

# quinn emanuel

quinn emanuel urquhart & sullivan, llp | business litigation report

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## 9-0 Supreme Court Victory for Shell in Alien Tort Statute Case

In what *The New York Times* has called “the most important business decision of the current term,” Quinn Emanuel obtained a landmark 9-0 victory for Shell Oil in the U.S. Supreme Court in *Kiobel v. Royal Dutch Petroleum Co.*, 569 U.S. \_\_\_, 133 S. Ct. 1659 (2013). All nine Justices agreed that the Alien Tort Statute (“ATS”) and federal common law do not extend to allegations by Nigerian nationals that English and Dutch subsidiaries of Shell supposedly aided and abetted the Nigerian government’s human rights violations on Nigerian soil.

The Court’s ruling is a significant development for corporations (whether U.S. or foreign) that operate in foreign countries. Plaintiffs’ lawyers have filed some 245 ATS cases since 1980 based on allegations of foreign conduct—imposing significant costs and negative publicity on the corporate defendants who increasingly became the targets of such suits. With the ruling in *Kiobel*, the Supreme Court has dramatically curtailed the reach of the ATS, holding that it extends only to claims that “touch and concern the territory of the United States ... with sufficient force to displace the presumption against extraterritorial application.” *Kiobel* will enable corporate defendants to obtain

dismissal of many ATS suits now pending and will discourage the filing of new ones.

The ruling in *Kiobel* was the result of a bold and creative litigation strategy. The Second Circuit had held that the case against Shell required dismissal on the ground that ATS liability does not extend to corporations as opposed to natural persons, and the Supreme Court granted *certiorari* initially to review that question. Upon being retained as Supreme Court counsel, Quinn Emanuel recognized that the Second Circuit’s decision, while correct, might be difficult for the Supreme Court to sustain given that it had recently decided in *Citizens United* that corporations enjoy the same rights as natural persons in the campaign finance context. Quinn Emanuel therefore argued for affirmance both on the corporate liability ground and also the alternative ground that the ATS does not apply extraterritorially to conduct within a foreign nation’s borders. After oral argument, the Court took the rare step of setting the case for reargument on that alternative ground, which the Court heard on the first day of the October 2012 Term. That alternative argument is now the law of the land.

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## Quinn Emanuel to Open Sydney Office

The firm has announced plans to open an office in Sydney, Australia. The office will be opened by Michael Mills and Michelle Fox, who will be joining the firm from Herbert Smith Freehills, and James Webster, a long time Quinn Emanuel partner. Michael and Michelle specialize in complex litigation across a number of practice areas, including securities, mass tort, products liability, directors and officers liability, class actions, insurance

and reinsurance disputes, as well as financial services regulatory disputes. They are highly ranked by all top legal publications, including *Chambers*. James Webster is an Australian-qualified lawyer who has been with Quinn Emanuel for 20 years. James is an experienced trial lawyer specializing in complex litigation in areas such as securities, class actions, and entertainment. [Q](#)

## Firm Expands Mass Torts and Products Liability Practice

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Co-hosted by The Russian Corporate Counsel Association and global law firm, Quinn Emanuel Urquhart & Sullivan, LLP



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# THE SECRETS TO WINNING INTERNATIONAL ARBITRATIONS TODAY: AN IN-HOUSE COUNSEL'S GUIDE

THURSDAY, JUNE 20TH  
REGISTRATION: 8:15AM  
CONFERENCE: 9:00AM - 1:30PM  
**HOTEL BALTSCHUG KEMPINSKI**  
UL. BALCHUG 1, 115035  
MOSCOW

## PANELISTS:

### QUINN EMANUEL URQUHART & SULLIVAN, LLP:

- **Ivan Marisin:** *European Chair, International Arbitration; Moscow Managing Partner*
- **Fred Bennett:** *Global Vice Chair, International Arbitration; Chair, U.S. Arbitration Practice*
- **Stephen Jagusch:** *Global Chair, International Arbitration*
- **Philippe Pinsolle:** *Paris Managing Partner*

### THE RUSSIAN CORPORATE COUNSEL ASSOCIATION:

- **Alexandra Nesterenko:** *President, The Russian Corporate Counsel Association*

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## QUINN EMANUEL IS PLEASED TO WELCOME IN-HOUSE COUNSEL TO:

### “THE SECRETS TO WINNING INTERNATIONAL ARBITRATIONS TODAY: AN INSIDE COUNSEL'S GUIDE”

This is a must-attend conference for every Russian company that uses international arbitration to resolve disputes. Panelists include internationally renowned arbitrators and advocates from Russia and other major arbitration centers around the world. The focus will be on unique, practical—and highly effective—strategies for building and winning an international arbitration in today's dynamic and complex international arena, whether the arbitration is conducted under institutional rules or ad hoc. For each phase of an international arbitration proceeding, the panelists, using creative visual presentations and demonstrations, will lay out key guidelines for inside counsel that are indispensable to the proper administration of the case, including:

- HOW TO NEGOTIATE THE BEST ARBITRATION CLAUSE
- HOW TO CONTROL COSTS WITH ALTERNATIVE FEE ARRANGEMENTS
- HOW TO CHOOSE THE RIGHT ARBITRATORS AND HANDLE COMPLEX DISCLOSURE ISSUES
- HOW TO INFLUENCE, TO YOUR ADVANTAGE, THE TIMETABLE AND STRUCTURE OF THE ARBITRATION
- HOW TO OBTAIN EFFECTIVE INTERIM RELIEF AND EVEN AN EARLY DISPOSITION OF THE ARBITRATION WHERE WARRANTED
- HOW TO PREPARE THE BEST WITNESS STATEMENTS
- WHEN TO USE OR NOT USE AN EXPERT
- THE DO'S AND DON'TS OF EFFECTIVE CROSS-EXAMINATION
- HOW TO STRUCTURE PRE AND POST HEARING SUBMISSIONS THAT THE ARBITRATORS WILL READ AND RELY ON
- AN INSIDE LOOK AT THE DELIBERATION PROCESS

The conference will be conducted from the Russian perspective, emphasizing particular elements of the Russian legal system and culture that can impact an international arbitration venued in another country and subject to foreign law.

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### ***The Road to Kiobel: A 1789 Statute Is Resurrected in the Lower Courts***

The ATS provides: “The district courts shall have original jurisdiction of any civil action by an alien for a tort only, committed in violation of the law of nations or a treaty of the United States.” 28 U.S.C. § 1350. The First Congress enacted the ATS as part of the Judiciary Act of 1789, in the wake of two incidents where foreign ambassadors or consuls suffered assaults on U.S. soil (one in Philadelphia, another in New York). The lack of recourse in federal courts for such incidents was viewed as an affront to foreign nations that might lead to international conflict or even war.

The ATS was invoked only three times before the Second Circuit’s 1980 decision in *Filartiga v. Peña-Irala*, 630 F.2d 876, which held that the ATS applied to a claim against a former Paraguayan official who had allegedly committed torture in Paraguay. Similar ATS cases followed, mostly alleging conduct on foreign soil. Because foreign governments are immune from suit, and individual perpetrators are often judgment-proof, plaintiffs’ lawyers increasingly named corporations as ATS defendants, alleging that they had aided and abetted human rights violations by foreign governments. While defendants obtained dismissal of many of these suits on personal jurisdiction, *forum non conveniens* and other grounds, it was commonly assumed that the ATS extended extraterritorially.

### ***Sosa: The Supreme Court’s First Attempt to Limit the ATS***

Almost a decade ago, the U.S. Supreme Court interpreted the ATS for the first time in *Sosa v. Alvarez-Machain*, 542 U.S. 692 (2004). The suit was filed against a Mexican individual defendant by a Mexican individual plaintiff who had allegedly been kidnapped and detained for one day on Mexican soil before being handed over to U.S. authorities. The Court observed that federal common law provides federal courts with authority to recognize certain causes of action as within ATS jurisdiction but held that such authority does not extend to “violations of any international law norm with less definite content and acceptance among civilized nations than the historical paradigms familiar when [the ATS] was enacted” (namely, assaults against ambassadors, violation of safe conducts, and piracy). The Court further held that such a cause of action should be recognized only sparingly, taking into account the “practical consequences of making that cause available.” Applying this standard, the Court concluded that a short-term detention of one day did not support a cause of action under the ATS. *Sosa* involved conduct on foreign soil, but the Court did not address the issue of

extraterritorial application of U.S. law in its decision.

### ***Post-Sosa ATS Litigation in the Lower Courts***

Despite *Sosa*’s newly-announced “high bar” to ATS cases, the ATS continued to spawn substantial litigation. Corporations increasingly complained that such lawsuits effectively imposed an unwarranted tax on doing business abroad, and several foreign nations complained that such suits were usurping those nations’ ability to regulate conduct within their borders. Faced with these ongoing ATS suits, corporate defendants sought dismissal through various means, invoking the *Sosa* standard, lack of personal jurisdiction, strict standards for aiding and abetting liability under international law, and the doctrine of *forum non conveniens*. Lower courts often adopted one or more of these grounds for dismissal but typically only after many years of litigation that took a toll on defendants in the form of both litigation cost and incendiary headlines.

### ***The Kiobel Case***

In 2002, a group of Nigerian nationals by then residing in the United States filed suit against Nigerian, English and Dutch Shell entities (the Nigerian entity was later dismissed for lack of personal jurisdiction) for allegedly aiding and abetting the Nigerian government in violently suppressing demonstrations against the Nigerian Shell entity’s oil-development efforts in the Ogoni region of Nigeria. The plaintiffs alleged, among other offenses, that Shell had aided and abetted torture, crimes against humanity, and arbitrary arrest and detention—all claims that the district court allowed to proceed as sufficiently definite under *Sosa*.

On appeal, the Second Circuit held that the ATS does not apply to corporations—a novel ruling that no other circuit has yet adopted. Writing for the court, Judge Cabranes held that the “law of nations,” as that term is used in the ATS, does not recognize corporate (as opposed to individual) responsibility for the offenses alleged. International human rights tribunals, for example, have never tried corporations for human rights violations. Judge Leval concurred separately in the result, reasoning that the law of nations does apply to corporations but that any aiding-and-abetting liability under international law requires a *mens rea* of purpose not knowledge and that purpose had not been adequately alleged. A divided Second Circuit denied rehearing *en banc*.

The Supreme Court granted the plaintiffs’ petition for *certiorari*, and Shell retained Quinn Emanuel to handle proceedings in the Court. In the initial briefing, Quinn Emanuel defended the Second Circuit’s no-corporate-liability holding, which is strongly supported

by all relevant international-law and federal-common-law precedent, but argued as well that either of two alternative grounds would justify affirmance: that the ATS does not extend extraterritorially to conduct on foreign soil, and that the ATS does not extend to aiding-and-abetting claims. The U.S. Solicitor General, as *amicus curiae*, joined the plaintiffs in urging the Court to reverse the Second Circuit on the corporate-responsibility issue and not to reach the alternative grounds.

The case was argued in February 2012 by Quinn Emanuel name partner and appellate practice chair Kathleen Sullivan (partner Sanford Weisburst led the firm's efforts on the briefs). The Justices' questions at the argument focused largely on the extraterritoriality issue, and five days after oral argument, the Court issued an unusual order setting the case for reargument on the question "whether and under what circumstances the [ATS] allows courts to recognize a cause of action for violations of the law of nations occurring within the territory of a sovereign other than the United States."

The parties proceeded to brief that question over the summer. Because no court had ever dismissed an ATS case based on the presumption against extraterritorial application of U.S. law, briefing the new question on Shell's behalf required sweeping original research. Fifty *amicus* briefs were filed in this second round, in addition to the 86 filed in the first round. The U.S. Solicitor General now moved over to Shell's side of the case, filing an *amicus curiae* brief in support of affirming the judgment of dismissal in the case because it involved foreign plaintiffs, foreign defendants and foreign conduct—a position that was influenced by the fact that the United States had argued, in earlier *amicus* briefs in *Sosa* and other cases, that the ATS and its related cause of action do not extend to conduct on foreign soil. Ms. Sullivan reargued the case for Shell in October 2012.

### **The Kiobel Decision**

On April 17, 2013, the Supreme Court issued a decision unanimously affirming the Second Circuit's judgment and holding that the suit against Shell must be dismissed. Chief Justice Roberts (joined by Justices Scalia, Kennedy, Thomas and Alito) adopted Shell's position, writing for the Court that the presumption against extraterritorial application of U.S. law applies to the ATS, and that neither the text, history nor purpose of the ATS overcame the presumption in this case because "all the relevant conduct took place outside the United States." Justice Breyer (joined by Justices Ginsburg, Sotomayor and Kagan) concurred in the result but would have upheld the dismissal of the suit on other grounds.

The long-standing presumption against extraterritorial application of U.S. law rests on the notion that the political branches are better suited than the judiciary to trigger potential tension between U.S. and foreign nations, a principle the Court reaffirmed in 2010 in the federal securities-law context in *Morrison v. National Australia Bank Ltd.*, 130 S. Ct. 2869 (2010). As in *Morrison*, the Court held in *Kiobel* that Congress had evinced no clear intent to override the presumption. The text of the ATS does not mention conduct abroad, and the historical purpose of the statute was to provide redress for injuries suffered on U.S. soil (and perhaps piracy on international waters where no sovereign exists), not conduct that occurs within the borders of a foreign sovereign. Chief Justice Roberts explained that the ATS and its related cause of action cannot apply unless the plaintiffs' claims "touch and concern the territory of the United States ... with sufficient force to displace the presumption against extraterritorial application," and held that they could not do so in a case where all the alleged conduct took place in Nigeria.

Justice Kennedy joined Chief Justice Roberts's opinion but added a one-paragraph concurring opinion noting that future cases "may require further elaboration and explanation of the presumption against extraterritoriality." Justice Alito (joined by Justice Thomas) filed a concurring opinion elaborating that, for an ATS claim to "touch and concern the territory of the United States ... with sufficient force" to overcome the presumption against extraterritorial application of U.S. law, it must be predicated upon "domestic conduct ... sufficient to violate an international law norm that satisfies *Sosa*'s requirements of definiteness and acceptance among civilized nations." In other words, it will not suffice if the plaintiff relies on a combination of domestic and foreign conduct to make out an international law violation.

Justice Breyer's concurrence in the result disagreed with the majority's reliance on the presumption against extraterritoriality, reasoning that the ATS expressly refers to foreign matters in mentioning "alien[s]" and "the law of nations." Instead, Justice Breyer would consult a multi-factored analysis drawn from the *Restatement (Third) of Foreign Relations Law*, finding ATS jurisdiction appropriate "where (1) the alleged tort occurs on American soil, (2) the defendant is an American national, or (3) the defendant's conduct substantially and adversely affects an important American national interest, and that includes a distinct interest in preventing the United States from becoming a safe harbor (free of civil as well as criminal liability) for a torturer or other common enemy of mankind." Finding none of these factors satisfied, Justice Breyer

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## Supreme Court Hears *Bartlett*, Will Resolve Liability Questions for “Design-Defect” of Generic Drugs

In March, the U.S. Supreme Court held oral argument in *Mutual Pharmaceutical Co. v. Bartlett*, concerning whether design-defect claims against generic drug companies are preempted by federal law. Although the case addresses liability only for generic manufacturers, brand-name drug companies could also be affected by the ruling. If the Court holds that claims against generic companies are preempted, then brand-name companies would be the only defendants left standing. And, as the only viable defendants, plaintiffs’ lawyers could try to find new ways to hold brand-name companies liable, even for injuries caused by generic drugs.

*Bartlett* is a follow-up to the Court’s landmark ruling in *PLIVA, Inc. v. Mensing*, \_\_U.S. \_\_131 S. Ct. 2567 (2011), which also addressed federal preemption of claims against generic drug companies. In *Mensing*, the Court held, in a 5-4 decision, that products-liability claims based on labeling deficiencies were preempted by federal law. The Court noted that because federal law requires generic drug companies to use the same labels as brand-name manufacturers, it would be impossible for a defendant to comply with a judgment, based on a state-law claim, requiring it to change or enhance label warnings. “Thus, it was impossible for the Manufacturers to comply with both their state-law duty to change the label and their federal law duty to keep the label the same.” *Id.* at 2578.

Relying on *Mensing*, various courts have since dismissed state-law personal injury claims against generic drug companies. But, in *Bartlett*—the case now on appeal to the Supreme Court—the First Circuit distinguished *Mensing* and held that a particular type of state-law claim could survive federal preemption.

The plaintiff, Karen Bartlett, suffered from a rare side effect that caused severe burns over most of her body when she took a generic version of a drug called sulindac. She sued the drug’s manufacturer and prevailed at trial on strict-liability design-defect claim. The jury awarded her \$21 million in damages.

The generic manufacturer appealed to the First Circuit. The First Circuit affirmed the judgment, holding that *Mensing* did not control the outcome because it applied only to failure-to-warn claims, not to the design-defect claim asserted by Ms. Bartlett. The First Circuit acknowledged that, just like the requirement that generic drug companies use the same

label as the brand-name version of the drug, federal law requires them to design their generics to have precisely the same chemical composition as brand-name drugs. And, a successful design-defect claim would require the generic manufacturer to change the drug’s composition—prohibited by federal law.

Despite the apparent similarity to *Mensing*, the First Circuit held that the generic manufacturer could avoid the contradictory requirements of state and federal law by refraining from manufacturing the drug. The First Circuit recognized its holding conflicted with decisions of other courts, saying “this issue needs a decisive answer from the only court that can supply it.” The Supreme Court granted *certiorari*.

The Supreme Court held oral argument on March 19. Based on the Justices’ questions, it is difficult to predict what the Court will decide. But commentators have correctly suggested Ms. Bartlett’s attorneys face an uphill battle in persuading the five Justices in the majority in *Mensing* that *Bartlett* is distinguishable. The fact that a generic manufacturer could simply stop manufacturing a drug to avoid preemption does not distinguish the case from *Mensing*. The defendant there also could have stopped manufacturing the drug, yet the Supreme Court still held the state-law claim was preempted. Moreover, the vast majority of lower courts have held that claims just like Ms. Bartlett’s are preempted.

Whatever the outcome, the opinion in *Bartlett* will have implications for brand-name manufacturers. Should the Supreme Court rule that the design-defect claim is preempted, then it will have effectively protected generic drug manufacturers from all products liability claims. Such a holding would leave brand-name manufacturers as the only viable defendants in pharmaceutical products liability cases. A decision in *Bartlett* is expected in June. [Q](#)

## Sports Litigation Update

*Is “Redskins” a Disparaging Word or a Famous Mark That Honors Native Americans?* A recent hearing before the Trademark Trial and Appeal Board of the United States Patent and Trademark Office provides guidance as to the interpretation, reach, and application of Section 2(a) of the Lanham Act, 15 U.S.C. § 1052(a). This section of the federal trademark statute prohibits the registration of marks that contain matter that “may disparage.”

Quinn Emanuel represented Pro-Football in a similar trademark-disparagement case, *Suzan Shown Harjo et al. v. Pro-Football, Inc.*, brought in 1992 by seven Native Americans who petitioned the PTO for cancellation of the federal registrations of the trademark REDSKINS, owned by the Washington Redskins football team. Pro-Football persuaded the District Court that, among other things, the Petitioners’ claims were barred by laches, because they waited over 20 years before filing their cancellation request. On appeal, also handled by Quinn Emanuel, the D.C. Circuit asked the trial court to take briefing and rule upon whether one petitioner, Mateo Romero, who had not reached the age of majority until 1984, was also barred by laches.

The firm briefed this issue to the trial court, and nearly a year and a half later, Judge Kollar-Kotelly ruled Romero’s claims were barred by laches based on his 8-year delay in filing his petition for cancellation. The Court ruled that the 8-year delay resulted in both trial and economic prejudice, and that the length of the delay was comparable to other trademark cases where courts denied a claim based on laches. On appeal, the D.C. Circuit upheld Judge Kollar-Kotelly’s reasoning and affirmed Pro-Football’s laches defense. The *Harjo* Petitioners filed a petition for *certiorari* to the Supreme Court, which Quinn Emanuel opposed. On November 16, 2009, the Supreme Court denied the petition, concluding a high-profile dispute that had lasted for the better part of two decades.

After the Supreme Court denied that petition of *certiorari*, a younger group of Native Americans reactivated the case, now *Amanda Blackhorse et al. v. Pro-Football, Inc.*, seeking to cancel the various registered Washington Redskins trademarks owned by Pro-Football. Quinn Emanuel represents Pro-Football in this identical *Blackhorse* case brought by the young Native Americans in an attempt to defeat a potential laches defense. Last year, after the parties submitted briefing to the Board as to their positions on the applicable law controlling the issues of the case, the Board issued a decision largely adopting Pro-Football’s

legal positions and rejecting the Blackhorse Petitioners’ attempts to broaden the legal standard of trademark disparagement.

Most noteworthy in the Board’s decision is that the evidence must date from the years of registration 1967, 1974, 1978, and 1990; only the views of the referenced group—not the American public as a whole—are relevant; these views are determined by a “substantial composite” of Native Americans, which is not necessarily a majority; disparagement must be considered “in relation to the goods or services identified by the mark in the context of the marketplace”; and, finally, Petitioners need prove only that the marks were “capable” of disparaging, not that they actually were disparaging at the dates in question.

In addition, Quinn Emanuel convinced the Blackhorse Petitioners to agree to limit the record to the same evidence used in the earlier *Harjo* proceeding, thereby saving Pro-Football significant time, resources, and expenses that would have accompanied protracted discovery. Thus, the same trial evidence as in *Harjo* was submitted (trials before the Trademark Trial and Appeal Board take place via paper submissions), and final briefing was concluded last fall. The recent oral argument highlighted the legal standards at issue.

Ultimately, the *Blackhorse* case will test whether the TTAB will follow the direction of the District Court of the District of Columbia and find that there is not sufficient evidence of whether a substantial composite of Native Americans believed the term “Redskins,” as used in connection with the Washington Redskins football club, was disparaging to Native Americans at the times the majority of the trademarks were registered in the 1960s and 1970s.

## Insurance Litigation Update

### *Insurer Prevails on Standards for Loss Causation.*

On April 2, 2013, the New York Supreme Court, Appellate Division, First Department issued its decision in *MBIA Insurance Corp. v. Countrywide Home Loans et al.*, No. 602825/2008. The decision is significant for insurers, especially financial guaranty insurers, for two reasons. *First*, it confirms the long-standing insurance-law causation rule in New York, as codified in NY Insurance Law Sections 3105 and 3106. Under the statutory causation rule, a claim for fraudulent inducement of a policy or breaches of warranty in a policy permits an insurer to recover payments made on claims made under the policy, without resort to rescission, by showing that it would not have issued the policy absent the misrepresentations, or that the misrepresentations materially increased the insurer’s risk of loss. It is not necessary under this rule for the

insurer further to show a direct causal link between the misrepresentations and the claims payments. *Second*, the First Department held, consistent with recent federal court decisions to the same effect, that an insurer need not show that breaches of representation and warranty caused a loan to default in order to obtain contractual repurchase of that loan.

MBIA brought suit in 2008, alleging that Countrywide fraudulently induced MBIA to insure residential mortgage-backed securitizations and that Countrywide breached certain representations and warranties in the transaction documents. On January 3, 2012, the NY Supreme Court (Bransten, J.) granted MBIA's motion for partial summary judgment that it need not establish a causal connection between Countrywide's alleged misrepresentations and MBIA's claims payments under the policies issued to Countrywide.

The NY Supreme Court concluded that NY Insurance Law Sections 3105-3106, which enable insurers to avoid insurance contracts obtained on the basis of material misrepresentations and to defeat recovery under such contracts, informed MBIA's fraud and breach of contract claims. More specifically, the court concluded that if MBIA could establish that Countrywide's misrepresentations led MBIA to issue policies it otherwise would not have issued or that these misrepresentations materially increased its risk of loss under the policies, MBIA could succeed on both sets of claims. The NY Supreme Court rejected Countrywide's contention that MBIA was required to prove that its claims payments were directly and proximately caused by Countrywide's alleged misrepresentations to the exclusion of the so-called "mortgage meltdown."

On appeal, the First Department affirmed these holdings. Because Sections 3105-3106 mention both "avoid[ing]" an insurance policy *and* "defeating recovery thereunder," the First Department concluded that there was no basis to conclude that the statute could not facilitate the recovery of payments made pursuant to an insurance policy procured through misrepresentations, without resort to rescission. Although this decision involved residential mortgage-backed securities, it may have broader application to other contractual frameworks where an insurer issues a policy. Indeed, as the First Department noted, a New York court is "not required to ignore the insurer/insured nature of the relationship between the parties to the contract in favor of an across the board application of common law."

The rationale for the insurance law causation rule is clear. As the Court of Appeals has repeatedly held, a fundamental principle of insurance law is that

an insurer has the right to select the risks it insures. Moreover, if an insurer had to prove loss causation to obtain relief from policies it was induced to issue by fraud or breach of warranty, the law would incent insurance applicants to misrepresent facts relevant to the insured risk.

Similarly, the First Department agreed with MBIA that, based on the contractual language as confirmed by the insurance-law causation rule, MBIA need not show that loans that breached representations and warranties actually defaulted in order to obtain contractual repurchase of such loans. The First Department held that all MBIA must show is that the breaches materially and adversely affected its interests. This decision will also have broad application to all insurers asserting repurchase claims based on contractual provisions similar to the MBIA policies at issue.

## Germany Litigation Update

### *Recent Developments in Determining Patentability of Claimed Software Inventions in Germany.*

In recent years, the German Federal Court—the appellate court for nullity (invalidity) proceedings in Germany—has begun addressing the scope of patentable subject matter for software patents claiming graphical user interface ("GUI") related inventions. Given the high stakes involved in the recent smart phone patent wars, the threshold issue of patentable inventiveness for software patents could take center stage in many emerging patent disputes waged in Europe.

Article 52 of the European Patent Convention ("EPC") is the controlling statutory law governing patentable subject matter. Under this Article "European patents shall be granted for any inventions, in all fields of technology, provided that they are new, involve an inventive step and are susceptible of industrial application" although under paragraphs 2(c) and 2(d) "schemes, rules and methods for performing mental acts, playing games or doing business." Significantly, programs for computers; and presentations of information are excluded from protection.

In 2010, the German Federal Court addressed whether a software patent claiming a display of topographic information was valid. In German Federal Court - X ZR 47/07 – *Wiedergabe topografischer Informationen* [Display of topographic information], the patent-in-suit described a method of displaying topographic information relative to the position of a vehicle. In accordance with the practice of the Board of Appeal of the European Patent Office, the Court ruled that a subject matter could be regarded as a patentable invention under Article 52 EPC if at least one partial aspect of the teaching addresses a technical problem. In

this regard, the exclusionary provisions of paragraphs 2(c) and (d) were considered to be only “coarse means” for identifying unpatentable subject matters that lack *any* technical relation.

The court next addressed the question of “inventive step” and, specifically, the proof required to establish sufficient technical relation to satisfy the inventive step test. With regard to the question of inventive step, the German court held that software-executable functions, such as displaying the actual position of a vehicle on a map or conditioning the height of the virtual point of view on the speed of a vehicle, failed to meet the technical solution threshold requirement for satisfying the inventive step test. Because the Court deemed the remaining features also not sufficiently inventive, the Court invalidated the patent-in-suit.

Subsequent decisions by the German Federal Court are in accord. For example, in “*Webseitenanzeige*” of 2011 (X ZR 121/09 – *Webseitenanzeige* [display of a website]), the Court decided that a computer-based method of favorably enhancing the dialogue between a user and a server—for example, by providing a specific design of the information displayed to the user—is not sufficiently technically related to satisfy the inventive step test.

The above mentioned decisions manifest the Court’s tendency to resolve the question of patentability of software and user interface related inventions substantially on the level of the inventive step test. This permits the Court to make a more flexible assessment of every single aspect of a teaching. The next years will show where the path taken by the German Federal Court will lead. Due to the ongoing Smart phone wars, several occasions could arise for the Court to further refine its case law on patents relating to software or means of displaying information in general.

## ITC Litigation Update

***Federal Circuit Addresses Licensing-Based Domestic Industry in Section 337 Investigations.*** In August 2012, the Federal Circuit issued an opinion in *InterDigital Commc’ns v. Int’l Trade Comm’n*, No. 2010-1093, reversing and remanding the International Trade Commission’s finding of no violation in *Certain 3G Mobile Handsets and Components Thereof*, Inv. No. 337-TA-613. In so doing, the Court also rejected an alternative ground for finding no violation that Complainant InterDigital failed to establish the existence of a domestic industry because section 337 does not permit a complainant to satisfy the “domestic industry” requirement based on licensing activities alone. The Court held that the requirement of 19 U.S.C. Section 1337(a)(3)(C) is satisfied if there is

a domestic industry based on substantial investment in the exploitation of the asserted patent(s) where the exploitation is achieved by various means, including licensing.

Respondents filed a combined petition for rehearing *en banc* and panel rehearing with respect to the issue of whether InterDigital’s patent licensing activities satisfied the domestic industry requirement under 19 U.S.C. Sections 1337(a)(2) and 1337(a)(3). The Court denied Respondents’ request for rehearing *en banc* and issued a 2-1 decision also denying Respondents’ request for panel rehearing on January 10, 2013. The accompanying opinion, authored by Judge Bryson, relied on a mix of textual analysis and legislative history in rejecting Respondents’ and the dissent’s arguments and concluding that InterDigital satisfied the domestic industry requirement through its licensing activities.

Respondents’ petition did not challenge whether InterDigital’s licensing investments were substantial. Rather, Respondents argued that the panel and the Commission misinterpreted the phrases “relating to articles protected by the patent” and “with respect to the articles protected by the patent” in paragraphs 337(a)(2) and 337(a)(3). In particular, Respondents argued that these phrases mandated that any alleged licensing activity “must be tethered to a tangible good.”


In rejecting Respondents’ petition, the Court analyzed the text of the statute and the meaning of the phrase “with respect to articles protected by the patent” in paragraph 337(a)(3). The Court first explained that the requirements under paragraphs 337(a)(3)(A) and (B) were typically met by a showing that investments in plant, equipment, labor or capital are being expended in the production of articles protected by the patent. The Court noted that applying the same analysis to subparagraph (C) produces a parallel result consistent with the proper statutory construction such that “the engineering, research and development, or licensing activities must pertain to products that are covered by the patent that is being asserted.” According to the Court, this interpretation “accords with the common description of the domestic industry requirement as having two ‘prongs’: the ‘economic prong,’ which requires that there be an industry in the United States, and the ‘technical prong,’ which requires that the industry relate to articles protected by the patent.” The Court concluded that InterDigital satisfied the domestic industry requirement under paragraph 337(a)(3)(C) “because the patents in suit protect the technology that is, according to InterDigital’s theory of the case, found in the products that it has licensed and that it is attempting to exclude.”

Judge Newman, in a sharp dissent, wrote that



the majority “depart[s] from the statutory text and purpose” and “continues to err” in its understanding of the statute. Offering a stricter interpretation of the domestic industry test by requiring domestic manufacturing, Judge Newman argued that the legislative record is clear that the 1988 amendments to section 337—which added subparagraph (a)(3)(C)—“were enacted to encourage and support domestic production of patented products.” Judge Newman further argued that the majority’s interpretation conflicts with the weight of the Court’s precedents, which require domestic production, or preparation to

produce, articles protected by the patent.


On May 10, 2013, Respondents filed a petition for writ of *certiorari* with the U.S. Supreme Court of the United States on the issue of “whether the ‘domestic industry’ requirement of section 337 is satisfied by ‘licensing alone’ despite the absence of proof of ‘articles protected by the patent.’” 

## Firm Expands Mass Torts and Products Liability Practice

Sheila Birnbaum and Mark Cheffo have joined the firm’s New York office as partners. Sheila, a market-leading mass torts and insurance trial attorney, and Mark, a renowned products liability trial attorney, co-head the firm’s Global Products Liability and Mass Torts Practice.


Prior to joining the firm, Sheila served as co-head of Skadden, Arps, Meagher & Flom’s Mass Torts and Insurance Group. Before joining Skadden and founding its products liability practice, she was a tenured professor at New York University School of Law and Fordham University School of Law. She also served as Associate Dean of the Graduate Division of New York University. Sheila represents the world’s best known companies in their largest and most complex mass torts cases. She has secured two groundbreaking wins in the United States Supreme Court, including

*Campbell v. State Farm*, which reversed a \$145 million punitive damages award as unconstitutionally excessive.

Mark has represented defendants in groundbreaking products liability, insurance and mass torts litigation, serving as national coordinating and trial counsel in large, complex matters and in individual cases. He has appeared in cases on behalf of pharmaceutical companies such as Pfizer, Endo, and Amgen and numerous medical device manufacturers, designers of bioengineered agricultural products, and sellers of consumer and industrial products. Mark has served as lead defense counsel in many multi-district proceedings, including the Zoloft, Neurontin, Darvon/Darvocet, and Epogen/Aranesp MDL proceedings. He currently serves as lead counsel for thousands of personal injury and consumer fraud cases pending in state and federal courts throughout the country. 

## Susheel Kirpalani Named a 2012 “Dealmaker of the Year” by *The American Lawyer*

Susheel Kirpalani, a New York-based partner and head of the firm’s Bankruptcy and Restructuring Group, is one of only twelve attorneys recognized as a 2012 “Dealmaker of the Year.” The award honors attorneys who played innovative roles in mergers and acquisitions, capital markets, project finance, and bankruptcy matters. As a trial firm, this is a first for Quinn Emanuel. *The American Lawyer* recognized Mr. Kirpalani for his consensus-building work with myriad creditor interests as the examiner and plan mediator in the Dynegy Holdings bankruptcy. Mr. Kirpalani was appointed by the Bankruptcy Court for the Southern District of New York as examiner in the Chapter 11 case of *Dynegy Holdings, LLC, et al.*, initially to investigate and report on the Company’s pre-planned

restructuring, which had been challenged as unfair by disenfranchised creditors. Mr. Kirpalani’s report concluded that the restructuring techniques employed by the board of Dynegy Holdings, for the intended benefit of the controlling shareholder, constituted an actual and constructive fraudulent transfer and a breach of fiduciary duties. Chief Bankruptcy Judge Cecilia G. Morris then appointed Mr. Kirpalani to serve as a plan mediator to attempt to build consensus and a framework for prompt emergence from bankruptcy. Dynegy Holdings emerged from bankruptcy within months, with creditors receiving cash and 99 percent control of the reorganized company—a plan universally supported by stakeholders. 

# VICTORIES

## Three Quinn Emanuel Victories for Ukrainian Businessman

Quinn Emanuel recently won a complex, international commercial arbitration and related proceedings in Russian courts for Group DF, an entity controlled by Ukrainian businessman Dmitry Firtash.

The conflict arose from an illegal sale of EMFESZ, a leading gas trader with annual revenues of over \$1 billion, and a subsidiary of Group DF. In 2009, 100% of the trader-owned by Mabofi Holdings Limited (which belongs to Group DF) was sold by Istvan Goszi for \$1 to a Swiss company, RosGaz, under a power of attorney issued in 2004 in a different transaction. The sales contract contained an arbitration clause in favor of the International Commercial Arbitration Court at the RF Chamber of Commerce and Industry (ICAC).

Mabofi challenged the transaction in the Hungarian courts. The Hungarian courts held that the contract and the arbitration clause were unenforceable due to Goszi's lack of authority to enter into the contract. RosGaz responded by filing a claim with ICAC seeking a declaration of validity of the contract. Mabofi challenged jurisdiction of the Tribunal, but the Tribunal ruled it had competence to resolve the dispute. Mabofi retained Quinn Emanuel to challenge the jurisdictional award and to lead Mabofi's defense at the ICAC hearings on the merits. Our position was as follows:

- The judgment recognizing the contract and the arbitration clause as a nullity is an award of non-property character that is subject to recognition in Russia on the basis of the Treaty on Mutual Legal Assistance between the USSR and Hungary without any special procedure;
- Recognition of such judgments without any special procedure is envisaged in Art. 10 of the Decree of the Presidium of the Supreme Soviet of the USSR No. 9131 of June 21, 1988;
- No other approach would be consistent with generally recognized principles of international comity and reciprocity; and
- Recognition of foreign judgments in Russia without any special procedure implies that such judgments are of the same legal force as judgments of arbitrazh (state commercial) courts in Russia and are of obligatory character.

The Moscow Arbitrazh Court dismissed the application to set aside the jurisdictional award, but the Federal Arbitrazh Court of the Moscow District upheld Mabofi's arguments and sent the case back for retrial. Following remand, the Tribunal dismissed RosGaz's lawsuit. In view of this victory in the main

ICAC proceedings, Mabofi dropped, as moot, its challenge to the jurisdictional award.

RosGaz sought to set aside the final award in the Moscow Arbitrazh Court. The courts of first and cassation instance, however, upheld the decision for Mabofi and dismissed the challenge.

This case confirms that Russian courts increasingly take into account the existence and contents of foreign judgments when trying cases. Furthermore, the judgments of Hungarian courts had significant impact on the ICAC arbitration too. Having decided on its competence to consider the case, the Tribunal rejected the claim and resolved the dispute on the merits in the same manner as the Hungarian courts.

## Federal Circuit Victory for Google

On behalf of Google Inc., the firm recently obtained an unanimous opinion from the U.S. Court of Appeals for the Federal Circuit upholding the firm's victory in a 2010 trial in the Eastern District of Texas. The plaintiff, Function Media, accused Google's AdSense advertising products of infringing three patents, seeking over \$600 million in past damages. At trial, Quinn Emanuel obtained a complete defense verdict, with the jury finding both non-infringement and invalidity as to every asserted claim.

On appeal, Function Media raised an avalanche of issues seeking to justify a new trial, attacking several of the district court's claim construction rulings as well as the jury's non-infringement and invalidity verdicts. Function Media also argued that the invalidity and non-infringement verdicts on two of the asserted patents were "irreconcilable." But in its 34-page precedential opinion, the Federal Circuit found for Google on every issue.

The Court of Appeals affirmed the district court's ruling that one patent was invalid for indefiniteness of its means-plus-function claims, emphasizing the requirement that an algorithm must be disclosed when using a means-plus-function claim involving software. It also affirmed the jury's findings of non-infringement.

On the issue of an allegedly irreconcilable verdict, the panel embraced Quinn Emanuel's argument and held that a verdict form consisting of yes and no questions on anticipation, obviousness and infringement is a general verdict. As a consequence, under Fifth Circuit law, Function Media's failure to object at the time the jury returned its verdict constituted waiver of any challenge to that verdict as "irreconcilable." Accordingly, the Federal Circuit opinion affirmed the judgment for Google that plaintiff take nothing on its claims.

## Structured Finance Victory for BlackRock

The firm prevailed in a bench trial for BlackRock Institutional Trust Company, N.A. in a structured finance matter, winning the release of tens of millions of dollars in escrowed funds to certificate holders, including BlackRock, and blocking reformation of the deal documents governing three residential mortgage-backed securitizations issued by Impac Secured Assets Corporation. Impac alleged that the Pooling and Servicing Agreements (“PSAs”) for the three securitizations at issue omitted a paragraph that appeared in the Prospectus Supplements and that provided that upon the occurrence of a certain adverse event, payments would be distributed to certain classes of certificate holders *pro rata*. Without this provision, the PSAs provided that cash flows would continue to be distributed sequentially, so senior certificate holders, including BlackRock, would receive the lion’s share of funds.

Impac sought reformation of the PSAs on the ground that the missing paragraph had been omitted as a result of a “scrivener’s error” by its counsel. Quinn Emanuel prevailed at trial by persuading the court that there was no basis to reform the PSAs. Because the Trustee’s testimony showed that the Trustee itself did not have any intention regarding stay-sequential vs. *pro rata* distributions, Quinn Emanuel maintained, no matter what Impac or its lawyers intended, there could be no “mutual” mistake that could support the argument of scrivener’s error being advanced. Quinn Emanuel also convinced the court that BlackRock and other senior certificate holders were *bona fide* purchasers that had a right to rely on the PSAs (despite conflicting Prospectus Supplements that were available to them). The court adopted Quinn Emanuel’s proposed statement in full, finding reformation was unwarranted and ordering the release of tens of millions of dollars from escrow. [Q](#)

(Lead Article continued from page 4)

agreed with the Court’s conclusion that the ATS does not extend to a case involving only foreign defendants and foreign conduct.

### **The ATS After Kiobel**

Going forward, *Kiobel* eliminates ATS jurisdiction in virtually any “foreign cubed” case involving foreign plaintiffs, foreign defendants and alleged foreign conduct. But it also will likely rule out most ATS suits against “foreign squared” cases involving U.S. corporations, foreign plaintiffs and alleged foreign conduct. In relying on the presumption against extraterritorial application of U.S. law, *Kiobel* focuses on where the relevant *conduct* occurred, not on the nationality of the defendant. And *Kiobel* expressly rejected “mere corporate presence” in the United States as sufficient to trigger ATS jurisdiction. Thus, while plaintiffs may attempt in future cases to allege that relevant conduct took place within the United States, the mere fact that a defendant company is incorporated in the United States or maintains operations here will not be enough for an ATS claim to overcome the presumption against extraterritoriality. Moreover, few cases that center on conduct abroad will be able to satisfy *Kiobel*’s “touch and concern the territory of the United States ... with sufficient force” standard—especially if the standard is applied, as Justice Alito suggests, to require that the U.S. conduct itself violate specific and definite international law norms, apart from any alleged foreign conduct.

Because *Kiobel* thus forecloses nearly all cases *under the ATS* that stem from conduct on foreign soil, plaintiffs will likely seek to bring such claims under theories other than the ATS. For example, plaintiffs may frame their claims as arising under the law of the foreign nation, international law, or state law; they may seek to pursue such claims in state court or, if alien diversity jurisdiction is available, in federal court. Faced with such cases, defendants will have to invoke different grounds for dismissal, such as personal jurisdiction and *forum non conveniens*. For example, in *Palacios v. The Coca-Cola Company*, 499 F. App’x 54 (2d Cir. 2012), plaintiffs filed purely state-law claims concerning conduct in Guatemala; Quinn Emanuel, representing The Coca-Cola Company, successfully obtained dismissal of the case from federal district court in favor of a Guatemalan forum, and the Second Circuit affirmed.

Thus, while some avenues may remain for plaintiffs to file suit in the United States arising from conduct abroad, plaintiffs no longer will be able to invoke the specter of a “law of nations” violation under the ATS and federal common law, with the considerable cost and negative publicity that such a claim tends to bring even when the suit is ultimately proven meritless. Quinn Emanuel is proud to have achieved this landmark result, and we stand ready to represent corporate defendants in future cases calling for strategic and sensitive responses to allegations of wrongdoing abroad. [Q](#)

## business litigation report

# quinn emanuel urquhart & sullivan, llp

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