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## Spotlight on the Economic Espionage Act

When the Economic Espionage Act (“EEA”) was passed in 1996, it was hailed as a much-needed remedy to combat the growing threat to the United States’ national and economic security posed by efforts, largely foreign, to steal proprietary information by criminalizing such behavior. *E.g.*, S. Rep. No. 104-359 (1996). The federal government believes that this threat is very much alive today. As noted by Senator Kohl last March, “trade secret theft and economic espionage continue to pose a threat to U.S. companies to the tune of billions of dollars a year.” 157 Cong. Rec. S1978 (daily ed. Mar. 30, 2011). Reinforcing this sentiment, an October 2011 Report of the Office of the National Counter Intelligence Executive notes that “[f]oreign economic collection and industrial espionage against the United States represent significant and growing threats to the nation’s prosperity and security” with the pace of such activity accelerating. Nat’l Office of the Counterintelligence Executive, *Foreign Spies Stealing US Economic Secrets in Cyberspace: Report to Congress on Foreign Economic Collection and Industrial Espionage, 2009-2011* (Oct. 2011), available at [http://www.ncix.gov/publications/reports/fecie\\_all/](http://www.ncix.gov/publications/reports/fecie_all/)

[Foreign\\_Economic\\_Collection\\_2011.pdf](#).

Against this backdrop, the federal government is redoubling its efforts to combat the theft of trade secrets. Last year the DOJ and FBI reported that they “have increased their investigations and prosecutions of corporate and state-sponsored trade secret theft,” and promise that “[t]his focus will continue.” 2010 U.S. Intellectual Property Enforcement Coordinator, *Annual Report on Intellectual Property Enforcement*, at 4 (Feb. 2011), available at <http://www.cybercrime.gov/ipereport2010.pdf>. Indeed, counterintelligence—including a unit dedicated exclusively to Economic Espionage—is the FBI’s number two priority, second only to terrorism. *See* FBI, Economic Espionage, <http://www.fbi.gov/about-us/investigate/counterintelligence/economic-espionage>. Meanwhile, Congress is actively examining ways to bolster the EEA to “help prosecutors bring more of these criminals to justice and companies better protect their trade secrets.” 157 Cong. Rec. S1978 (daily ed. Mar. 30, 2011).

Before examining some of these efforts, this article provides a brief overview of the statutory framework of the EEA.

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## Legal Business Names Quinn Emanuel “US Law Firm of the Year”

Legal news magazine *Legal Business* recently recognized the firm as “US Law Firm of the Year” at its annual awards banquet in London. The firm was recognized for demonstrating the greatest progress over the past year in advancing its legal strategy—specifically for successfully implementing the firm’s business litigation-only strategy internationally. In recognizing Quinn Emanuel, *Legal Business* highlighted

that the firm “has become a byword for quality globally.” Quinn Emanuel’s London office, launched only four years ago, makes this recognition particularly remarkable. In February of 2010, the firm launched its Mannheim office. The firm opened its Moscow office this past December. [Q](#)



## Star Trial Lawyer William Burck Joins Quinn Emanuel’s D.C. Office

High profile trial lawyer William Burck recently joined the firm as partner. Burck is based in the firm’s Washington, D.C. office, where he is co-managing partner,

and also practices out of the firm’s New York office. He joins 20+ attorneys at the firm who are former Assistant U.S. Attorneys.

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### ***Criminal Offenses Under the EEA***

The EEA is a far-reaching law that criminalizes two distinct but related types of trade secret misappropriation: “Economic espionage,” as defined by 18 U.S.C. § 1831, and “theft of trade secrets,” as defined by 18 U.S.C. § 1832. These offenses share three elements: (1) misappropriation of information; (2) with knowledge or belief that the information is a trade secret; and (3) that the information is, in fact, a trade secret. See DOJ, *Prosecuting Intellectual Property Crimes*, at 142 (3d ed. 2006). Trade secrets are defined in the EEA as “all forms and types of financial, business, scientific, technical, economic, or engineering information” provided that “the owner has taken reasonable measures to keep such information secret,” and “the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, the public.” 18 U.S.C. § 1839(3). While this definition is broad, legislative history makes clear that it is not intended to encompass the general “knowledge, skill, or abilities” a person may have. H.R. Rep. No. 104-788, at 7 (1996).

In addition to the substantive offenses of economic espionage and theft of trade secrets, the EEA also punishes attempt and conspiracy to commit either offense. 18 U.S.C. §§ 1831(4)-(5), 1832(4)-(5). While trade secrets lie at the heart of the substantive offense, in the case of a conspiracy or attempt charge, “the existence of an actual trade secret” is not required, but “rather, proof only of one’s attempt or conspiracy with intent to steal a trade secret.” *U.S. v. Hsu*, 155 F.3d 189, 198 (3d Cir. 1998).

### ***Economic Espionage: Nexus to a Foreign Government Requirement***

The chief distinguishing feature of section 1831 economic espionage is the requirement of a nexus with a foreign government. More specifically, section 1831 punishes those who steal trade secrets “intending or knowing that the offense will benefit any foreign government, foreign instrumentality, or foreign agent.” 18 U.S.C. § 1831(a). There are two components embedded in this requirement: the intended benefit and the intended beneficiary. See *U.S. v. Jin*, F. Supp. 2d, 2012 WL 400681, at \*41 (N.D. Ill. Feb. 8, 2012).

“Benefit” is not defined by the EEA, however, the legislative history provides that the term, as used in section 1831, “is intended to be interpreted broadly.” H.R. Rep. No. 104-788, at 11 (1996). As the House

Report explains, “the government need only prove that the actor intended that his actions . . . would benefit the foreign government, instrumentality, or agent in any way. Therefore, in this circumstance, benefit means not only an economic benefit but also reputational, strategic, or tactical benefit.” *Id.*; see also *Jin*, 2012 WL 400681, at \*41.

With respect to the intended beneficiary, of the three categories listed in the statute, the EEA defines both “foreign instrumentality” and “foreign agent” but not “foreign government.” The concept of a foreign government is straightforward enough, however, and other provisions of the U.S. Code define it as “the government of a foreign country, irrespective of recognition by the United States.” *E.g.*, 18 U.S.C. § 1116. Under the EEA, a “foreign agent” is defined as “any officer, employee, proxy, servant, delegate, or representative of a foreign government.” 18 U.S.C. § 1839(2). The remaining category, “foreign instrumentality,” poses the most complexity given the broad and amorphous criteria defining the term. The EEA provides that a “foreign instrumentality” is “any agency, bureau, ministry, component, institution, association, or any legal, commercial, or business organization, corporation, firm, or entity that is substantially owned, controlled, sponsored, commanded, managed or dominated by a foreign government.” 18 U.S.C. § 1839(1). According to the DOJ, “[t]he purpose behind the expansion of the intended beneficiaries beyond foreign governments and foreign agents is to preclude evasion of the statute by foreign governments hiding behind corporate or other shell entities.” See U.S. Attorneys’ Bulletin, *Economic Espionage & Trade Secrets*, at 25 (Nov. 2009).

While the EEA itself does not provide any guidance as to the degree of control or ownership the foreign government must assert over an entity to make it a foreign instrumentality, legislative history suggests that the test for “substantial” is “whether the activities of the company are, from a practical and substantive standpoint, foreign government directed.” 142 Cong. Rec. S10885 (daily ed. Sept. 18, 1996). Legislative history further provides that analysis of the substantiality of the governmental connection should not be done in a “mechanistic or mechanical manner,” and provides, as a guiding example, that “[t]he simple fact that the majority of the stock of a company is owned by a foreign government will not suffice under this definition, nor for that matter will the fact that a foreign government only owns 10 percent of a company exempt it from scrutiny.” *Id.* The requirement that the instrumentality

be “substantially” owned, controlled, sponsored, commanded, managed or dominated by a foreign government is thus a holistic inquiry that reflects Congress’ intent that “economic espionage” cases be limited to those involving “foreign government sponsored or coordinated intelligence activity.” 142 Cong. Rep. S12, 212 (daily ed. Oct. 2, 1996). A foreign corporation that misappropriates a trade secret “without the sponsorship of, or coordinated intelligence activity by, a foreign government” should not be treated as economic espionage under section 1831 but may instead, in appropriate cases, be prosecuted under section 1832. *See* DOJ, *Prosecuting Intellectual Property Crimes*, at 159 (3d ed. 2006) (internal quotation marks omitted).

### ***Additional Requirements for Section 1832 Theft of Trade Secrets***

While section 1832 does not require proof of a nexus to a foreign government, it contains several elements not present in section 1831. In particular, there are two additional means rea components, requiring that defendant both intend to provide an economic benefit to the defendant or a third party, and also intend to injure the trade secret owner. 18 U.S.C. § 1831; *see also Jin*, 2010 WL 400681, at \*37-41. Finally, to satisfy the requirements for federal jurisdiction, the trade secret misappropriated must be “related to or included in a product that is produced for or placed in interstate or foreign commerce.” 18 U.S.C. § 1832.

### ***Injunctions and Protective Orders Under the EEA***

The EEA also authorizes civil proceedings for injunctive relief. 18 U.S.C. § 1836(a). Although there is no private right of action under the EEA, injunctive relief may be sought by the government “to prevent further disclosure of a trade secret by the defendant or third parties during a criminal investigation . . . as part of the judgment at the end of the case,” or may be uncoupled from any criminal prosecution. *See* DOJ, *Prosecuting Intellectual Property Crimes*, at 169 (3d ed. 2006).

Another unusual feature of this criminal statute is its provision for protective orders. Recognizing that without some measure to “preserve the information’s confidential nature and, hence, its value . . . owners may be reluctant to cooperate in prosecutions for fear of exposing their proprietary information to the public,” S. Rep. No. 104-359, at 13 (1996), the EEA provides that the court “shall enter such orders and take such other action as may be necessary and appropriate to preserve the confidentiality of trade

secrets,” 18 U.S.C. § 1835. Commentators have noted the inherent tension between this provision and a criminal defendant’s constitutional right to discovery. *See* Susan W. Brenner & Anthony C. Crescenzi, *State-Sponsored Crime: The Futility of the Economic Espionage Act*, 28 Hous. J. Int’l L. 389, 436 (2006).

### ***Penalties for EEA Violations: Prison, Fine, Restitution and Forfeiture***

Penalties under the EEA can be severe. In addition to a term of imprisonment of up to 15 years for section 1831 violations and 10 years for section 1832 violations, fines under the EEA can be enormous. While the statute carries a range of fines up to \$15,000,000 depending upon the nature of the offense, these fines can be substantially increased given that the EEA is subject to the alternative fines provision of 18 U.S.C. § 3571(d). Under that provision, a defendant “may be fined . . . the greater of twice the gross gain or twice the gross loss” caused by the unlawful conduct. Hence, the applicable fines can be potentially staggering depending upon the value of the misappropriated trade secret.

In addition to payment of fines, EEA violators are subject to the provisions of the Mandatory Victim’s Restitution Act (“MVRA”). 18 U.S.C. §§ 1834, 2323(c). Under the MVRA, restitution requires return of property and, where that is inadequate or impossible, pecuniary compensation “in the full amount of each victim’s losses . . . without consideration of the economic circumstances of the defendant.” 18 U.S.C. §§ 3663A(b), 3664(f)(1)(A). Restitution of losses to the victim may be “in addition to” any other penalty imposed. 18 U.S.C. § 3663A(a)(1).

Finally, the EEA requires mandatory forfeiture to the government of property used, or intended to be used, in any manner or part to commit or facilitate the offense, as well as any property constituting or derived from any proceeds obtained directly or indirectly as a result of the commission of the offenses. 18 U.S.C. §§ 1834, 2323.

### ***Increased Focus By the DOJ***

Despite the breath of the EEA—and the long-standing recognition of the severity of the problem of economic espionage—historical enforcement of the EEA has been, until recently, somewhat tepid. In fact, through 2009 the government had brought relatively few EEA prosecutions. *See* U.S. Attorneys’ Bulletin, *Economic Espionage & Trade Secrets*, at 7 (Nov. 2009). But the regulatory environment has

## The Netherlands as an Attractive Alternative for Settling International Mass Claims

Since the U.S. Supreme Court's decision blocking actions by non-U.S. investors related to securities in companies not listed in the U.S. and traded outside the U.S. (the "foreign-cubed-cases"), *Morrison v. Natinonal Australia Bank Ltd.*, 130 S.Ct. 2869 (2010), the Netherlands has proven to be an attractive forum for bringing international securities class actions. The Netherlands' attractiveness as a potential forum for these types of cases was further strengthened by a 17 January 2012 landmark decision of the Amsterdam Court of Appeal ("the Court"), in which the Court declared an international collective settlement binding in a case where none of the potentially liable parties and only a limited number of the potential claimants were domiciled in the Netherlands. That decision will likely be recognized by all European Members States, as well as Switzerland, Iceland, and Norway. The Netherlands is the only European country where a collective settlement may bind an entire class, albeit on an "opt out" basis. This makes the Netherlands an attractive venue for settling international mass claims.

### Background of the Case

Converium Holding AG ("Converium") is a Swiss reinsurance company (currently known as SCOR Holding AG). Converium was a wholly owned subsidiary of Zürich Financial Services Ltd ("ZFS") until 2001, when ZFS sold all its Converium shares through an IPO. Converium shares were listed on the SWX Swiss Exchange and Converium ADSs were listed on the New York Stock Exchange. Converium's share price declined after the company announced increases in its loss reserves in the period from 2002 through 2004. These announcements led to securities class actions in the United States against Converium and ZFS on behalf of a worldwide putative class. The United States District Court for the Southern District of New York (the "U.S. Court") certified a class consisting of all U.S. persons who had purchased Converium securities on any exchange, as well as all persons - regardless of their residence - who had purchased Converium securities on a U.S. exchange (the "U.S. Purchasers"). The U.S. Court excluded from the class all non-U.S. persons who had purchased Converium securities on any non-U.S. exchange (the "Non-U.S. Purchasers"). The U.S. class action was settled and these settlements (the "U.S. Settlements") were approved by the U.S. Court. Both Converium and ZFS then settled the potential claims

of all Non-U.S. Purchasers with a Dutch foundation representing the Non-U.S. Purchasers (the "Non-U.S. Settlements"). The Non-U.S. Purchasers were predominantly domiciled in Switzerland and the U.K. Only a few were domiciled in the Netherlands.

### The Court's Decision

The Court's decision on jurisdiction followed substantially the same line of reasoning as its important "Shell decision" of 29 May 2009. *Shell c.s. / Dexia Bank*, LJN BI 5744; NJ 2009, 506. In *Shell*, a Dutch/British entity had recategorized certain of its oil and gas reserves in 2004. The corporate entity reached a worldwide settlement with its shareholders, except for those in the U.S. The Court declared this settlement agreement binding on all shareholders throughout the world, giving full weight to its terms.

The Converium settlement goes one step further than the Shell settlement. In *Converium*, none of the potentially liable parties and only a limited number of the interested persons were domiciled in the Netherlands. While the Court emphasized the significance of a Dutch foundation representing the interested persons and having to distribute the settlement relief under the settlement agreement, the language of the opinion suggests that even without any interested persons domiciled in the Netherlands the Court could have jurisdiction to declare the settlement binding. In its earlier provisional decision, the Court explicitly referred to the limitations for the U.S. courts to do the same in securities and anti-trust cases as a result of the U.S. Supreme Court's decision in *Morrison v. National Australia Bank*.

In *Converium*, a number of the defendants argued that the amount of the settlement for the Non-U.S. Purchasers under the Non-U.S. Settlement concluded by Converium was unreasonable, because the amount to be received by the U.S. Purchasers under the U.S. Settlements was relatively higher. The Court dismissed this objection on the ground that the legal position of the Non-U.S. Purchasers differed substantially from the legal position of the U.S. Purchasers, because the Non-U.S. Purchasers had been excluded from the class by the U.S. Court and no litigation by Non-U.S. Purchasers had been initiated outside of the U.S.

The same defendants also argued that the amount of settlement relief was unreasonable, because the fees for U.S. plaintiffs' lead counsel, to be deducted from the settlement relief, were too high. The Court rejected this objection, holding that the work in connection with the settlement had been carried out for a substantial part within the U.S. by U.S. law firms

and that what is considered customary and reasonable in the U.S. may be taken into account in applying the reasonableness test under Dutch law.

The Court also ruled that the requirement of “representativity” under Dutch law had been met because the Dutch foundation representing the interested persons had various participants and supporters, including shareholder associations and institutional shareholders, domiciled in Switzerland and the U.K., where most known Non-U.S. Purchasers were domiciled.

### *Implications*

The Netherlands is the only European jurisdiction offering a procedure to declare a collective settlement binding on all class members on an “opt out” basis. Using the *Shell* decision as a precedent, the *Converium* decision confirms that the Court not only has jurisdiction to declare an international collective settlement binding on all class members, irrespective of their domicile, but also has the appetite to approve such settlements even if the parties to the settlement and the class members only have a limited connection to the Netherlands.

In theory, all EU Member States, Switzerland, Iceland, and Norway, will have to recognize the *Converium* decision. No case law has yet to address this issue and local law may impact the reception of the *Converium* decision in other European countries.

The *Converium* decision strongly suggests the attractiveness of the Netherlands as an important venue for facilitating international settlements. This would appear to be the case whether the settlement arises from a class action and irrespective of the country in which the litigation took place.

### *Contact information*

If you have any questions or require further information, you may contact Ruud Hermans at [ruud.hermans@debrauw.com](mailto:ruud.hermans@debrauw.com) or Jan De Bie Leuveling Tjeenk at [jan.tjeenk@debrauw.com](mailto:jan.tjeenk@debrauw.com), partners at the Amsterdam office of De Brauw ([www.debrauw.com](http://www.debrauw.com)). The article is submitted by Rurik van Opstal, lawyer at De Brauw and currently on an internship at Quinn Emanuel, Los Angeles office.

## **Federal Court Applies Common Sense To “eDiscovery”; Sets Standard for Search Term Reasonableness**

The pitfalls of discovery of electronically stored information (“ESI”) have become all too common — overbroad or inaccurate search term lists result in too

much data for a meaningful privilege analysis, and massive productions can make review by the receiving party equally daunting. A recent federal court decision out of the District of New Jersey, *I-Med Pharma, Inc. v. Biomatrix, Inc. et al.*, No. 03-3677 (D.N.J. Dec. 9, 2011) (Debevoise, J.) provides a set of common-sense standards for proceeding with ESI discovery searches and review, and clarifies that “exceptional circumstances” are not required to modify a discovery order, even one based on stipulation, where search terms turn out to be overbroad.

I-Med’s suit alleged a refusal to honor an exclusive distribution agreement following a merger between Biomatrix and Genzyme. During discovery, the parties stipulated to a set of search terms that would be used to look for responsive documents on I-Med’s computer systems. However, the stipulated search parameters were quite broad. The stipulated search “was not limited to targeted document custodians or relevant time period ... [and] was not even limited to active files. The expert was instructed to run the search terms across all data on the computer system, including ... areas of computer memory ... in which deleted and partially files and other temporary data may be found.” Slip Op. at 5.

Moreover, the search terms themselves, although containing some proper names, contained common key words like “contract,” “credit,” “discount,” “refund,” and “minimum.” *Id.* at 4-5. In a result that the district court said “should come as no surprise,” the stipulated search terms produced approximately 64 million hits, representing approximately 95 million pages.

I-Med, despite having stipulated to the search protocol, refused to conduct a privilege review of the material, and sought relief from the Magistrate Judge, who found “good cause” to modify the previous discovery order, and released I-Med from the burden of reviewing 95 million pages. *Id.* at 6. Defendants appealed to the District Judge, who concluded that relief from a stipulated discovery order could be granted without a need to show “manifest injustice.”

In analyzing the matter, Judge Debevoise evidenced the increasing sophistication that judges have towards ESI discovery matters. Looking at the effect on the party seeking to withdraw the stipulation, the District Court rightly concluded that a review of millions of documents would represent a major expenditure of attorney time and cost millions of dollars. More importantly, the Court rejected an argument that the burden of this review could be reduced by merely searching for the word

*(continued on page 6)*

“privileged.” *I-Med* at 10-11. Though the stipulation called for searching unallocated space files—areas of computer memory in which deleted and partial files might theoretically exist, the Court found “the Defendants had failed to demonstrate a likelihood that relevant, non-duplicative information would be found” in such areas. *Id.* at 11. While noting that the “precise number of hits produced was not known in advance,” the Court admonished *I-Med* for agreeing to the list of search terms because “it should have exercised more diligence before stipulating to such broad search terms, particularly given the scope of the search.” *Id.* The Court also recognized the distinction between search term “hits” and unique documents, expressing dismay that the parties seemed to have confused the two concepts. *Id.* at 5 n. 4. Noting that the search term list contained terms that would likely have significant overlap, the Court reluctantly “[t]ook the parties at their word” concerning the number of hits per search term versus the number of total documents.

To provide future guidance, the Court announced a new standard for parties to consider when determining if a set of search terms are reasonable: (1) the scope of documents searched and whether the search is restricted to specific computers, file systems, or document custodians; (2) any date restrictions imposed on the search; (3) whether the search terms contain proper names, uncommon abbreviations, or other terms unlikely to occur in irrelevant documents; (4) whether operators such as “and”, “not”, or “near” are used to restrict the universe of possible results; (5) whether the number of results obtained could be practically reviewed given the economics of the case and the amount of money at issue.” *Id.* at 11-12.

The *I-Med* factors provide a common-sense approach to search term lists, and a basic roadmap for parties to dispute (or justify) search term requests. Highlighting the use of proper names, uncommon abbreviations or other highly targeted terms and the use of search restrictions (and/not/near) provide good examples of concrete ways that search term lists can be made more reasonable. *I-Med* provides parties with a “reality check” on ESI discovery — before demanding a more comprehensive set of search terms, a party can weigh the *I-Med* factors to anticipate how a court may view the matter. And *I-Med* provides further reassurances that ESI discovery issues are not too technically complex to be resolved in a courtroom.

## Federal Circuit Grants Mandamus in Biotech Case and Another Patent Case

### Ordering District Courts to Transfer

This past December, the Federal Circuit held in two separate patent cases, one of which involved biotechnology patents, that district courts had abused their discretion in refusing to transfer the cases out of their districts. In these cases, *In re Biosearch Techs., Inc. v. Eurofins MWG Operon Inc.*, 2011 WL 6445102 (Fed. Cir. Dec. 22, 2011), and *In re Link\_A\_Media Devices Corp.*, 602 F.3d 1221 (Fed. Cir. 2011), the Federal Circuit found that the convenience of the witnesses and interests of the forum predominated over the “centrality” of the venue and over plaintiff’s choice of forum, even where the defendant was incorporated in the transferor forum.

*Biosearch* involved a motion to transfer out of the Eastern District of Texas to the Northern District of California. In *Biosearch*, which involved patents directed to fluorescently labeled oligonucleotide probes, the Federal Circuit found that the district court had erred in refusing to transfer on the grounds that Eastern District of Texas was a “proper central location” for the suit. 2011 WL 6445102 at \*1. The plaintiffs had initially sued only *Biosearch*, but subsequently expanded the suit to include three additional defendants, including one Texas-based defendant. The Federal Circuit found that because the Texas-based defendant had agreed not to challenge infringement and had not participated in claim construction, any of its documents located in Texas were not entitled to significant weight in the analysis. *See id.* at \*2. Furthermore, because both the plaintiffs and one defendant were headquartered in California, “[i]t cannot be disputed therefore that such venue would have a strong interest in trying this case and be convenient with regard to the location of likely sources of evidence.” *Id.* at \*2. The Federal Circuit, evaluating the established transfer factors according to governing Fifth Circuit law, found that the fact that at least 19 witnesses, among them the inventors and prosecuting attorneys, resided in California weighed heavily in favor of transfer. *See id.* Neither party identified any witnesses subject to compulsory process in the Marshall Division of the Eastern District of Texas. *See id.* The Federal Circuit emphasized that it had previously found that the “asserted geographical centrality” of a venue “did not outweigh the many aspects of convenience to the defendant” and that it had previously ordered transfer from the plaintiff’s chosen Eastern Texas forum where, as here, there was “a stark contrast in relevance, convenience, and fairness between the two venues.” *Id.* at \*3.

In *Link\_A\_Media*, the petitioner sought to

transfer out of the District of Delaware, also to the Northern District of California. The Federal Circuit, applying governing Third Circuit law, held that the district court had “placed far too much weight on the plaintiff’s choice of forum.” 602 F.3d at 1223. Here, the defendant’s sole connection to the District of Delaware was its incorporation in Delaware. The defendant was headquartered in the Northern District of California, where nearly all of its 130 employees worked. *See id.* at 1222. Furthermore, because Delaware was not the plaintiff’s home forum, the Federal Circuit noted that its choice of forum was “entitled to less deference.” *Id.* at 1223. The Federal Circuit found that the district court had

erred in relying heavily on the defendant’s state of incorporation, which “is certainly not a dispositive fact in the venue transfer analysis.” *Id.* at 1224. The Federal Circuit also held that the district court erred in failing to consider the convenience of the witnesses and the location of books and records, and in its analysis of the public interest factors. In particular, the Federal Circuit emphasized that Delaware had no ties to the dispute or to either party, beyond the defendant’s incorporation there. *See id.* The Federal Circuit also stated that the general experience of the transferor forum in hearing and deciding patent cases was irrelevant where there was no co-pending case involving the same patent. *See id.* [Q](#)

*(Star Trial Lawyer William Burck Joins Quinn Emanuel’s D.C. Office continued from cover)*

Burck’s diverse practice includes both complex domestic and international disputes and white collar defense work. He is particularly known for representing corporations in negotiations, disputes or other proceedings with governments and government agencies in the U.S. and abroad. He has developed a reputation for crafting cutting-edge solutions to challenging legal and regulatory issues and has represented companies and individuals in civil, criminal, congressional and other governmental investigations. He also has expertise representing companies in international corporate crises and related litigation and multi-jurisdictional government investigations in Europe, Russia, South, Central and East Asia, the Middle East, and Africa. He is one of a small group of lawyers appointed by the President of the United States to serve a six-year term on the International Centre

for Settlement of Investment Disputes (ICSID), the premier international institution for adjudicating large-scale trade and investment disputes between private parties and governments around the world. He also served as former Deputy Counsel to the President of the United States and he is a former Assistant United States Attorney in New York City.

Burck has been recognized as one of the leading lawyers in his field by *Euromoney* and *Benchmark*. This year, *Law360* recognized him as one of five “Rising Stars” in the white collar defense area. He is a *magna cum laude* graduate of Yale University and has a J.D. from Yale Law School where he served as editor-in-chief of *The Yale Law Journal*. He clerked for Judge Alex Kozinski on the Ninth Circuit Court of Appeals and Justice Anthony M. Kennedy on the United States Supreme Court. [Q](#)

## QE’s Appellate and Antitrust Practices Ranked Top in the Nation

*Law360* has recognized the firm for having one of the top Appellate and Antitrust Practices in the U.S. The firm’s Appellate Group, led by name partner Kathleen Sullivan, was recognized for wins in a wide range of high-stakes disputes that included defending Wyeth in the U.S. Supreme Court over the future of the childhood vaccine market, representing Google and Yahoo! in the federal courts over the future of online advertising revenues and representing Johnson & Johnson over the fate of patent groups underlying multibillion-dollar pharmaceutical lines. The firm’s Antitrust Practice Group, which is unlike practices at other firms in that it focuses solely on litigation, was recognized for successfully defending Micron against Rambus in one of the highest-profile antitrust jury

trials of the year. Rambus had asserted claims for violations of the Cartwright Act and sought \$4 billion in compensatory damages, trebled to \$12 billion under the Cartwright Act. The jury rejected Rambus’ claims and awarded no damages. The firm’s antitrust group was also commended for winning a dismissal for IBM against T3 Technologies in its antitrust suit involving mainframe computer technology, obtaining a \$25 million settlement for plaintiffs in antitrust litigation over egg products, and for its ongoing high profile representations of plaintiffs in the rail freight fuel surcharge antitrust litigation and direct purchaser plaintiffs in litigation involving flexible polyurethane foam. [Q](#)

changed over the last few years. In the middle of 2010, the FBI and DOJ announced the launch of 66 investigations into theft of trade secrets and economic espionage. Press Release, *Department of Justice Joins in Launch of Administration's Strategic Plan on Intellectual Property Enforcement as Part of Ongoing IP Initiative* (June 22, 2010), <http://www.justice.gov/opa/pr/2010/June/10-ag-722.html>. Six months later, the DOJ announced an increase in the number of EEA prosecutions and vowed to make prosecution of these cases a high priority for law enforcement. 2010 U.S. Intellectual Property Enforcement Coordinator, *Annual Report on Intellectual Property Enforcement*, at 4 (Feb. 2011), available at <http://www.cybercrime.gov/ipcreport2010.pdf>.

As part of this intensified law enforcement effort, the DOJ has stepped up prosecutions of economic espionage—a charge that was once so rare it was compared to a “unicorn sighting.” Sharon Weinberger, *US Charges Scientist With Economic Espionage*, 466 NATURE 542, 543 (July 2010). But economic espionage case “sightings” are more common these days as illustrated by three recent cases.

In July 2010, scientist Kexue Huang was charged with stealing trade secrets related to organic insect products from his former employer, Dow Agrosciences, and using those secrets to conduct unauthorized research with the intent to benefit foreign universities connected to China. Huang ultimately pled guilty to this charge and was sentenced to eighty-seven months in prison. Press Release, Chinese National Sentenced to 87-Months in Prison for Economic Espionage and Theft of Trade Secrets (Dec. 21, 2011), <http://www.justice.gov/opa/pr/2011/December/11-crm-1696.html>.

In July 2011, the DOJ charged Elliott Doxer, an employee in the finance department of Akamai Technologies, with economic espionage after he offered to give information to the Israeli Consulate with the stated intention of helping Israel, and thereafter provided an undercover FBI agent with extensive information about the Akamai's customers, employees, and security systems over a year and a half period. Like Huang, Doxer pled guilty. Doxer was sentenced to six months in prison, followed by six months of home confinement, and ordered to pay a \$25,000 fine. Press Release, Brookline Man Sentenced to One for Foreign Economic Espionage, <http://www.justice.gov/usao/ma/news/2011/December/DoxerElliotSentencingPR.html> (December 19, 2011).

Most recently, on February 8, 2012, the DOJ

unveiled another economic espionage prosecution case charging four individuals and five corporations with a long-running scheme to steal proprietary information from DuPont related to the manufacture of titanium dioxide with the intent to benefit the Chinese government, which had identified such technology as a priority for the country's development. This case is the first economic espionage prosecution against a corporation, which is made all the more significant by the allegations that four of the corporations are controlled by the Chinese government. See DOJ Press Release, *U.S. and Chinese Defendants Charged with Economic Espionage and Theft of Trade Secrets in Connection with Conspiracy to Sell Trade Secrets to Chinese Companies* (Feb. 8, 2012), <http://www.justice.gov/opa/pr/2012/February/12-nsd-180.html>.

The increase in economic espionage prosecutions appear to be a harbinger of more to come: in announcing the DuPont case, the United States Attorney for the Northern District of California proclaimed that “fighting economic espionage and trade secret theft is one of the top priorities of this Office and we will aggressively pursue anyone, anywhere who attempts to steal valuable information from the United States.” *Id.*

### *Increased Focus by Congress*

Complimenting DOJ's prosecutorial efforts, the past year has also seen an increased focus in Congress to the problems posed by economic espionage and theft of trade secrets. Two bills are presently pending before Congress seeking to amend the EEA to provide for enhanced penalties and broader civil remedies.

First, in March 2011—at the recommendation of the U.S. Intellectual Property Enforcement Coordinator, in conjunction with the Departments of Commerce, Homeland Security, Justice and State, and the U.S. Trade Representative—Senators Kohl, Whitehouse and Coons introduced the “Economic Espionage Penalty Enhancement Act,” which would increase the maximum sentence for section 1831 violations from fifteen to twenty years and further direct the U.S. Sentencing Commission to consider increasing the penalty range for both section 1831 and 1832 violations. 157 Cong. Rec. S1978 (daily ed. Mar. 30, 2011). In introducing the Bill, Senator Kohl noted that it was “intended to be a starting point for a larger discussion about the implementation of the Economic Espionage Act, EEA, and whether additional updates and improvements are needed in light of the global economy, and advances in technology.” *Id.*

In bringing the Act before the Senate Judiciary Committee, Chairman Leahy echoed Senator Kohl's sentiment, noting that the Penalty Enhancement Act is "intended to help stem a serious problem holding back economic recovery." Statement of the Honorable Patrick Leahy at December 1, 2011 Meeting of the Senate Judiciary Committee, [http://www.judiciary.senate.gov/hearings/testimony.cfm?id=9b6937d5e931a0b792d258d9b34d9cac&wit\\_id=9b6937d5e931a0b792d258d9b34d9cac-0-1](http://www.judiciary.senate.gov/hearings/testimony.cfm?id=9b6937d5e931a0b792d258d9b34d9cac&wit_id=9b6937d5e931a0b792d258d9b34d9cac-0-1). The Act was favorably reported out of committee on December 8, 2011. See Press Release, *Kohl's Bipartisan Economic Espionage Bill to Protect U.S. Businesses Passes Committee* (Dec. 8, 2011), [http://www.kohl.senate.gov/mobile/pressrelease.cfm?customel\\_dataPageID\\_1464=4859](http://www.kohl.senate.gov/mobile/pressrelease.cfm?customel_dataPageID_1464=4859).

Meanwhile, in October 2011, Senators Kohl and Coons introduced a separate amendment to the EEA. See Press Release, *Kohl Offers Amendment to Protect American Businesses* (Oct. 5, 2011), [http://www.kohl.senate.gov/newsroom/pressrelease.cfm?customel\\_dataPageID\\_1464=4775](http://www.kohl.senate.gov/newsroom/pressrelease.cfm?customel_dataPageID_1464=4775). Because the EEA currently provides no private right of action, judicial protection of trade secrets is limited to cases the DOJ decides to pursue, and, in the absence of copyrighted, patented, or trademarked materials, a patchwork of state civil laws.

This latest amendment aims to close that gap by extending federal jurisdiction to private civil actions for certain types of trade secret misappropriation as an adjunct to the EEA's criminal enforcement provisions. Like the Penalty Enhancement Act, this measure is couched in terms of economic recovery. As Senator Coons, a co-sponsor of the amendment, emphasized in announcing the proposal: "protecting American innovation is critical to protecting American jobs." Press Release, *Senator Coons Introduces Two Amendments to Currency Bill to Protect American Intellectual Property* (Oct. 5, 2011), <http://coons.senate.gov/newsroom/releases/release/senator-coons-introduces-two-amendments-to-currency-bill-to-protect-american-intellectual-property>.

The proposed amendment creates a private cause of action for alleged trade secret misappropriations otherwise meeting the requirements of section 1832 provided that plaintiff includes, along with the filing of the complaint, a sworn declaration that "the dispute involves either substantial need for nationwide service of process or misappropriation of trade secrets from the United States to another country." 157 Cong. Rec. S6227 (daily ed. Oct. 5, 2011). Private plaintiffs would be able to obtain injunctive relief as well as

damages. The proposal also provides for *ex parte* seizure of property used or intended to be used for the misappropriation or to preserve evidence for the civil action upon a finding that such seizure is necessary to prevent irreparable harm. *Id.*

Other issues that Senator Kohl has flagged for consideration include "whether additional protections are needed for trade secrets as part of EEA prosecutions" beyond the current provision for a protective order, and "whether whistleblower protection should be added." 157 Cong. Rec. S1978 (daily ed. Mar. 30, 2011). Accordingly, we may expect to see further efforts to enhance the EEA in the coming months.

### Conclusion

After a fifteen-year slumber, the government has awoken to the perceived dangers of economic espionage. Both Congress and the Executive Branch have publicly stated their intentions to treat prosecutions of economic espionage as a national priority. Beyond words, the DOJ has been investigating and prosecuting economic espionage cases on a scale not heretofore observed in the first fifteen years following the passage of the EEA.

The new regulatory environment carries significant ramifications for both domestic and foreign companies doing business in the United States. Domestic companies victimized by foreign competitors' theft of proprietary information now frequently enlist the assistance of a powerful litigation ally—the Department of Justice—to seek redress for misappropriations. To that end, companies are increasingly retaining outside law firms to conduct investigations with the aim of handing over ready-made EEA cases to federal prosecutors. On the other hand, in the current regulatory environment, foreign companies doing business in the United States—or with persons working in the United States—are, more than ever, at risk of being criminally prosecuted for what would have been considered, until recently, as mere business disputes between competitors. If history is any guide, increased Congressional attention on a politically charged problem, coupled with grand DOJ pronouncements announcing a "war" on the crime *du jour* all too often creates a setting where prosecutors stretch to file criminal cases of dubious merit.

Whether the new focus on pursuing economic espionage cases is sound policy depends at a certain level on whose ox is being gored. But what is not debatable is that the government will be filing more of these cases in the days to come. 

# VICTORIES

## Appellate Victory for Parmalat

The firm achieved a remarkable victory in the Second Circuit on behalf of Dr. Enrico Bondi, administrator of the Parmalat bankruptcy estate in Italy. A unanimous panel held that the S.D.N.Y. erred in retaining federal jurisdiction over a case brought by Dr. Bondi against Grant Thornton, Parmalat's auditor, for its role in aiding and abetting the fraud that led to Parmalat's collapse, and sent the case back to Illinois state court where it was originally filed back in 2004. Grant Thornton removed the case to federal court under the bankruptcy removal statute, which permits federal courts to hear state law claims when they are "related to" a bankruptcy case (here the ancillary petition Dr. Bondi filed in the U.S. bankruptcy court to aid in the administration of the Italian insolvency proceedings). The case was then consolidated before Judge Kaplan in the S.D.N.Y. as part of pending multidistrict litigation proceedings relating to the Parmalat collapse.

Dr. Bondi immediately moved to remand the case to Illinois, arguing that it fit all the requirements of the mandatory abstention provision of the bankruptcy jurisdiction statute, 28 U.S.C. § 1334(c) (2), which provides that a district court must abstain from hearing state law claims that are related to a bankruptcy case when those proceedings can be "timely adjudicated" in state court. The district court denied the motion and refused to certify its decision for appeal. So the case proceeded for the next several years in federal court and was ultimately dismissed on summary judgment on the grounds of *in pari delicto*. Our strategy on appeal to the Second Circuit was to first challenge the district court's denial of mandatory abstention, taking the position that the district court misconstrued the dispositive element of the mandatory abstention statute, "timely adjudication." The Second Circuit agreed and sent the case back to the district court to apply the correct standard. On remand, the district court denied the motion yet again. After a second round of appellate briefing on that decision, the Second Circuit agreed with us again, this time vacating the grant of summary judgment and sending the case directly back to Illinois state court to start anew.

This is a significant victory both for Dr. Bondi and future plaintiffs. The panel's decision set groundbreaking and favorable precedent for the application of the mandatory abstention statute, which will make it harder in the future for defendants to litigate state law claims in federal court that are only tangentially related to bankruptcy cases. Dr.

Bondi now gets a fresh start in state court, a venue he fought for seven years to get back to.

## Trial Victory in Delaware Chancery Court

The firm recently obtained a permanent injunction in Delaware Chancery Court blocking a \$3 billion asset sale. In November 2011, BankAtlantic Bancorp, Inc. announced that it had entered into an agreement to sell its federal savings bank subsidiary, BankAtlantic, to BB&T Corporation. Following a three-day bench trial, the Court issued an order prohibiting Bancorp from closing the sale.

Under the terms of the deal that the Court permanently blocked, Bancorp would have transferred its banking subsidiary, including billions of dollars in loans and deposits, to BB&T. As a result, investors in Bancorp's trust preferred securities ("TruPS") would no longer have been able to rely on a federal savings bank for repayment of their investments. Instead, their investments would have been backed only by Bancorp's remaining assets, much of which were nonperforming and troubled loans.

Hildene Capital Management, LLC and eight other investors in the TruPS sued Bancorp to block the sale. The case was litigated over an expedited two-month schedule culminating in a three-day trial in late January. Plaintiffs relied on covenants in their securities requiring that, if Bancorp sold all or substantially all of its assets, it also had to transfer its TruPS obligations to the purchaser of those assets. These covenants, plaintiffs argued, ensured that repayment of the TruPS would be tied to the bank and not a hodge-podge of criticized assets, such as that which Bancorp proposed to hold after the sale.

The Court agreed with plaintiffs, finding that the banking subsidiary was substantially all of Bancorp's assets and that its sale would fundamentally change the nature of Bancorp's business. The Court concluded that, since BB&T was not taking over the TruPS obligations, the sale violated Bancorp's "substantially all" covenants and would inflict irreparable harm on the TruPS holders. As a result, the Court issued an order permanently blocking Bancorp from closing the sale transaction with BB&T.

## Victory in Insider Trading Case

The firm recently won an insider trading case in the Southern District of New York for Swiss client Chartwell Asset Management Services. Following six months of expedited discovery and motion practice,

the SEC dismissed all charges on the eve of summary judgment briefing. The SEC also agreed to return to Chartwell the over \$9 million deposited with the Court pending resolution of the case.

In early July 2011, Chartwell, a Swiss asset management firm acting for a London-based investor, bought a large position in securities referencing Arch Chemicals, a Connecticut-based company that traded on the NYSE. On Monday, July 11, a Swiss company called Lonza Group announced a takeover of Arch. Chartwell sold its securities for a profit of over \$4 million. That Friday, July 15, the SEC filed a complaint in the federal court in New York alleging insider trading and obtained an ex parte TRO freezing Chartwell's assets. The firm convinced the Court to deny a preliminary injunction barring future violations, and in lieu of the asset freeze ordered by the Court, Chartwell agreed to deposit the amount of its profits and a potential penalty with the Court.

During the six months of expedited discovery that followed, the SEC aggressively pursued its case taking more than a dozen depositions in the U.S. and in Europe. On the eve of summary judgment briefing, the SEC agreed to dismiss its complaint and to the immediate release of Chartwell's over \$9 million in deposited funds. The SEC's dismissal is consistent with long-standing case law establishing that the SEC cannot proceed in an insider trading case without evidence of both a connection and access to an insider.

## Victory in Major Patent Enforcement Campaign for Epson

The firm recently brought to a successful conclusion one of the most widely-watched IP enforcement campaigns in the printer technology industry by obtaining significant victories in quick succession in three tribunals: the United States District Court for the District of Oregon; the United States Court of Appeals for the Federal Circuit; and the U.S. International Trade Commission. In all, 20 patents, 40 defendants and thousands of different infringing ink jet cartridge models were at issue.

Over the course of three full days of oral argument before the Oregon District Court in Fall 2011, Quinn Emanuel first obtained critical summary judgment rulings in favor of its client, the patentee. These rulings included decisions that the asserted claims of the firm's client's innovative printer technology patents were infringed by a competitor defendant and a decision throwing out the competitor's inequitable conduct defense and *Walker Process* antitrust counterclaim that,

until that time, the competitor had publicly touted in the industry as a potentially valuable claim. The rulings in favor of the firm's client left its competitor facing a trial with little upside; unless it could prove that the infringed patents were invalid—and Quinn Emanuel's concurrent defeat of the summary judgment motions of invalidity suggested it could not—the competitor would owe the firm's client staggering damages.

Then, in February 2012, the firm brought the same competitor to heel when, in a published and precedential opinion, the Federal Circuit affirmed an \$11.11 million penalty against it issued by the ITC in 2009. That penalty arose from the competitor's violations of a General Exclusion Order and cease and desist orders that Quinn Emanuel first obtained for its client in October 2007. Although such penalties are paid to the United States rather than the patentee, patentees—including Quinn Emanuel's client—participate actively in these proceedings to ensure the efficacy of the orders protecting their IP rights at the United States' borders. The Federal Circuit's opinion fully vindicated the constitutional authority of the ITC to impose penalties—even significant, multimillion dollar penalties—against infringers that violate its orders despite numerous challenges raised by the competitor. Although the ITC has become a very popular forum for protecting IP rights in recent years, there have been relatively few enforcement proceedings prosecuted to completion, much less appealed to the Federal Circuit. Quinn Emanuel expects that the Federal Circuit's decision in its client's and in the ITC's favor will be cited for years to come as patentees work with the ITC to make sure the Commission's orders are enforced.

Just later the same month, The firm scored a third victory for the same client when it convinced an ITC Administrative Law Judge to recommend that the exclusion and cease and desist orders the firm first obtained for its client in 2007 be modified to prohibit the importation of ink cartridge components. This modification gives further teeth to the existing orders by precluding infringers from importing cartridge components into the United States only to assemble and sell them as infringing wholes.

These three victories coincided with a global settlement of the epic, six-year battle between Quinn Emanuel's OEM printer manufacturer client and its competitor that was very favorable to the firm's client. This series of wins shows that Quinn Emanuel can get its clients desirable results in any forum and in any procedural posture. 

## business litigation report

## quinn emanuel urquhart & sullivan, llp

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