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Indirect Infringement and Contributory Infringement Under European and German Patent Law

In Europe, patent law is governed by the European Patent Convention (EPC) of 1973, a multilateral treaty that led to the creation of the European Patent Organisation (EPOrg) in 1977. The EPOrg provides an autonomous legal system under which European patents are granted. However, each member nation retains its own distinct set of laws related to patent ownership, validity, and infringement. The following article discusses indirect and contributory infringement under this framework, with a focus on the application of German law.

Direct and Indirect Infringement

German law, like the other laws of the EPC member states, distinguishes direct from indirect infringement. Direct infringement is generally defined with reference to the two basic patent categories: product (device) claims and method (process) claims. Direct infringement requires (1) for a device patent, that the infringer manufactures, offers or puts on the market, or uses a device realizing the entirety of the features of an independent claim, or (2) for a method patent, that the infringer offers or practices a method realizing all steps of an independent claim.

The concept of indirect infringement provides a remedy for acts occurring prior to actual direct infringement. The claims allowed by Germany's Patent Code, § 10, are directed against those who supply or offer "means" related to an essential element of the invention allowing it to be put into effect in Germany.

"Means"

"Means" is interpreted broadly. A "means" need not be part of the claimed product or a direct element of the claimed method. It is sufficient that the means functionally interacts with a claim element to realize the inventive concept, thus "relating to an essential element of the invention." Based on this concept, the Düsseldorf court held that selling a DVD on which a digital signal with a special format is stored could indirectly infringe a device patent protecting a receiver/reading device to read out the data from the DVD. It reasoned that because the use of a patented device is also protected under German law, the storage device interacted with the protected reading device during its use.

The "means" also does not require a physical structure. The Mannheim court therefore held that offering mp3 decoding software indirectly infringed a device claim protecting a receiver/reader for receiving and decoding mp3 digital audio files.

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Quinn Emanuel Recognized as One of the Most Innovative Law Firms by *The Financial Times*

The British international business newspaper, *The Financial Times*, recently recognized Quinn Emanuel as one of the United States' most innovative law firms. It "highly commended" Quinn Emanuel for its strategy of representing insurers, foreign and regional banks, funds, and others in claims against major money center financial institutions.

The firm received high marks for its "originality, rationale and impact" within the legal market. *The Financial Times* noted, "Top firms rarely sue the main financial institutions but in the past three years Quinn Emanuel lawyers have obtained judgments worth in excess of $10 billion against accounting firms and the banks." Quinn Emanuel's London office opened in April 2008 and now has 16 attorneys. Q

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"Essential element of the invention"

The German Federal Supreme Court has held that any claim element generally qualifies as an essential element of the invention. The essential element to which the means relates thus need not be a characterizing part of the claim distinguishing the claimed subject matter from prior art, but can be any claim element including a feature well known from prior art.

The Mannheim court recently applied an exception in a UMTS/GSM patent litigation for a method claim in which a mobile telephone served only as the "object" of a handover method (involving two base stations and the mobile stations). Whether the device was in fact only a technical object of the procedure is in dispute and an appeal is pending. The German patent bar is watching to see whether the court of appeals accepts this new standard for method claims because it is inconsistent with the broad standard for device claims and would significantly limit liability for indirect infringements of method claims.

Contributory infringement

The special statutory category of "indirect infringement" differs from the general tort liability to which those who contribute to the infringement by a third party are subject. It is thus analogous to contributory infringement. In the latter category, the Federal Supreme Court has developed a broad liability relevant in the international context: For example, if company A supplies in Korea a product X (e.g., a clutch or seat) to be installed by car manufacturer B in cars bound for Germany, A will be liable for direct patent infringement in Germany if product X is subject to patent protection under a device claim. This applies even if the car's export to Germany is solely controlled by manufacturer B. Company A is deemed to be independently liable for the importation of the device into Germany, even in the absence of intent.

Because this result is derived from general German tort theories, other European jurisdictions might arrive at different results. For example, in the UK, liability is limited to scenarios involving a "common design" between the importing entity and the supplier acting abroad.

Indirect infringement through acts committed abroad

If a foreign supplier merely provides a portion of a protected device to a manufacturer assembling the complete patented device, the "indirect infringement" provision will have priority and, under the general view, no liability attaches. That is because indirect infringement requires a double connection to Germany: (i) the means must be supplied in Germany for (ii) putting the invention into effect in Germany. Thus, a somewhat arbitrary difference in how the device claim is phrased can have a tremendous impact on the infringement remedies. That should be, but rarely is, considered when drafting claims.

The Supreme Court, however, recently alluded in dicta to a possible way for a patentee to establish direct infringement if the supplier knows of the infringing activity. It therefore might make sense to send notice of the patent to foreign suppliers with an explanation of the infringement argument in a cease-and-desist letter. But other considerations, such as a possible counter-action with an Italian torpedo need to be evaluated, too. In any event, service of the complaint, which under German law needs to be fully substantiated, should establish such knowledge. Q

QE Mannheim's Transatlantic Patent Litigation Practice

Quinn Emanuel's Mannheim office, opened March 2010, focuses on patent litigation. The office is headed by Dr. Marcus Grosch, one of the leading patent and intellectual property lawyers in Germany. Germany is the busiest EU patent litigation jurisdiction, and the Mannheim intellectual property court is the second busiest patent venue in the entire EU. Our Mannheim office represents numerous multinational tech clients in transnational patent disputes and is involved in many of the most prominent German patent litigation matters. The firm represents IPCom, for example, in litigation enforcing its mobile phone patents. It represents Sisvel in litigation over its Audio MPEG technology. The firm also litigates for clients, such as Crestron Electronics, Inc., a leading home and building automation player, in both Germany and the U.S. No firm's transatlantic patent litigation capabilities can match Quinn Emanuel's; we provide clients with multi-jurisdictional strategic IP advice, and we consistently obtain superior litigation results. Q

Quinn Emanuel Elects Eight New Partners

Eight associates and of counsel were elected to the Quinn Emanuel partnership, effective January 1, 2011. The new partners are:

Matthew Bunting, London. Matthew joined the firm as an associate when the office was launched in 2008. Matthew's practice focuses on complex commercial and financial litigation and arbitration, often involving an international dimension. Before joining the firm, Matthew was a senior associate at Slaughter and May, a leading English firm and, before then, worked for a major New Zealand firm. He graduated from Victoria University of Wellington in New Zealand with a First Class Degree in Law and a Degree in Political Science and Public Administration.

Michael L. Fazio, Los Angeles. Michael's practice focuses on complex commercial litigation and arbitration, including consumer class actions, securities and corporate fraud claims, shareholder disputes and large contractual disputes. Michael received a Bachelor's of Science in Mechanical Engineering *magna cum laude* from Tulane University and a Juris Doctor *magna cum laude* from the University of Florida College of Law, where he was a member of the Order of the Coif and the *Florida Law Review.*

Benjamin I. Finestone, New York. Benjamin has extensive experience in all aspects of bankruptcy, restructuring, and related litigation matters. He is regularly involved in the most contentious and complex insolvency matters, with his primary focus on the representation of individual creditors, statutory creditors' committees, such as SemGroup and Sentinel, and as conflicts counsel for debtors in possession, such as Washington Mutual, FairPoint, and Solutia. He received a Bachelor's of Business Administration in Accounting from the University of Michigan and obtained a Juris Doctor from the New York University School of Law, where he was a Robert McKay Scholar and Galgay Bankruptcy Fellow. Benjamin also clerked for the Honorable Robert D. Drain, U.S. Bankruptcy Judge for the Southern District of New York. Prior to practicing law, Ben was a certified public accountant and a NASD registered representative in equity trading.

Gabriel S. Gross, Silicon Valley. Gabriel specializes in intellectual property litigation with an emphasis on patent cases. In 2006, he was recognized as a "Rising Star" in intellectual property litigation by *Super Lawyers* magazine. Gabriel received his Bachelor's *with distinction* in Biology and History of Science and his Master's in Biotechnology from the University of Wisconsin. He graduated from the University of Wisconsin Law School, where he was an editor of the *Wisconsin Law Review* and the winner of the Chicago Bar Association's moot court competition. He is admitted to practice before the U.S. Patent and Trademark Office.

Alexander Rudis, New York. Alexander's practice focuses on intellectual property litigation with an emphasis on patent litigation. Alexander has represented clients involved in a variety of complex technologies, including computer hardware and software, mainframe computer architectures, 3G cellular telephone technologies, wireless local area networks, voice encryption, video compression, casino gaming hardware and software, and global positioning systems. Alexander received a Bachelor's of Science in Electrical Engineering from Bucknell University and a Juris Doctor *cum laude* from St. John's University School of Law.

Manisha Sheth, New York. Manisha's practice focuses on structured finance litigation, securities litigation, white collar defense and internal investigations. She currently represents MBIA Insurance Corporation in its litigation against Bank of America Corporation, Countrywide Financial Corporation, and certain of Countrywide's subsidiaries and affiliates. She also represents the FHFA in its capacity as Conservator of Freddie Mac and Fannie Mae. Manisha served as a federal prosecutor in the Eastern District of Pennsylvania, where she was the lead prosecutor in numerous criminal trials and investigations. While an Assistant United States Attorney, she was nominated for the Attorney General's Award for Outstanding Service by a New Employee in 2005, the Executive Office of the U.S. Attorneys Director's Award for Superior Performance as an AUSA in 2006, and the Federal Bar Association's Younger Federal Lawyer Award in 2008. Manisha also served as a law clerk to U.S. District Court Judge William H. Pauley, III in the Southern District of New York. Manisha received a Juris Doctor *magna cum laude* from the Georgetown University Law Center, where she was a member of the Order of the Coif, a Primary Articles Editor of *The Georgetown Law Journal*, one of two recipients of the John M. Olin Law & Economics Prize, and student commencement speaker. She obtained a Bachelor's of Arts in Economics *magna cum laude* from the University of Pennsylvania and a Bachelor's of Science in Economics *magna cum laude* from the Wharton School of Business.

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Molly Stephens, Los Angeles. Molly specializes in securities and complex financial litigation. Molly has represented clients in a variety of high-stakes financial matters, including actions involving publicly-traded stocks, municipal bonds, limited liability company interests, residential mortgage-backed securities, and other structured financial products. Molly received a Bachelor's of Science in Industrial Engineering and a Master's in Engineering Economic Systems and Operations Research from Stanford. She obtained her Juris Doctor *with honors* from the University of Texas Law School, where she was a member of the Order of the Coif and the *Texas Law Review*.

Matthew Warren, Los Angeles. Matthew's practice focuses on complex litigation, with a particular emphasis on matters concerning high technology and intellectual property. He has represented clients in matters involving mobile telephone and computer hardware and software, as well as networking, facsimile, hard drive and thin film technology. Matthew has also represented clients involved in litigation concerning complex financial instruments and the related accounting treatment. Matthew received a Bachelor's degree from Yale College and a Juris Doctor from Harvard Law School. After law school, Matthew served as a law clerk to the Honorable W. Arthur Garrity, Jr. in the United States District Court for the District of Massachusetts. Q

VICTORIES

Victory in Wildfire Cases

Quinn Emanuel recently won two class action appeals in the San Diego wildfire litigation, one of the largest cases currently pending in California. The firm represents San Diego Gas & Electric Company ("SDG&E") and its ultimate parent, Sempra Energy, in litigation arising from the October 2007 wildfires. In addition to cases filed by more than 2,000 individual plaintiffs, two groups of lawyers sought to pursue class actions. Each class potentially included as many as 500,000 residents of San Diego County, and each sought potentially billions of dollars in damages. Having convinced the trial court to deny certification of both classes, Quinn Emanuel recently obtained affirmance of both rulings from the California Court of Appeal. Quinn Emanuel was able to convince the appellate court, as reflected in its two unanimous opinions, that each of the trial court's bases for denying certification of the classes was correct. The appellate victories put an end to two major potential class actions against the firm's client, and reaffirmed the principle that class actions are not appropriate in the context of mass disasters, particularly wildfires.

Quinn Emanuel Victory in FINRA Arbitration

The firm won a complete victory in a FINRA arbitration in New York on behalf of Morgan Stanley after it was sued by Olav Refvik, its former global head of the Oil Liquids Trading Group, for more than $30 million. Refvik claimed that he was entitled to a $20 million bonus for 2008, the year in which he lost his position, based on bonuses awarded in prior years when his group achieved comparable results. He also sought approximately $10 million in vested stock that Morgan Stanley cancelled as a result of Refvik's trading infraction and resignation prior to the expiration of his notice period in fall 2008. In addition, Refvik sought expungement of a Form U-5 Morgan Stanley filed after his termination that reported the trading infraction. Morgan Stanley argued that Refvik was not entitled to a bonus in light of Morgan Stanley's written discretionary bonus policy, and that its forfeiture of Refvik's vested stock was proper under its policies governing equity awards.

Quinn Emanuel tried the case in a three-week arbitration hearing in which several of Morgan Stanley's current and former senior executives were required to testify. On October 29, 2010, the FINRA panel returned a complete defense verdict for Morgan Stanley, even requiring Refvik to pay half the hearing costs. Q

The Computer Fraud and Abuse Act: An Uncertain Path for Bringing Trade Secrets Litigation in Federal Court

As part of its sweeping Comprehensive Crime Control Act of 1984, Congress enacted a criminal statute prohibiting the "unauthorized access" of information contained in federal government computers and computers employed by certain federally-related financial institutions. The law is codified at 18 U.S.C. § 1030. The Act was intended to punish hackers who tap into computers to disrupt or destroy computer functionality and persons who hack into specified computers to steal the information stored therein.

As the various methods of computer fraud grew, the Act was amended. In 1986 it became known as the Computer Fraud and Abuse Act ("CFAA"). In 1994, Congress added a private civil right of action under the CFAA (18 U.S.C. § 1030(g)), seemingly allowing federal claims for stealing trade secrets stored on a protected computer. The Act now provides that it is unlawful if a person (1) "intentionally accesses a computer without authorization or exceeds authorized access, and thereby obtains . . . information from any protected computer [§ 1030(a)(2)(C)]; (2) knowingly and with intent to defraud, accesses a protected computer without authorization, or exceeds authorized access, and by means of such conduct furthers the intended fraud and obtains anything of value . . . [in excess of $5,000 in one year] [§ 1030(a)(4)]; or (3) intentionally accesses a protected computer without authorization, and as a result of such conduct, causes damages or loss. [§ 1030(a)(5)(iii)]." A "protected computer" is defined as one "used in or affecting interstate or foreign commerce" [§ 1030(e)(2)(B)]. That definition is usually broad enough to cover any computer used in trade secret theft.

The private right of action provides that any person suffering damages or loss by reason of a violation of the Act "may maintain a civil action against the violator to obtain compensatory damages and injunctive relief or other equitable relief [§ 1030(g)]." The Act does not define "trade secret" or require that the owner have taken reasonable efforts to protect its secrecy.

Not surprisingly, as an alternative to employing traditional diversity jurisdiction, trade secret theft plaintiffs seized upon these amendments to institute federal actions to redress state law trade secret violations. The perceived advantage of a speedier resolution and better chance of obtaining injunctive relief further encouraged this federal forum selection.

However, the CFAA nowhere defines what it means to access a computer "without authorization." Most theft of trade secret cases involve a disloyal employee who downloads an employer's information to take to a new venture. In doing so, he downloads the information from the very computer provided to him by his employer to perform his work. In *International Airport Centers, L.L.C. v. Citron*, 440 F.3d 418 (7th Cir. 2006), the court had no difficulty recognizing that such downloading of sensitive information by a disloyal employee from his employer-provided computer was unauthorized. The court held the employee's "authorization to access the laptop terminated, when, having already engaged in misconduct and decided to quit [his employer] in violation of his employment contract, he resolved to destroy files that incriminated himself and other files that were also the property of his employer in violation of the duty of loyalty that agency law imparts on an employee. . . . Breach of his duty of loyalty terminated his agency relationship . . . and with it his authority to access the laptop because the only basis of his authority has been that relationship." *Id.* at 421-22. In *Citron*, the court thus focused on the mental state of the employee at the time of the downloading rather than whether he was authorized to access the information for a business-related purpose. In *EF Cultural Travel BV v. Explorica Inc.*, 274 F.3d 577, 582-584 (1st Cir. 2001) the First Circuit utilized a similar approach.

But, in *United States v. Brekka*, 581 F.3d 1127 (9th Cir. 2009), the Ninth Circuit interpreted the "without authorization" requirement in a remarkably different and narrower fashion. It was "undisputed that when Brekka was employed by Plaintiff that he had authority and authorization to access documents and emails that were found on his home computer and laptop." *Id.* at 1132. The court, however, rejected the *Citron* analysis that an employee, having been authorized to access his employer's computer, "can lose authorization to use a company computer when the employee resolves to act contrary to the employer's interest." *Id.* at 1134. It emphasized the primarily criminal nature of the CFAA and reasoned that "when a statute has both criminal and noncriminal applications, courts should interpret the statute consistently in both criminal and noncriminal contexts. It is well established that ambiguity concerning the ambit of criminal statutes should be resolved in favor of lenity." *Id.* at 1134. The court ultimately concluded that the "without authorization" element is met only when a person has not received permission to use the computer for any purpose, like the hacker contemplated in the statute's original version, or when the computer is

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White Collar Litigation Update

The DOJ's and SEC's Recent Focus on Insider Trading: The U.S Department of Justice (DOJ) and Securities and Exchange Commission (SEC) tend to fixate on different categories of fraud at different times. During the early 2000s, options backdating investigations dominated headlines. In the last few years, investigative focus has turned to banks, lenders, and financial service firms involved in the subprime mortgage deals that contributed to the financial market collapse in 2008.

The SEC and DOJ have now set their sights in new directions, including insider trading. The *Wall Street Journal* recently reported that the SEC and DOJ were preparing to announce charges against an array of financial players, including investment bankers, hedge fund managers, financial consultants and research analysts. Two days later, the FBI raided the offices of a number of hedge funds in New York, Connecticut, and Massachusetts.

The raids were foreshadowed in an October speech by the U.S. Attorney for the Southern District of New York, Preet Bharara. Speaking to the New York City Bar Association, Bharara stated that "illegal insider trading is rampant," "[t]he people who are cheating the system include bad actors not only at Wall Street firms, but also at Main Street companies," and "insider trading should … be offensive to everyone who believes in, and relies upon, the market." Bharara's strong words and recent law enforcement activity evidence two shifts in the approach to prosecuting insider trading by the DOJ and the SEC.

First, federal authorities are investigating insider trading more aggressively, as reflected in the DOJ's ongoing prosecution of Raj Rajaratnam, the billionaire founder of hedge fund management firm, Galleon Group. The evidence against Rajaratnam purportedly includes information gleaned from anonymous sources, wiretaps, and secretly recorded the telephone conversations from a number of "tippers," including executives from Fortune 500 technology companies. The *Wall Street Journal* reported in December that FBI agents had pressured an executive of an Oregon-based research firm to record calls with one of his clients, a major hedge fund manager. (He ultimately refused to do so, and e-mailed details of the confrontation to his clients.)

The SEC's recent case against employees of Florida Coast Industries further illustrates the aggressive enforcement efforts. The SEC charged an engineer and a trainman with insider trading. Neither defendant had direct knowledge of a pending takeover; rather, the SEC alleged that they simply observed "an unusual number of daytime tours," among other things, and then traded on that information. The SEC also began using formal cooperation agreements for the first time in 2010. Such deals, which offer leniency to certain individuals in exchange for incriminating information concerning other targets, were historically used only by criminal authorities, not by the SEC.

Second, the DOJ and SEC appear to have implemented a new approach to identifying insider trading targets. Until recently, insider trading investigations primarily focused on discrete trades by individuals. The recent investigations instead focus on alleged systematic insider trading, with multiple repeat offenders engaging in a pattern of trades based on inside information gleaned from networks of tippers.

Whether the government will enjoy widespread success using this new approach to insider trading, coupled with its more aggressive investigative techniques, remains to be seen. What is clear is that with this increased enforcement aggressiveness, companies that may face inquiry should be prepared with internal protocols regarding what to do if confronted with a search warrant, agents attempting to interview employees, or government subpoenas.

Recent Changes and Developments Related to Federal Sentencing Guidelines: The Federal Sentencing Guidelines were issued in 1984 in an effort to promote uniformity in sentencing for federal crimes. Although *United States v. Booker*, 543 U.S. 220 (2005), rendered the guidelines advisory, they have remained an important framework for federal prosecutors, probation officers, and judges making sentencing decisions. Amendments to the Guidelines that took effect on November 1, 2010, gave federal judges more discretion in determining an appropriate sentence, and have provided defense attorneys more leeway to argue for lenient sentences and departures from the applicable guidelines.

The amendments expand the opportunities for alternatives to confinement for lower-level offenders, including intermittent, community or home confinement. Additionally, judges may now consider certain individual characteristics of the defendant in deciding whether to depart from Guidelines sentences, such as age, mental and emotional condition, physical condition or appearance, (including substance addictions), and military service or other good works.

Other changes relate to the Guidelines for corporate defendants, allowing a downward departure for defendants who implement strong compliance programs, even when a senior executive was involved in the wrongful conduct. To permit a departure, the corporation must employ a reporting structure requiring that compliance personnel report directly to the board or a subcommittee thereof; the corporation must have detected the offense internally and reported it promptly; and the offense must have been committed without the involvement or knowledge of anyone responsible for the compliance program. The Sentencing Commission also elaborated on what is required when a corporation discovers wrongful conduct, which may include restitution to identifiable victims and other forms of remediation; self-reporting and cooperation with authorities; and assessment of, and modifications to, the compliance program.

A prime example of the increased judicial discretion afforded by the amendments is the sentence granted by Judge Otis Wright in *United States v. Bruce Karatz*. Karatz, a former CEO of KB Homes, was sentenced on November 10, 2010, in the Central District of California for a conviction on felony charges of fraud and making false statements in connection with backdating stock options. The prosecution argued for six years of imprisonment and a $7.5 million fine. Defense counsel, citing the new provisions of the guidelines related to age, argued that Karatz should be granted home confinement due to his age. The prosecution expressed concern that Karatz would be confined to his 24-room mansion on his one-acre estate in Bel-Air and that a sentence of probation would indicate that there was a "two-tiered system of justice, one for well-connected CEOs" and another for "ordinary citizens." Judge Wright ultimately accepted the probation officer's sentencing recommendation, sentencing Karatz to five years of probation and eight months of home confinement, as well as a $1 million fine and 2,000 hours of community service. Judge Wright agreed with the probation office that Karatz's actions had not resulted in any significant damage to the company or its shareholders.

Increasing Trend of Health Care Fraud Prosecution: On October 26, 2010, the DOJ announced a $750 million settlement with GlaxoSmithKline. The DOJ alleged that GlaxoSmithKline, along with its subsidiary SB Pharma Puerto Rico, Inc., knowingly manufactured and distributed adulterated drugs. The government alleged that some batches of pills split apart due to manufacturing defects, while other batches dangerously mixed active ingredients of varying types and strengths. The settlement was divided into $150 million in criminal fines and $600 million in civil penalties. The civil penalties were attributed to false claims submitted to government health care programs because of the adulterated drugs. The settlement was the fourth largest ever paid by a pharmaceutical company to the U.S., and the whistleblower involved in the case stands to receive about $96 million.

The GlaxoSmithKline settlement is the latest in a string of developments evidencing federal regulators' increased focus on investigation and prosecution of alleged health care fraud. In announcing the settlement, Assistant Attorney General Tony West stated, "From Day One, President Obama and Attorney General Eric Holder have been focused like a laser beam on tackling health care fraud in all of its many forms." The increased focus on combating health care fraud dates back to May 2009, when the Obama Administration launched a joint Department of Justice and Department of Health and Human Services task force to combat health care fraud. The task force, known as HEAT (Health Care Fraud Prevention and Enforcement Team), has been busy ever since. Statistics indicate that in fiscal year 2009, anti-fraud efforts recovered $2.5 billion for the Medicare Trust Fund.

2010 continued the trend of increased enforcement efforts. In September alone, the Department of Justice announced: a settlement of $313 million against Forest Pharmaceuticals, Inc. for charges related to the illegal promotion and unapproved use of certain drugs; a $420 million settlement with Novartis Pharmaceuticals Corp. to resolve off-label promotions and illegal kickback allegations; and a settlement with Allergan for $600 million for the illegal promotion of Botox. Each company was charged under the False Claims Act for causing false claims to be submitted to federal health care programs.

As a further sign of its heightened commitment to health care fraud prosecutions, the Department of Justice recently announced the appointment of Chuck Labella to serve as deputy chief of the fraud section on the west coast. Chuck has held the positions of United States Attorney in San Diego and Assistant United States Attorney in the Southern District of New York. In connection with his appointment, LaBella expressed his focus on health care fraud stating, "We want to make sure the system is run with integrity."

The budget outlay for HEAT and other anti-health care fraud efforts is continuing to grow. The Affordable Health Care Act already provided for $350 million to combat health care fraud. A bill pending in Congress would provide an additional $561 million in funding. The Obama Administration forecasts that the funding will more than pay for itself because it projects that

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anti-health care fraud efforts will bring in $10 billion over the next decade. Whether the forecast becomes a reality remains to be seen.

Class Action Litigation Update

New Weapon to Fend off Copycat Class Actions: The Seventh Circuit recently granted an injunction to Sears under the All Writs Act to block a copycat class action filed in federal court in California. The opinion, *Thorogood v. Sears, Roebuck & Co.*, is notable for several reasons. First, it extends relief under the All Writs Act to a defendant faced with a similar class action in another jurisdiction. Second, Judge Posner used biting language in discussing the plaintiff bars' tactic of filing such follow-on actions to leverage a quick settlement. Finally, it allows a defendant to seek an injunction stopping the new action at the outset rather than having to assert collateral estoppel as a defense and possibly having to face discovery in the interim.

The initial case, brought in Illinois federal court, involved consumer fraud allegations that certain Kenmore dryers were falsely represented as having drums that were "100% stainless steel." The plaintiff persuaded the trial court to certify a consumer-fraud class, but the Seventh Circuit reversed it on a Rule 23(f) appeal, finding there were no common issues justifying certification. It later affirmed the denial of attorneys' fees after Sears made an offer of judgment to the named plaintiff.

The plaintiff's attorney, seeking another bite at Sears, filed a copycat class action in California with a new plaintiff. After Sears' pleading challenges were ultimately rejected, the plaintiff's attorney promptly sent Sears' counsel a letter stating in no uncertain terms that Sears must settle now or face extensive discovery.

Instead of capitulating, Sears sought an injunction from the Seventh Circuit. The court granted the request. After noting the *in terrorem* effect of plaintiff's discovery threat, the Court observed that:

> [Q]uite apart from the green light that such a ruling would give to extortionate class action practice, a denial of relief would make no sense in a case like this, in which the class (Thorogood's) was certified, albeit later decertified at our direction. Class counsel had and took the opportunity to litigate the certification issue fully—so that to say that a ruling against certification could not be the basis of an injunction would be inconsistent with the doctrine of collateral estoppel itself. There is no denying that a final ruling against certification has collateral estoppel effect. And the basis of the injunction sought in this case is simply the need for enforcing collateral estoppel more effectively than by forcing the defendant to plead it as a defense in case after case.

It remains to be seen whether other circuits will follow this approach, but a defendant faced with a copycat class action has the option to seek an immediate injunction under the All Writs Act rather than wait to tee-up a motion based on collateral estoppel.

Solicitor General Seeks High Court Ruling on Loss Causation: The U.S. Solicitor General has recommended that the Supreme Court review a suit against Halliburton that implicates whether plaintiffs in securities fraud class actions should be required to establish loss causation at the certification stage to trigger the fraud-on-the-market presumption.

In February, the Fifth Circuit affirmed a lower court's decision to deny a Halliburton shareholder's motion to certify securities fraud action on the grounds that the plaintiff had failed to prove the energy giant's alleged misrepresentations actually caused a drop in its stock price. The Solicitor General argued that the Seventh Circuit has expressly rejected the approach adopted by the Fifth Circuit, and that the Second Circuit also has not required the proposed class representative to prove loss causation at that stage.

Arbitration Update

Ninth Circuit Interprets Arbitration Clause to Require Arbitration of Claims and Counterclaims in Separate Fora: In its September 2010 decision in *Polimaster Ltd. v. RAE Systems, Inc.*, 623 F.3d 832 (9th Cir. 2010), the Ninth Circuit grappled with the interpretation of a clause providing for arbitration at the "defendant's site." The Ninth Circuit's holding that the respondent's counterclaims needed to be arbitrated in a different location than the claimant's claims is a reminder of the importance of drafting thorough, clear and explicit arbitration clauses.

Polimaster, a designer and manufacturer of radiation monitoring instruments based in Belarus, and Na & Se, a corporation based in Cyprus, had entered into a license and a contract with RAE, a Delaware corporation with its principal place of business in California. The contract stated, "The Parties shall exert the best efforts to settle up any disputes by means of negotiations, and in case of failure to reach an agreement the disputes shall be settled by arbitration at the defendant's site." The license contained similar language. Neither agreement specified procedural rules for the arbitration. When Polimaster commenced a JAMS arbitration against RAE in the United States, RAE answered and asserted counterclaims.

Polimaster asked the arbitrator to dismiss the counterclaims, arguing that the counterclaims had to be arbitrated in Belarus—the defendant's site. The arbitrator refused, holding that the language of the contract and license did not expressly provide where counterclaims would be pursued. The arbitrator looked to the Federal Rules of Civil Procedure, the California Rules of Civil Procedure and the JAMS Rules regarding counterclaims for guidance regarding where the counterclaims should be heard. The arbitrator ultimately held that principles of fairness required that RAE's counterclaims be arbitrated in the same venue as the claims. The arbitration of both the claims and counterclaims proceeded in the United States and the award was subsequently entered and confirmed by the district court.

Polimaster asked the Ninth Circuit to vacate the arbitration award under the New York Convention, arguing that the parties' agreements did not allow for the counterclaims to be arbitrated in the United States. The court held that the use of the term "disputes" in the arbitration clause included claims and counterclaims. The court also held that, under the arbitration clause, Polimaster was the "defendant" as to RAE's counterclaims. As a result, the court ruled that the arbitration of the counterclaims needed to take place in Belarus. The court rejected RAE's claim that the agreement was ambiguous and the dissent's claim that the term "defendant's site" only referred to a single location. The Ninth Circuit recognized that its result would not promote efficiency and would require separate proceedings, but explained that its paramount concern was enforcing the parties' contract.

Internet Litigation Update

Software Users Might Be Licensees, Not Owners: The Ninth Circuit recently held that someone who pays for software is a mere licensee, and not the owner of the copy of the software, if the vendor "(1) specifies that the user is granted a license; (2) significantly restricts the user's ability to transfer the software; and (3) imposes notable use restrictions." If the software user owned the copy, the user would be permitted under the copyright law's "first sale" doctrine to sell that copy. However, as a licensee, the user can be prohibited from transferring the software to others. Several factors may have influenced the Ninth Circuit's decision: the software license agreement ("SLA") at issue had to be accepted before the software could be installed; several SLAs having different terms were available; if the software was an upgrade of a previous version, the SLA required proof that the earlier version had been destroyed; and the developer utilized license enforcement measures and customers were required to input separate activation codes. *See Vernor v. Autodesk, Inc*, No. 09-35969, ___ F.3d ___, 2010 WL 3516435, 96 U.S.P.Q.2d 1201, 2010 Daily Journal D.A.R. 14,404 (9th Cir. Sept. 10, 2010).

Digital Music Downloads Are Not Public Performances: The Second Circuit has held that the download of a digital file containing a musical work is not a "public performance" of the underlying work. Accordingly, on-line music vendors need not purchase public performance licenses covering their distribution of, and their customers' use of, digital music files. The Second Circuit further held that public performance license fees for streaming music services may not be determined solely by using a ratio of the time users spend streaming music versus the time they spend engaged in other online activities.

The case arose after Yahoo! and RealNetworks sought blanket licenses from the American Society of Composers, Authors, and Publishers ("ASCAP") for their online music services. When they failed to agree on a license fee, ASCAP applied to the Southern District of New York for a determination of reasonable fees. The result was not what ASCAP expected. The trial court concluded that the download of a digital file containing a musical work does not constitute a public performance; accordingly, no public performance license was necessary. As to other online music services, however, the court set a royalty rate of 2.5% of the revenue derived from playing music.

On appeal, the appellate court concluded that a "performance" requires the "contemporaneous perceptibility" of the copyrighted work. On that basis, it distinguished downloads, which are not performances, from streaming transmissions, that are. Because Yahoo!'s revenue is driven by the number of page views it gets, as opposed to the amount of time a viewer streams music, the Second Circuit ruled that the district court should either have based its calculation on a method incorporating the number of page views Yahoo! received, or should have provided a rationale for not doing so. It then concluded that a 2.5% royalty rate might be appropriate for "sites and services that provide access to music channels organized around music genre," but not to services such as the defendants', that are "less music-intensive."

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See United States v. American Society of Composers, Authors and Publishers, No. 09-0692-CV XAP, ___ F.3d ___, 2010 WL 3749292, 96 U.S.P.Q.2d 1360 (2d Cir. Sept. 28, 2010).

Appellate Litigation Update

The Supreme Court's Patent Law Docket: The Supreme Court has granted review in three cases involving patent law this Term: *Global-Tech Appliances, Inc. v. SEB S.A.*, *Board of Trustees of the Leland Stanford Junior University v. Roche Molecular Systems, Inc.,* and *Microsoft Corp. v. i4i Limited Partnership*. This is consistent with the Court's dramatic revival of interest in the patent field in recent Terms. After reviewing many famous patent cases in the nineteenth century, the Court ceded virtually all patent appeals to the circuit courts for most of the twentieth century and then to the Federal Circuit once that specialized court was formed in 1982. After reviewing only one patent case a year from 1950 through 1982, and a mere twelve patent cases over the next two decades, the Court has greatly picked up its patent pace, granting *certiorari* in 12 patent cases since 2002. (For historical and statistical analysis, see John F. Duffy, *The Federal Circuit in the Shadow of the Solicitor General*, 78 Geo. Wash. L. Rev. 518, 522 (2010), and Timothy B. Dyk, *Foreword: Does the Supreme Court Still Matter?*, 57 Am. U. L. Rev. 763, 764-65 (2008).

It is no surprise that the Supreme Court's interest in patent cases has increased. Intellectual property now accounts for as much as 80% of the value of American corporations, and Congress has considered but failed to pass patent reform legislation in each of the last five congressional sessions. But increasing its patent docket has required the Court to depart from its usual criteria for granting *certiorari*. Because the Federal Circuit has virtually exclusive jurisdiction over patent cases, patent law does not give rise to circuit conflicts—the usual ground for Supreme Court grants of review. Thus, the Court has taken patent cases solely because they present matters of significant national importance, and has leaned heavily on the Solicitor General's advice, with more than 10 percent of the Supreme Court's calls for the views of the Solicitor General over the last 10 years arising in patent cases. *See* Duffy, *supra*, at 530.

Some of the Court's more prominent recent patent decisions have seemed to reflect a strong view that the Federal Circuit, in creating a uniform body of patent law, has leaned too far in the direction of protecting patent rights, perhaps stifling future innovation. For example, *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006), held that permanent injunctions would no longer be issued automatically in cases of patent infringement, and *KSR Int'l Co. v. Teleflex Inc.*, 550 U.S. 398 (2007), made it easier to prove a claimed patent obvious and thus not entitled to statutory protection. Such decisions also seemed to issue sharp rebukes to the Federal Circuit.

Supreme Court patent decisions less reflect an anti-patent trend and frequently have been unanimous—a sure sign on a frequently divided Court that they have been made on narrow grounds. Last Term's closely watched decision in *Bilski v. Kappos*, 130 S. Ct. 3218 (2010), for example, while deeming invalid a particular business method patent, declined to decide that business methods are inherently unpatentable as a concurrence by Justice Stevens urged, instead leaving it to the Federal Circuit to hold under a broad standard when business method patents are too abstract. A third of the last two decades' patent decisions have involved procedural or jurisdictional issues where, as in *eBay*, the Court has simply required patent law to conform with generally applicable rules. Another third involved either specialized patent statutes or the application of other laws in cases involving patents. And in a final third of the decisions, concerning substantive areas under the Patent Act such as patentability, implied licenses and the doctrine of equivalents, the Court has not made sweeping rulings, but often has simply required the Federal Circuit to follow older Supreme Court precedent. *See* Dyk, *supra*, at 769.

The cases granted by the Supreme Court this Term fall into each of these three categories. *Microsoft Corp. v. i4i Limited Partnership* involves a procedural issue that may be outcome determinative in many cases: namely, whether the defense of invalidity must be proven by clear and convincing evidence rather than by a preponderance of the evidence. *Board of Trustees of the Leland Stanford Junior University v. Roche Molecular Systems, Inc.* (in which Quinn Emanuel is co-counsel for respondent) concerns who can own inventions arising out of federally-funded research under a specialized statutory scheme, the Bayh-Dole Act, 35 U.S.C. §§ 200-212. *Global-Tech Appliances, Inc. v. SEB S.A.* concerns a substantive patent issue on which the Federal Circuit purported to be following general legal principles—namely, whether deliberate indifference is a sufficiently culpable state of mind to establish liability for inducing infringement.

The patent cases taken by the Supreme Court also are consistent with the Court's developing criteria for reviewing patent cases. In *Stanford University v. Roche*, the Supreme Court asked for the views of the Solicitor General's Office and followed its recommendation in taking the case. In *Microsoft v. i4i*, the national importance of the case was signaled by nearly a dozen amicus briefs filed in support of petitioners by 22 high-tech companies and public interest groups, and by three dozen law, business, and economics professors. And in *Global-Tech*, the Federal Circuit adopted a standard for intent in inducement cases that appeared to conflict with its own earlier cases, creating an intracircuit conflict of a kind that has led to review in such cases as *Bilski*, *Festo*, and *Warner-Jenkinson*.

Whatever the outcome of these cases, the Court has signaled that it is not content to leave the nation's patent law entirely in the hands of the Federal Circuit, and that it is likely to have a firm hand on the direction of patent law unless and until Congress steps into the breach.

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used by the employee after the employer rescinds its prior permission to access the computer.

A recent opinion by Judge Henderson of the Northern District of California refined *Brekka*. The court dismissed a CFAA claim with prejudice even though the employer had attempted to limit authorization by requiring employees to contractually promise not to recruit other employees or use trade secrets of his employer (concluding that "these cases—which hold that access is not established by employer's policies, but by the extent the employer makes the computer system available to the employee—[are] persuasive"). *See Accenture, LLP. v. SIDHU*, 2010 WL 4691944 (N.D. Cal. Nov. 9, 2010).

Notwithstanding that the CFAA defines "exceeds authorized access" as "a means to access a computer with authorization and to use such access to obtain or alter information in the computer that the accessor is not entitled to obtain or alter," Judge Henderson reasoned that the phrase "exceeds authorized access" must be viewed through the same lenity prism the Ninth Circuit used to construe the "without authorization" prong. He agreed with the ruling in *United States v. Nosal*, 2010 WL 934257 (N.D. Cal. Jan. 6, 2010), that under the CFFA an employee exceeds authorized access when he accesses information without permission to use the computer, but not when he merely violates company policies. District courts outside the Ninth Circuit appear to be following *Brekka* as well. *See, e.g., Del Monte Fresh Produce N.A. v. Chiquita Brands Int'l Inc.*, 616 F. Supp. 2d 805, 812-813 (N.D. Ill. 2009).

The distinction between being denied access by company policies as opposed to the formal rescission of the right to access an employer-owned computer is fine. As noted in *Citron*, "the difference between 'without authorization' and 'exceeding authorization' is paper thin." *Citron* noted that both prongs could be satisfied if an employee accessed a computer with disloyal intent. In contrast, *Brekka* and *SIDHU* held that the employee's intent is irrelevant and that whether the downloading was "without authorization" or in excess of "authorized access" depends on whether the employer permitted the employee to access the stolen information for any purpose.

The division among the circuits poses forum selection issues for plaintiffs. In most trade secret theft cases brought in federal court, plaintiffs allege CFAA violations and also allege state theft of trade secrets claims under the Uniform Trade Secrets Act (common law trade secret cases are preempted in 45 states under the UTSA). In *Brekka*, the CFAA claims were dismissed at the summary judgment stage and the trial court declined to exercise supplemental jurisdiction over the remaining state law claims. *Brekka* at 1130. As such, the plaintiff was left to start over in state court.

In alleging a CFAA violation as a means to gain federal jurisdiction for trade secret theft claims, plaintiffs must examine the law in its chosen forum and weigh the uncertainty of a court's ultimate determination of the "unauthorized" element against the risk that the court might either dismiss the case altogether for failure to state a federal claim, or exercise pendent jurisdiction anyway, thus subjecting the plaintiff to the perceived detriments of litigating trade secrets claims in federal court. The potential downsides include the undesirability of the federal unanimous jury requirement, wider jury pools, accelerated "initial disclosure" obligations requiring the identification of "documents and witnesses" under Fed. R. Civ. P. 16(a)(2)(G), and the fact that a CFAA violation is "limited to economic damages" (18 U.S.C. § g) (*i.e.*, meaning that punitive damages are not available), may make a state forum selection the better choice in an individual case. Indeed, what appears at first to be an easy shortcut to judgment might require taking the longer route in the end.

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

business litigation report

quinn emanuel urquhart & sullivan, llp

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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
312-463-2961

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
Erzbergerstraße 5
68165 Mannheim,
Germany
+49 0 621 43298 6000