668 F. Supp. 2d 298, 300 (D. Mass. 2009) (denying motion to quash where the U.S. subsidiary was a "mere conduit" for the Chinese parent); *United States v. The Public Warehousing Company*, 2011 WL 1126333, *1-2 (N.D. Ga. Mar. 28, 2011) (denying motion to quash based on twelve-factor test adopted from civil context to determine if the subsidiary was the alter ego of the parent). Those four decisions, along with the Pangang opinion, demonstrate that whether the government can pierce the veil to disregard the corporate form and separateness of the corporate entities is "heavily fact-specific." *See Public Warehousing*, 2011 WL 1126333 at *6.

The Delivery Requirement

To satisfy the delivery requirement, the government had to show that it had served a summons on the Pangang defendants' managing or general agent. In the Ninth Circuit, an agency relationship exists if (1) the domestic subsidiary functions as the parent's representative "in that it performs services that are sufficiently important to the foreign corporation that if it did not have a representative to perform them, the corporation's own officials would undertake to perform substantially similar services," and (2) the foreign defendant exercises a measure of control over the domestic subsidiary. The government must show an independent agency relationship between each particular defendant — a general agency theory as to the defendants as a group will not suffice.

For three of the defendants, the court held that the government did not establish that Pan America acted as their agent. As to the fourth defendant, the court found that Pan America did act as its agent and the government had therefore met its burden to show it satisfied the delivery requirement. That did not end the inquiry, however, because the government also had to comply with the mailing requirement.

The Mailing Requirement

To satisfy the mailing requirement, the government must show that it mailed the summons to the organization's last known address within the district or to its principal place of business elsewhere in the U.S. Here, the government argued that it complied with the mailing requirement by mailing a copy of each of the summons to Pan America as the defendants' general agent. However, the court found that even if Pan America was a general agent, the mailing requirement must be mailed to the *organization's* principal place of business, not to an individual officer, director or general agent. The court also rejected the government's argument that actual notice is sufficient.

The court held that "the only way for the government to show that it has complied with the mailing requirement is to show that Pan America is the alter-ego of a particular Pangang defendant," and that the government had failed to do so in this case. Pan America observes basic corporate formalities, keeps its own separate records, retains profits for its own purposes, and has many other indicia of corporate separateness.

Alternative Means of Service

After holding that the government had failed to serve the defendants under Rule 4, the court inquired whether there were alternative means of service. The U.S. and the PRC have a Mutual Legal Assistance Agreement (MLAA) regarding assistance in criminal cases. However, the MLAA gives the requested party discretion whether or not to effect service: "[T]he Requested Party shall not be obligated to effect service of a document which requires a person to appear as the accused." MLAA, Art. 8, para. 1.

In this case, the U.S. government initially represented that it believed that the PRC would not agree to effect service on the Pangang defendants, and that it would therefore be futile to attempt service by way of the MLAA. However, on August 16, the government indicated that it was exploring alternative means of effectuating service, including under the MLAA.

Ramifications of the Court's Ruling

At oral argument, the government told the Court that its ruling would effectively end the EEA case against Quinn Emanuel's clients. In an August 16, 2012 joint status statement, the government said it is exploring alternative methods of effectuating service, including under the MLAA. The next status conference is

(continued on page 10)

Trial Update

Second Circuit Allows Jurors to Take Their Work Home: Every trial lawyer envies the jury at the end of trial day as the judge admonishes the jurors not to talk about the case or do any outside work, just as the lawyers are setting out to prepare for the next day's proceedings. But in a surprising twist, the Second Circuit Court of Appeals recently approved jury homework in *United States v. Esso*, the jury was allowed to take home copies of the indictment to study at their leisure.

In *Esso*, jurors in a criminal mortgage fraud trial requested to leave a bit early from the first day of deliberations. To speed the proceedings, they asked that each juror be allowed to take a copy of the indictment home with them so they could read it on their own. The judge allowed them to do so over the defendant's objections. The judge warned the jury neither to discuss the indictment nor to do any independent research on the case. And the judge reiterated that the indictment is just an accusation and is not evidence.

The Second Circuit, in a case of first impression, held that allowing homework did not deprive the defendant of a fair trial. The court reasoned that having the indictment at home is similar to thinking about the case while at home. The court also relied on precedent from a few jurisdictions that have allowed jurors to take home jury instructions during deliberations. The court put special emphasis on the fact that trial judges are afforded broad discretion in trial management techniques, especially when the techniques are intended to save time. The court cautioned that the risk of a juror discussing the case with a loved one or doing independent research was greater if the indictment was sent home with them. But, since there was no evidence that the jury disregarded the "clear, uncomplicated" warnings to the contrary, the practice was allowed.

Defense Lawyer's Decision During Voir Dire Waives Challenge to Lying Juror: A defendant in the Southern District of New York recently lost the chance for a new trial because his lawyer had suspicions that a juror was engaged in misconduct but did not pursue them until after the verdict.

United States v. Daugerdas was a three-month tax shelter fraud trial that resulted in the conviction of four of the five defendants. After the convictions, a juror sent a letter of congratulations to the prosecutor who then shared the letter with all defense counsel. Counsel for David Parse, who had had suspicions about the juror during voir dire and during the trial, then fully investigated the juror. Counsel discovered that the juror lied during voir dire so she could *become* a juror. She lied about where she lived, her and her husband's criminal history, her educational background, and the civil cases that she was a party to. And she did not disclose that she was a disbarred attorney.

The district court held a hearing where the juror admitted to concocting an entire persona to make herself more "marketable" as a prospective juror. The juror also showed great bias against defense counsel, lamenting about their professional successes compared to her own and declaring that "'most attorneys' are 'career criminals.'" The judge held that the juror's misconduct entitled three of the convicted defendants to a new trial.

But the district court found that Parse was not entitled to a new trial because he waived his sixth amendment right to an impartial jury. During voir dire Parse's defense counsel knew by doing a Google search that there was a disbarred attorney with the same name as the prospective juror. Defense counsel discounted the possibility that the two were the same person based on the juror's answers during voir dire. Later in the trial, the juror sent a note to the judge asking about a legal standard, which prompted defense counsel to do more research into the juror's background, including obtaining a Westlaw report. There were more similarities between the juror and the disbarred attorney, causing counsel to remark during an email exchange with a colleague: "Jesus, I do think that's her." The judge found this, among other things, as evidence of defense counsel's actual knowledge of the juror's true identity. The court alternatively found waiver because the defense counsel's decision not to follow up on the evidence showed a "glaring lack of reasonable diligence."

Internet Litigation Update

Internet Retransmission of Television Broadcasts Approved: Judge Alison Nathan of the Southern District of New York ruled on July 11, 2012, that the Internet retransmission of over-the-air television signals is not copyright infringement. American Broadcasting Companies sought to prohibit Aereo, Inc. from providing its users with free access to television programs captured at their instruction by Aereo's antennas and maintained on its hard disks. In denying ABC's application for preliminary injunction, Judge Nathan ruled that there is no "public performance" of the works Aereo records and, hence, no copyright infringement. Aereo characterized its system as "allowing users to rent a remotely located antenna, DVR, and Slimbox-equivalent device, . . . to access content they could receive for free and in the same manner

merely by installing the same equipment at home." The court acknowledged that if Aereo did allow the public to access freely the recorded programs, it would be engaging in a "public performance" of copyrighted works and would be liable for infringement. The court also acknowledged that under *Cartoon Network LP v. CSE Holdings, Inc.*, 536 F.3d 121 (2d Cir. 2008), the mere transmission of a performance is itself a "performance" for infringement purposes. However, Aereo's users could only access programming that they, themselves, had selected, meaning that they merely enjoyed "a service that could also be accomplished by using any standard DVR or VCR." Accordingly, Aereo's service was held not infringing. The case is *American Broadcasting Companies v. Aereo, Inc.*, 12 Civ. 1543 (AJN) (S.D.N.Y. July 11, 2012).

***Employer that Provided Internet Connectivity Held Subject to Suit*:** Internet service providers ("ISPs") generally enjoy an absolute immunity with respect to content provided by others if they play no role in gathering or editing that content. The narrow exceptions concern federal criminal liability and intellectual property infringement. When those concerns were not implicated, the courts have for many years interpreted Section 230 of the Communications Decency Act of 1996, 47 U.S.C. § 230, broadly and have used it to protect ISPs that refused to take down even clearly libelous materials. However, the sense of comfort that an ISP need not concern itself with the content of materials posted by others has recently been called into question by an Illinois appeals court, which held that an employer could be found liable for failing to take down an employee's threats made to a third party. The court concluded that irrespective of Section 230, the employer could be found liable for negligent supervision because its duty to supervise its employees "is distinct from any conduct like editing, monitoring or removing offensive content published on the Internet." The case is *Lansing v. Southwest Airlines Co.*, 212 Ill. App. (1st) 101164 (Ill. Ct. App. June 8, 2012).

Russia Litigation Update

***Overview*:** Dispute resolution through international arbitration is rapidly developing in Russia, although not quite at the pace set by the leading international arbitration centers of Europe, such as London, Paris, and Stockholm. All the basic pieces are in place: the Russian Federation is a party to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards, the 1961 European Convention on International Commercial Arbitration, and even the seldom used 1972 Moscow Convention on the Settlement by Arbitration of Civil Law Disputes Arising from Relations of Economic, Scientific and Technical Cooperation. In July of 1993, Russia adopted its own law "On International Commercial Arbitration" ("ICA"), which essentially mirrors the UNCITRAL model law.

These are certainly positive developments, but hurdles must still be cleared on the path to Russia's full acceptance of international arbitration as a global dispute resolution mechanism. Court, decisions, and even statements of high-ranking Russian officials, reflect a cautious—and in some cases an internally controversial—attitude towards arbitration of which practitioners and clients should be aware.

***Arbitrability*:** Significant developments have occurred on the subject of which disputes are arbitrable in the first instance. Generally, Russian law recognizes that all commercial and other civil law disputes (with limited exceptions) may be arbitrated; however, public law cases, such as bankruptcy and tax matters, remain within the exclusive province of the courts. However, recent court decisions have sent a disturbing message on arbitrability. In 2011, the Constitutional Court in *ZAO Kalinka Stockmann v. Smolensky Pasazh*, issued a decree clarifying that only domestic arbitral tribunals could resolve real estate disputes. And earlier this year, a three-judge panel of the Supreme Arbitrazh Court in the *Maximov v. NLMK* confirmed that the lower courts had correctly set aside an award of the International Commercial Arbitration Court at the RF Chamber of Commerce and Industry ("**ICAC**") on the basis that a dispute arising out of non-payment under a sale-purchase agreement of shares in a Russian company, as well as other corporate disputes, could not be resolved by arbitration; worse, the decision includes a pronouncement that corporate disputes in general are not arbitrable in Russia. Both cases are disturbing from an international arbitration perspective: although the real estate decision would generally be applicable to real property in Russia, it certainly is possible that a foreign party could be involved in such a dispute (for example, in a real estate development deal with international investors). The same is obviously true regarding disputes between corporations—indeed, the vast majority of international arbitration disputes today are between corporations, partnerships, or similar legal entities.

***Public Policy*:** Russian courts also seem to have adopted unique grounds for vacating awards on the grounds of public policy. The New York Convention

(Continued on page 8)

Analysis: The Federal Circuit's *Transocean* Decision on Offer-To-Sell Infringement

Offer-to-sell liability under U.S. patent laws has not historically been a topic of much discussion among patent litigators. *See* 35 U.S.C. § 271(a) ("… whoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States, …, infringes the patent."). Perhaps this is because reasonable royalty damages are difficult if not impossible to measure in the offer context (what would one pay in a hypothetical negotiation for a license to offer an infringing device for sale but not actually sell it). Recently, however, practitioners and academics alike have taken notice of offer-to-sell liability, particularly in light of the 2010 decision, *Transocean Offshore Deepwater Drilling, Inc. v. Maersk Contractors USA, Inc.*, 617 F.3d 1286 (Fed. Cir.). Of particular interest is to what extent does "offer-to-sell" infringement extend the reach of U.S. patent law to conduct or persons outside the U.S.?

In *Transocean*, the offer was to construct and deliver a massive, floating oil drilling rig for use in the U.S. Gulf of Mexico. The terms of the offer were made and communicated outside the U.S., and the resulting contract provided that the oil rig could be modified *prior to* delivery to avoid patent infringement (which is precisely what happened). The Federal Circuit held that the offer to sell an infringing oil rig was sufficient to warrant a finding of patent infringement because the location of the "*contemplated*" sale was within the U.S. *Id.* at 1308.

Nearly a century ago, Judge Learned Hand held — under the then-existing patent laws — that it was not an infringement "for the defendant to take away from the plaintiff a contract calling for a door covered by the patent, and later to change the structure so that it did not infringe." *Van Kannel Revolving Door Co. v. Revolving Door & Fixture Co.*, 293 F. 261, 262 (S.D.N.Y. 1920). Interestingly, this is precisely the type of conduct found to infringe in the *Transocean* decision under the subsequently enacted "offer to sell" provision of the U.S. patent law. Curiously, however, under today's version of § 271(a) as interpreted by the Federal Circuit in *Transocean*, the conduct described by Judge Hand is an infringement *only if* the location of the contemplated sale is within the U.S. According to the *Transocean* decision, offer-to-sell infringement is defeated when the contemplated sale is outside the U.S. *See, e.g.*, *Ion, Inc. v. Sercel, Inc.*, 2010 WL 3768110 (E.D. Tex.). In this situation, the "offeror" may actually follow through with its promise made to a U.S. customer to supply an infringing article and still avoid liability, provided it makes and then delivers the article *outside* the U.S.

The drilling rig ultimately delivered in the *Transocean* case was not infringing, having been modified before delivery. Thus, under the precedent set by the case, liability for offer-to-sell infringement does not require that an infringing article ultimately be delivered. By analogy, in the hypothetical scenario where the offeror makes an offer to a U.S. customer to supply an infringing article but intends to make and deliver it abroad, the device ultimately delivered is likewise not infringing (because one is not liable for direct infringement for making and selling an otherwise infringing article if it is done outside the U.S.). It is difficult to reconcile why this scenario would *not* trigger liability whereas liability *is* triggered when the offeror offers a patented article for sale but either (i) never delivers it or (ii) pulls a bait-and-switch of the type Judge Hand described back in 1920 and that actually occurred in the *Transocean* decision.

In *Transocean*, the U.S. Court of Appeals for the Federal Circuit held that "the location of the contemplated sale controls whether there is an offer to sell within the United States." 617 F.3d at 1309. This holding means that a foreign manufacturer can engage in promotional activities within the U.S. (including by direct solicitation) and present offers to sell an infringing article to a U.S. company — yet still avoid liability so long as the ultimate delivery and performance take place abroad. This is because, under the *Transocean* decision, the location of the advertising and solicitation activities is apparently deemed irrelevant, the court having opted instead for a bright-line rule that bases the existence of offer-to-sell liability solely on the location of the contemplated sale.

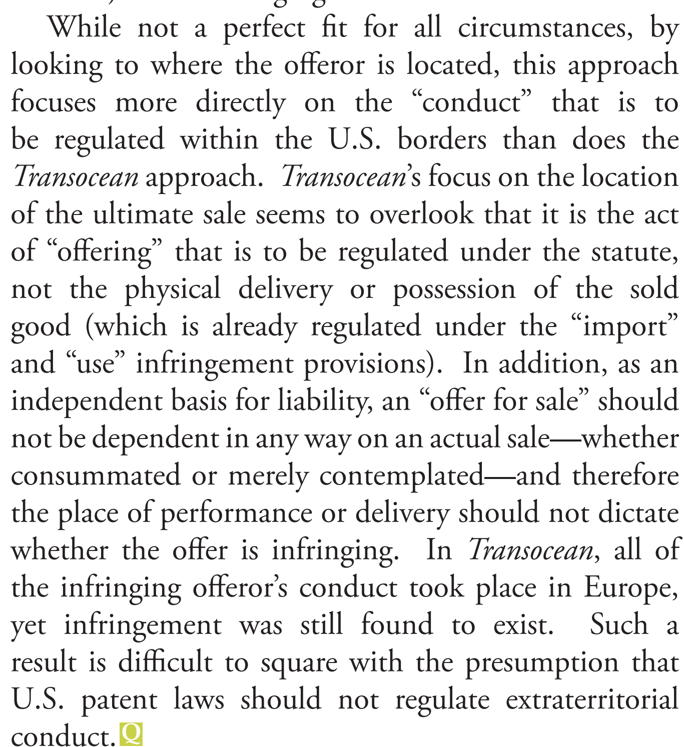
In reaching its decision, the Federal Circuit noted that an offer to sell under § 271(a) is to be analyzed using traditional contract principles. Oddly, however, the "offer for sale" analysis in the *Transocean* decision lacks any discussion of traditional contract principles. *Id.* at 1308. Had the Federal Circuit actually considered traditional contact principles, the outcome may have been different, because traditional contract principles dictate that place of performance is not a necessary term for forming a valid offer sufficient to create the power of acceptance in another. For instance, the Uniform Commercial Code provides that "[a]n agreement for sale which is otherwise sufficiently definite […] to be a contract is not made invalid by the fact that it leaves particulars of performance to be specified by one of the parties." U.C.C. 2-311(1). In fact, § 2-311 makes specific reference to details of shipment: "Unless

otherwise agreed, […] specifications or arrangements relating to shipment are at the seller's option." *Id.* at 2-311(2). Thus, the *Transocean* decision would appear to detract from traditional notions of contract law by relying nearly exclusively on the place of performance in determining whether offer-to-sell infringement has occurred even though "place of performance" is not a term that is required to be stated for an offer to be valid and capable of acceptance.

Some Practical Thoughts on How to Determine the Place an Offer Is Made

The U.S. patent laws regulate conduct rather than the goods themselves (*i.e.*, *in personam vs. in rem*). Infringement liability is therefore directed to "activities" performed by or at the direction of human beings (selling, making, using, offering, importing). Thus, it is the infringing offeror's conduct that is to be regulated. And in view of the presumption against extraterritorial application of the U.S. patent laws (*see Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437 (2007)), for there to be offer-to-sell infringement, the act of "offering" an infringing item for sale should take place within the U.S. Under this construct, the physical location of the offeror would determine whether the "offer to sell" is made within the U.S. Accordingly, if an offer is made to sell an infringing article by a sales agent physically present in the U.S.—whether made to customers located outside or inside the U.S.—it is an infringement. On the other hand, if an offer is made to sell an infringing article by a sales agent not physically present in the U.S.—whether to customers located inside or outside the U.S.—it is not an infringement.

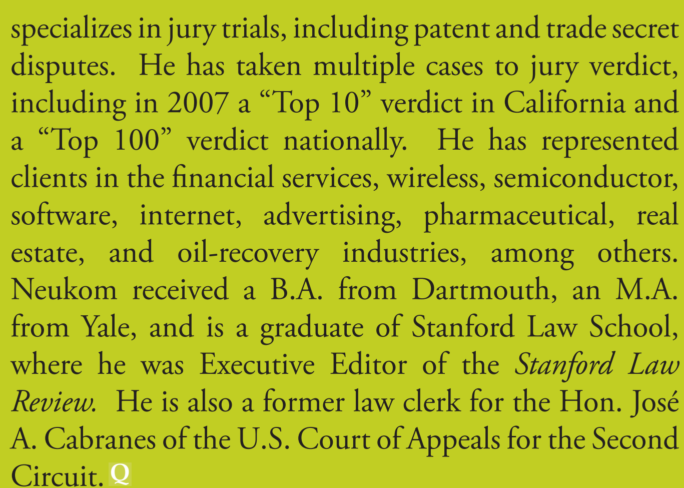
The case of in-person offers is straightforward: the offer is made in the place where the offeror communicates the offer to the offeree, wherever that may be. In the case of a telephone offer, the analysis is not as easy: the offer could be deemed made either (i) at the place where the offeror is located and makes the offer or (ii) at the place where the offeree is located and receives the offer. But, under the construct that the intent of the patent law is to regulate the infringer's "conduct," the answer would be the place where the offeror is located, as it is the offeror's conduct that is to be regulated in this situation. Similarly, in the context of an e-commerce transaction, the rule would be that the location of the person/entity responsible for sending the electronic communication (*i.e.*, the person/entity legally bound by acceptance of the offer) should control. In this manner, the patent law is properly drawn to the location of the infringing conduct rather than the location (or contemplated location) of the infringing article.



While not a perfect fit for all circumstances, by looking to where the offeror is located, this approach focuses more directly on the "conduct" that is to be regulated within the U.S. borders than does the *Transocean* approach. *Transocean*'s focus on the location of the ultimate sale seems to overlook that it is the act of "offering" that is to be regulated under the statute, not the physical delivery or possession of the sold good (which is already regulated under the "import" and "use" infringement provisions). In addition, as an independent basis for liability, an "offer for sale" should not be dependent in any way on an actual sale—whether consummated or merely contemplated—and therefore the place of performance or delivery should not dictate whether the offer is infringing. In *Transocean*, all of the infringing offeror's conduct took place in Europe, yet infringement was still found to exist. Such a result is difficult to square with the presumption that U.S. patent laws should not regulate extraterritorial conduct.

New Intellectual Property Partners Yury Kapgan and Jay Neukom Join Quinn Emanuel

Yury Kapgan and John (Jay) Neukom have joined the firm as partners in Los Angeles and San Francisco, respectively. Kapgan, formerly of Latham & Watkins, specializes in intellectual property matters and has a wide range of experience in litigation and licensing. His recent work involves patent and other IP litigation in numerous forums involving a variety of software and hardware technologies. Kapgan received his J.D. from the University of California, Berkeley (Boalt Hall) where he was an editor of the *California Law Review*, and holds a B.A. from the University of California, Los Angeles.

Neukom, a former partner at Mayer Brown LLP, specializes in jury trials, including patent and trade secret disputes. He has taken multiple cases to jury verdict, including in 2007 a "Top 10" verdict in California and a "Top 100" verdict nationally. He has represented clients in the financial services, wireless, semiconductor, software, internet, advertising, pharmaceutical, real estate, and oil-recovery industries, among others. Neukom received a B.A. from Dartmouth, an M.A. from Yale, and is a graduate of Stanford Law School, where he was Executive Editor of the *Stanford Law Review*. He is also a former law clerk for the Hon. José A. Cabranes of the U.S. Court of Appeals for the Second Circuit.

(Practice Area Notes continued from page 5)

of course recognizes a violation of "public policy" as grounds for refusing to enforce an international arbitration award. But case law around the world has interpreted this clause very narrowly, limiting it to behavior that offends fundamental principles of morality (*see e.g.*, *Parsons & Whittemore Overseas Co. v. Societe Generale de L'Industrie du Papier ("RAKTA"),* 508 F.2d 969, 973 (2d Cir. 1974). As such, vacatur petitions on grounds of "public policy" under the Convention are seldom made and even more rarely granted.

Russia is falling into line with this reasoning, but the road has not been easy, as demonstrated in the remarkable case of *Stena RoRo v. Baltiisky Zavod*, —decided September 13, 2010—by the Supreme Arbitrazh Court. In *Stena RoRo,* the Court annulled the lower courts' decisions that refused recognition and enforcement of an international arbitration award issued under the arbitration rules of the Swedish Chamber of Commerce based on a "public policy" rationale that was defined not in terms of morally reprehensible conduct but as an award that would lead to bankruptcy of Baltiisky Zavod (a strategic Russian enterprise), thereby jeopardizing the interests of Russia in violation of public policy. However, in righting the Russian "public policy" ship, the Supreme Court did somewhat more than it had to, holding that the question of the validity of the contracts had been considered by the arbitral tribunal and could not be reconsidered at the enforcement stage by the state court. Obviously, this holding raises its own controversy—*i.e.*, whether Russia will allow courts to entertain any vacatur petition, either under the New York Convention or Russian law, which seeks to reexamine the validity of contract decided by the arbitral tribunal, even if the facts fit under one or more of the recognized grounds for vacatur.

***Interim Measures*:** In line with virtually all sets of international arbitration rules, Russian law provides for the possibility of granting interim measures in support of a pending arbitration in situations where the court believes that a failure to do so could render the enforcement of the award impossible, substantially complicate enforcement, or cause the applicant to incur substantial damage. Happily, recent court decisions on this issue are much more mainstream, granting interim measures in support of international arbitration and, in one case, an attachment of assets. See *Edimax Limited v. Shalva Chigirinsky* (2010) (Russian Arbitrazh court granted interim measures to support *Enka v. KMKI Dobrininskiy* (2011) (court issued pre-award attachment of land lease rights over a state-owned land plot in support of a pending ICC construction arbitration).

***Impartiality of Arbitrators*:** In 2010, the RF Chamber of Commerce and Industry adopted Rules on Impartiality and Independence of Arbitrators ("**Rules**") based on, *inter alia*, the IBA Guidelines on Conflicts of Interest in International Arbitration. While the court practice on application of the Rules has yet to be established, the Rules have already become a ground for setting aside an ICAC award (Ruling of Supreme Arbitrazh Court of 30 January 2012 in *Maximov v. NLMK*). However, the Court once again seems to have overshot the mark. Specifically, the Court found that the failure by the arbitrators to disclose that they were employees of the same education and scientific institutions as experts who provided legal opinions to the tribunal cast doubt on the impartiality of the arbitrators sufficient to vacate the award, which is as aggressive a position on arbitrator bias as that taken by any court.

***Mediation*:** In addition to arbitration, another positive signal of the overall development of alternative dispute resolution mechanisms in Russia is the January 1, 2011 adoption of the set of rules aimed at regulating mediation. It includes the Federal Law "On Alternative Procedure of Dispute Settlement with Participation of Mediator (Mediation Procedure)" and a separate set of amendments to the Russian procedural laws designed to incorporate mediation into the already existing procedures. It is promising that the law covers a broad range of disputes—civil, labor (except for collective employment disputes), and family law, except when such disputes affect public interests or the rights and legitimate interests of third parties that are not participants in the mediation.

All told, the Russian Federation is getting there. Movement toward fully embracing international arbitration appears to clearly be on the horizon—perhaps the fairly immediate horizon—but parties may not be able to take full comfort from an arm's length negotiated international arbitration clause until court decisions on arbitration issues become more predictable.

Securities Litigation Update

***Materiality and Class Certification in Securities Fraud Litigation*:** Are plaintiffs in securities fraud class actions required to prove materiality at the class certification stage? In cases where plaintiffs rely on the "fraud on the market" theory to plead reliance, the Second, Third, and Fifth Circuits have all suggested that the answer may be yes, creating a

major potential obstacle for class action plaintiffs. The Seventh and Ninth Circuits, however, have held that class action plaintiffs need not prove materiality at the class certification stage. The Supreme Court recently granted *certiorari* to the latest circuit court decision to address this question in an apparent effort to resolve this split among the circuits. *Amgen Inc. v. Connecticut Retirement Plans & Trust Funds,* 660 F.3d 1170 (9th Cir. 2011), *cert. granted,* 80 U.S.L.W. 3519 (U.S. Jun. 11, 2012) (No. 11-1085). In addition to resolving this split of authority, the Supreme Court's impending decision could help further define the contours of the fraud on the market theory for the first time in nearly twenty-five years and affect the number of securities fraud class actions filed in the future.

In 2011, the Supreme Court handed down two decisions that sent mixed signals to courts addressing class certification in securities class actions, *Erica P. John Fund Inc. v. Halliburton Co.,* 131 S. Ct. 2179 (2011) and *Wal-Mart Stores v. Dukes,* 131 S. Ct. 2541 (2011). In *Dukes*, the Court reaffirmed a position expressed in *General Telephone Co. of the Southwest v. Falcon*, 457 U.S. 147 (1982), that courts must engage in a "rigorous analysis" to determine if Rule 23(b)(3)'s threshold issues like numerosity and commonality have been satisfied. The Court explained that such analysis may likely "overlap with the merits of the plaintiff's underlying claim," and that this overlap simply "cannot be helped" since the class certification inquiry "generally involves considerations that are enmeshed in the factual and legal issues comprising the plaintiff's cause of action." *Dukes*, 131 S. Ct. at 2551-52. In contrast, just weeks before *Dukes*, the *Halliburton* Court ruled that class action plaintiffs do not need to prove up the merits of loss causation in order to obtain class certification. As a result, courts applying Rule 23(b)(3) in the wake of *Halliburton* and *Dukes* have grappled with the questions of which elements must be subjected to merits-based scrutiny to determine class certification, and what level of scrutiny should be applied.

Further complicating this issue is application of the "fraud on the market" theory in securities class actions. Nearly twenty-five years ago, the Supreme Court in *Basic v. Levinson*, 485 U.S. 224 (1988), endorsed the "fraud on the market" theory, making it easier for plaintiffs in securities fraud class actions to establish commonality on the issue of reliance. The fraud on the market theory creates a rebuttable presumption of reliance on false statements once they become public. According to the theory, when a party "makes a false [or true] statement that adds to the supply of available information, that news passes to each investor through the price of the stock." *Schleicher v. Wendt*, 618 F.3d 679, 682 (7th Cir. 2010). The presumption can be invoked even if the investor never saw the misstatements at issue because the theory's premise is that the misstatements are built into the market price itself. To obtain class certification, virtually all courts since *Basic* have agreed that class action plaintiffs may be required to do more than plead the conditions necessary for a fraud on the market—such as an efficient market—they may be required to show some proof of it.

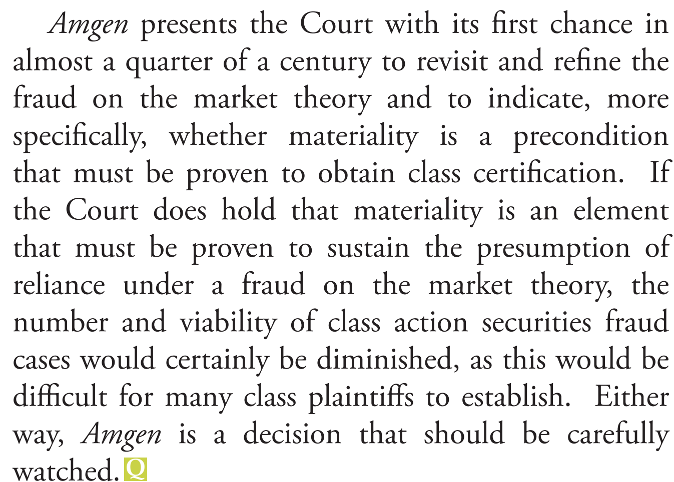
Materiality, like an efficiently operating market, could be viewed as a necessary precondition for establishing a case of fraud on the market. This seems to be the basis for the approach taken by the Second, Third, and Fifth Circuits. In support of their position, those courts cite a footnote from the Supreme Court's *Basic* decision, which appears to include materiality as one of the elements required for the fraud on the market presumption:

> The Court of Appeals held that in order *to invoke the presumption, a plaintiff must allege and prove:* (1) that the defendant made public misrepresentations; (2) *that the misrepresentations were material*; (3) that the shares were traded on an efficient market; (4) that the misrepresentations would induce a reasonable, relying investor to misjudge the value of the shares; and (5) that the plaintiff traded the shares between the time the misrepresentations were made and the time the truth was revealed. 485 U.S. at 248 n.27 (emphasis added).

Based on this language, the Second Circuit requires plaintiffs to make "some showing"—beyond the allegations of the complaint—of the elements triggering the *Basic* presumption, including materiality. *In re Salomon Analyst Metromedia Litigation*, 544 F.3d 474, 484 (2d Cir. 2008). The Fifth Circuit's requirement is even more rigorous: "[T]he plaintiff may recover under the fraud on the market theory if he can prove that the defendant's [alleged fraud] materially affected the market price of the security." O*scar Private Equity Investments v. Allegiance Telecom Inc.*, 487 F.3d 261, 265 (5th Cir. 2007). The Third Circuit's rule permits defendants to rebut the fraud on the market presumption during class certification by affirmatively showing that alleged misrepresentations were immaterial. *In re DVI, Inc. Sec. Litig.*, 639 F.3d 623 (3d Cir. 2011).

The Seventh and Ninth Circuits, however, hold that materiality need not be proven for class certification. Instead, materiality, like loss causation, must only be plausibly alleged at the class certification stage, and its adjudication on the merits must await trial. In defense of this approach, the Seventh Circuit has explained

that "certification is largely independent of the merits, and a certified class can go down in flames." *Schleicher*, 618 F.3d at 685. In a similar vein, the Ninth Circuit has held that materiality "is a merits issue that abides the trial or motion for summary judgment." *Amgen*, 660 F.3d at 1172. The Seventh and Ninth Circuits contend that *Basic*'s footnote 27 demonstrates only that the decision under review in *Basic* deemed materiality an essential precondition, not that the Supreme Court adopted that precondition. The Ninth Circuit also notes that more recent formulations of the fraud on the market presumption contained in *Halliburton* and *Dukes* do not mention materiality as a precondition. *Amgen*, 660 F.3d at 1176.



Amgen presents the Court with its first chance in almost a quarter of a century to revisit and refine the fraud on the market theory and to indicate, more specifically, whether materiality is a precondition that must be proven to obtain class certification. If the Court does hold that materiality is an element that must be proven to sustain the presumption of reliance under a fraud on the market theory, the number and viability of class action securities fraud cases would certainly be diminished, as this would be difficult for many class plaintiffs to establish. Either way, *Amgen* is a decision that should be carefully watched.

(Lead Article continued from page 3)

scheduled for October 11, 2012.

The Pangang opinion will undoubtedly make it more difficult for the U.S. government to serve foreign corporations. This is especially significant because the federal government has recently been redoubling its efforts to combat the theft of trade secrets. For instance, the DOJ and FBI reported last year that they have "increased their investigations and prosecutions of corporate and state-sponsored trade secret theft," and promised that "[t]this focus will continue." 2010 U.S. Intellectual Property Enforcement Coordinator, *Annual Report on Intellectual Property* Enforcement, at 4 (Feb .2011), *available* at http://www.cybercrime.gov/ipecreport2010.pdf. In fact, in announcing the Pangang case, the United States Attorney for the Northern District of California proclaimed that "fighting economic espionage and trade secret theft is one of the top priorities of this Office and we will aggressively pursue anyone, anywhere, who attempts to steal valuable information from the United States." DOJ Press Release, *U.S. and Chinese Defendants Charged with Economic Espionage and Theft of Trade Secrets in Connection with Conspiracy to Sell Trade Secrets to Chinese Companies* (Feb. 8, 2012), http://www.justice.gov/opa/pr/2012/February/120nsd-180.html. The precise effect of this case on the government's ability to live up to that promise remains to be seen. In some cases, service could still be achieved through the mutual legal assistance treaties that the U.S. has with various countries, but, as we saw in this case, those governments may not always interpret the treaties to allow for or require service. Further, many countries have no such agreements with the U.S. at all.

The government has also shown an increased focus on and willingness to prosecute cross-border crimes and foreign corporations more generally. A prime example of this is in the realm of intellectual property and trade secrets, which is ever increasingly an international affair. A specific and significant example of this is the attempted prosecution of file sharing platform Megaupload, another Quinn Emanuel client. On January 5, 2012, the government indicted Megaupload, its founder Kim Dotcom, and six other individuals for alleged copyright infringement in one of "the largest criminal copyright cases ever brought by the United States." The government seized Megaupload's domain and assets and forced it to shut down, but to date has not served a summons on any of its officers or agents. Megaupload is a foreign entity with no U.S. agents, offices, or subsidiaries. Like the Pangang defendants, Megaupload specially appeared for the limited purpose of asking the court to dismiss the indictment for lack of personal jurisdiction. Its motion stated that the "Federal Rules do not contemplate service of a criminal summons on a wholly foreign corporation without an agent or offices in the United States." *See United States v. Kim Dotcom, et al.*, case number 1:12-cr-00003-LO, in the U.S. District Court for the Eastern District of Virginia.

The Pangang case firmly establishes that Rule 4 does not allow for service on foreign corporations without a U.S. presence, regardless of alleged actual notice. The only exception is where the foreign corporation has a U.S. alter ego, in which case it is no longer a truly foreign entity.

The case is *United States v. Liew et al.*, case number 3:11-cr-00573, in the U.S. District Court for the Northern District of California.

Victory in Criminal Case

The firm won for a pro bono client a rare sentence of time served in a New York federal narcotics case. Our client had pleaded guilty to participating in a conspiracy involving 150 kilograms of cocaine delivered from Mexico to New York City, after having been arrested as a result of a DEA investigation that included wiretaps. More than 80 kilograms of cocaine were retrieved in three separate seizures in three different states. The government charged our client with helping to collect money and accompanying deliveries for the organization, and also accused our client of arranging for money to get from the east coast to the west coast via deposits into accounts that were set up and controlled by our client's brother. According to the government's allegations, the participants in the conspiracy distributed more than 150 kilograms of cocaine during 2007 and 2008. Jail sentences for federal cases involving that quantity of drugs usually run at least ten years and can range up to life imprisonment without parole.

Quinn Emanuel was appointed counsel by the Court in 2009 after the client had been released on bail. The firm worked to minimize the client's chance of going back to jail at sentencing. We negotiated a favorable plea agreement and then sought to convince the court to accept the plea. Despite the fact that U.S. Probation Office recommended a sentence of significant additional jail time, the District Court was persuaded by Quinn Emanuel's presentation and sentenced the client to time served. While his co-defendants are serving substantial jail sentences, Quinn Emanuel's client has since returned home, to his wife and three children in Southern California, where he has a job as a truck driver, and where he is in the process of rebuilding his life.

Permanent Injunction Victory

On behalf of our client, Vertrue, the firm recently obtained a permanent injunction against Paymentech, LLC, JPMorgan Chase Bank NA's credit card processing subsidiary. Vertrue is a direct marketing and services company that, along with several of its affiliates, filed for Chapter 11 protection in the spring. Prior to Vertrue's bankruptcy, Paymentech sent a letter notifying Vertrue of Paymentech's intent to terminate the parties' processing agreements effective in 90 days, citing Vertrue's change in financial condition as the basis of default. Termination of the processing agreements would eviscerate a critical component of Vertrue's operations, responsible for approximately 95 percent of Vertrue's credit card transactions.

Quinn Emanuel filed a complaint on behalf of Vertrue in the United States Bankruptcy Court for the Southern District of New York, seeking a permanent injunction preventing Paymentech from terminating the processing agreements pursuant to its pre-petition letter. The complaint argued that post-petition termination of the processing agreements based on Vertrue's financial condition was impermissible under the Bankruptcy Code. Paymentech subsequently filed a motion to lift the automatic stay to terminate the processing agreements on another ground - Vertrue's failure to comply with a risk metric imposed by Visa. Paymentech argued that this metric was a Visa rule or regulation that Vertrue was required to comply with under the processing agreements. An issue of first impression, Quinn Emanuel argued that this risk metric was simply a target, and was not a Visa rule or regulation.

After a three-day trial, the Court issued an opinion granting the permanent injunction and denying Paymentech's motion to lift the automatic stay. The Court found that the processing agreements are executory contracts and property of the Vertrue's bankruptcy estate. Any provision in the processing agreement that purports to permit termination based on Vertrue's financial condition is unenforceable during Vertrue's bankruptcy. The Court also agreed with Quinn Emanuel's argument that Visa's risk metric is not a rule or regulation and did not provide an alternative basis for Paymentech's termination of the processing agreements. 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 650 lawyers — the largest in the world devoted solely to business litigation.
- As of September 2012, we have tried over 1739 cases, winning over 90% of them.
- When we represent defendants, our trial experience gets us better settlements or defense verdicts.
- When representing plaintiffs, our lawyers have garnered over $15 billion in judgments and settlements.
- We have won five 9-figure jury verdicts in the last ten years.
- We have also obtained nine 9-figure settlements and five 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
16 Old Bailey,
London EC4M 7EG
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

©2012 Quinn Emanuel Urquhart & Sullivan, LLP | To update information or unsubscribe, please email updates@quinnemanuel.com.