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Remedying Cyber Attacks Through Trade Secret Claims at the ITC

Cyber attacks against U.S. entities—including theft of assets, vandalism of property, interference with business transactions, and misappropriation of trade secrets—have proliferated over the past few years. Cyber attack victims this year have included Apple, Facebook, and Microsoft. Damon Poeter, *Microsoft Joins Ranks of the Tragically Hacked*, PCMag.com (Feb. 22, 2013), www.pcmag.com/article2/0,2817,2415787,00.asp. The U.S. government has now taken notice. The head of the National Security Agency recently declared that cyber attacks have accounted for the "greatest transfer of wealth in history." *China, US Hacking Dispute Heats Up*, IndustryWeek (June 24, 2013), http://www.industryweek.com/information-technology/china-us-hacking-dispute-heats. The significance of the trend was also recognized by the White House earlier this year when it issued an Executive Order setting forth voluntary standards and best practices to reduce cyber risks to critical infrastructure. *Improving the Security of the Nation's Critical Infrastructure*, The White House Blog (April 13, 2013), http://www.whitehouse.gov/blog/2013/02/13/improving-security-nation-s-critical-infrastructure. Technology is constantly evolving, and foreign perpetrators of cyber attacks, enabled by increasingly sophisticated tools, pose a greater danger to U.S. companies' trade secrets than ever before. *See, e.g.*, Joseph Menn, *U.S. Bank Website Hackers Used Advanced Botnets, Diverse Tools*, NBC News (Oct. 2, 2012), http://www.nbcnews.com/technology/u-s-bank-website-hackers-used-advanced-botnets-diverse-tools-6238850 (noting use of web server-based, as opposed to personal computer-based, botnets as example of "sophisticated and diverse tools" used by contemporary hackers). Such cyber thieves may cause further harm to the victims of cyber attacks by employing stolen trade secrets in competing products in the U.S. marketplace.

These attacks, which are perpetrated over the internet and through computer networks, and which typically target companies' confidential information,

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Quinn Emanuel Named to *The National Law Journal*'s 2013 "Appellate Hot List"

The firm has once again been named to *The National Law Journal*'s "Appellate Hot List." This year the firm won several game-changing appellate victories. It led client Shell Oil to a 9-0 victory in the U.S. Supreme Court in a landmark ruling limiting Alien Tort Statute lawsuits against companies doing business in foreign nations. In the Federal Circuit, the firm won a vacation of a preliminary injunction that had been entered against Samsung's Galaxy Nexus smartphone. In the Ninth Circuit, the firm won reversal of a $172.5 million trade-secret verdict on behalf of client Mattel Inc. And in the Second Circuit, the firm obtained a key reversal of a decision holding that a federal court had jurisdiction over American International Group Inc.'s suit against Bank of America Corp. covering mortgage-backed securities. Q

International Arbitration Conferences in Moscow and Palo Alto

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Quinn Emanuel Wins *Managing Intellectual Property*'s 2013 Award for Contentious Intellectual Property in Germany

The firm was selected by *Managing Intellectual Property* out of six nominees as the top firm practicing contentious intellectual property in Germany. To the firm's knowledge, this is the first time a firm has ever won both this award and *JUVE*'s "IP Law Firm of the Year" and "Patent Law Firm of the Year" awards in the same year. Quinn Emanuel's German attorneys have played central roles in Germany's smartphone wars, securing victories for industry leaders Google, Motorola and Samsung. Q can often be traced back to foreign entities. U.S. companies face many challenges to remedying the effect of such unfair conduct. One forum to consider in seeking recourse is the U.S. International Trade Commission ("ITC") pursuant to Section 337 of the Tariff Act of 1930, 19 U.S.C. § 1337. Trade secret misappropriation claims at the ITC provide many advantages over traditional mechanisms of pursuing foreign cyber thieves, including the ability to obtain remedial orders excluding any of the thieves' products that utilize stolen trade secrets from the United States and streamlined mechanisms for obtaining discovery abroad.

Cyber Attacks and Trade Secret Misappropriation

Federal and state laws offer various legal remedies to combat cyber trade secret misappropriation. *See, e.g.*, Economic Espionage Act, 18 U.S.C. §§ 1831-1839 (criminalizing theft or misappropriation of trade secrets); Computer Fraud and Abuse Act, 18 U.S.C. § 1030 (criminalizing disclosure of protected information through unauthorized computer access); 765 Ill. Comp. Stat. Ann. 1065/2. When cyber attacks originate abroad and lead to theft of trade secrets, pursuing claims in a federal or state court generally requires litigants to go through the laborious process of conducting foreign discovery pursuant to the provisions of the Hague Convention. *Hague Convention on the Taking of Evidence Abroad in Civil or Commercial Matters*, Mar. 18, 1970, 23 U. S. T. 2555. This requires additional time and resources, and can make the discovery process difficult and time consuming. *Hague Convention on Taking of Evidence Abroad in Civil or Commercial Matters*, U.S. Department of State (undated), http://travel.state.gov/law/judicial/judicial_689.html (estimating that it will generally take six months to a year to execute a Request under the Hague Convention) (internal citations omitted). Additionally, plaintiffs in district and state court may be foiled by jurisdictional problems in pursuing trade secret misappropriation claims. For example, in *Wistron Corp. v. Phillip M. Adams & Assocs.*, C-10-4458 EMC, 2011 WL 4079231 (N.D. Cal. Sept. 12, 2011), the court found it lacked jurisdiction to hear a defendant's counterclaim for trade secret misappropriation where defendant could show "no factual nexus to Utah—*e.g.*, [defendant] has no connection to Utah (thus no injury was suffered there) and the alleged misappropriation took place in Asia." *Id.* at *7.

Trade Secret Misappropriation Claims at the ITC

The ITC presents a compelling forum for pursuing trade secret misappropriation claims. Section 337 of the Tariff Act of 1930 empowers the ITC to investigate ". . . [u]nfair methods of competition and unfair acts in the importation of articles . . . ." 19 U.S.C. § 1337(a)(1). For over three decades, the misappropriation of trade secrets has constituted an "unfair method of competition or unfair act which falls within the purview of Section 337." *Certain Processes for the Manufacture of Skinless Sausage Casings and Resulting Products*, Inv. No. 337-TA-148/169, USITC Pub. 1624, Initial Determination at 244 (Nov. 1984) ("*Sausage Casings*"); *see also Certain Apparatus for the Continuous Production of Copper Rod*, Inv. No. 337-TA-52, USITC Pub. 1017, Comm'n Op. at 38 (Nov. 1979) ("*Copper Rod*"). The recent Federal Circuit decision in *TianRui Group v. International Trade Commission*, 661 F.3d 1322 (Fed. Cir. 2011) ("*TianRui*"), affirmed the ITC's role in protecting companies with a U.S. presence against the theft of trade secrets.

In *TianRui*, a U.S. manufacturer of cast steel railway wheels, Amsted Industries, owned secret processes for manufacturing such wheels. Amsted licensed one of its processes to several companies in China. TianRui, a competing Chinese company, sought a license for that same process from Amsted, but the parties could not reach an agreement. TianRui then approached one of Amsted's Chinese licensees and hired away several employees with knowledge of Amsted's secret process. Those employees allegedly disclosed Amsted's process to TianRui, which in turn formed a joint venture that marketed and sold into the U.S. wheels that incorporated Amsted's secret process. Amsted filed a complaint at the ITC alleging trade secret misappropriation. The ITC found that the importation of TianRui's wheels, which were made with Amsted's misappropriated trade secrets, violated Section 337. *See Certain Cast Steel Railway Wheels, Processes for Manufacturing or Relating to Same and Certain Products Containing Same*, Inv. No. 337-TA-655, USITC Pub. 4265, Comm'n Op. at 1 (Oct. 2011) ("*Cast Steel Railway Wheels*"). On appeal, the Federal Circuit affirmed the ITC's determination, finding a violation of Section 337 based on trade secret misappropriation. *TianRui*, 661 F.3d at 1324. Interpreting Section 337 in a "broad and flexible" way, the Federal Circuit held that the ITC's authority to restrict the importation of goods produced through trade secret misappropriation applies to situations where none of the alleged acts of misappropriation occurred in the United States if all the other requirements of the statute are met. *Id.* at 1331, 1332.

Unsurprisingly, since *TianRui*, the ITC has seen a spike in trade secret misappropriation claims against foreign entities. Between the issuance of that decision in October 2011 and the beginning of 2013, the ITC received six complaints, including one enforcement complaint, involving trade secret misappropriation claims. As a point of comparison, the ITC instituted only five such investigations between 1996 and 2011. Jeffrey M. Telep & Taryn Koball Williams, *A Surge in Trade Secret Misappropriation Cases at ITC*, Law360 (Feb. 1, 2013, 12:50 PM), http://www.law360.com/articles/411608/. A complaint alleging misappropriation of trade secrets surrounding certain technology used in cranes was filed as recently as June 2013. *See Certain Crawler Cranes and Components Thereof*, USITC Docket No. 2960, Compl. (June 12, 2013).

An Overview of Trade Secret Misappropriation Investigations at the ITC

In order to bring a trade secret misappropriation case at the ITC, a complainant must meet the requirements for proving a trade secret misappropriation under federal common law. *TianRui*, *661* F.3d at 1327-28. Additionally, a complainant must show that there was importation or sale of an article that practices or was made with a process that practices that misappropriated trade secret. A complainant must also meet the domestic industry requirement under subparagraph (a)(1)(A) of Section 337, which differs from claims brought under subparagraphs (B) through (E), which relate to "statutory intellectual property (such as patents, copyrights, and registered trademarks) . . . ." *Id.* at 1335. If the ITC finds the respondent violated Section 337, then it will issue an exclusion order and/or cease and desist order to enjoin respondents' accused articles from being imported into or sold within the United States, if such a remedy is not contrary to the public interest.

Trade Secret Misappropriation

In order to prevail on a claim of trade secret misappropriation, a complainant must show "the existence of a trade secret which is not in the public domain." *Copper Rod*, Inv. No. 337-TA-52, USITC Pub. 1017, Comm'n Op. at 38 (Nov. 1979). In determining whether a trade secret exists under federal common law, the ITC looks to the Restatement of Unfair Competition and the Uniform Trade Secrets Act ("UTSA") as well as prior Commission determinations. *TianRui*, 661 F.3d at 1328. The UTSA defines a "trade secret" as "information, including a formula, pattern, compilation, program, device, method, technique, or process" that both has "independent economic value" and is the "subject of [reasonable] efforts . . . to maintain its secrecy." UTSA § 1(4) (1985). To prove that a trade secret was not "in the public domain," a party must show that the trade secret did not encompass "matters of general knowledge in the industry, or those that can be readily discerned . . ." *Sausage Casings*, Inv. No. 337-TA-148/169, USITC Pub. 1624, Initial Determination at 246. Unlike other intellectual property, a party "may lose [trade secret] protection if adequate steps are not taken to maintain secrecy." *Id.* Additionally, in order for a complainant to have standing before the ITC, it must "establish[] ownership of the asserted trade secrets." *Copper Rod*, Inv. No. 337-TA-52, USITC Pub. 1017, Comm'n Op. at 38 (requiring that "complainant is the owner of the trade secret or possesses a proprietary interest therein").

Once a complainant has shown ownership of a trade secret, it must then demonstrate that the trade secret was misappropriated. *See Sausage Casings*, Inv. No. 337-TA-148/169, USITC Pub. 1624, Initial Determination at 247 ("Once it is established that a trade secret exists and that its secrecy has been adequately protected, it must be determined how respondent gained access to the information."). Misappropriation can occur through either the use of "improper means" or the breach of a confidential relationship. *See* UTSA § 1(2); *see also Copper Rod*, Inv. No. 337-TA-52, USITC Pub. 1017, Comm'n Op. at 38 (requiring that "the complainant disclosed the trade secret to respondent while in a confidential relationship or that the respondent wrongfully took the trade secret by unfair means"); *TianRui*, 661 F.3d at 1328 ("TianRui obtained access to Amsted's confidential information through former Datong employees, who were subject to duties of confidentiality imposed by the Datong code of employee conduct . . .").

Importation

Section 337 is fundamentally a trade statute. Accordingly, a complainant must show that respondents import articles, or sell imported articles that utilize the trade secret. 19 U.S.C. § 1337(a)(1)(A); *see also TianRui*, 661 F.3d at 1335 (Section 337 "applies to goods that are presented for importation" into the United States).

Domestic Industry

A complainant must also show that the threat or effect of such importation or sale of imported articles utilizing the misappropriated trade secret: (i) has destroyed or substantially injured an industry in the United States, (ii) has prevented the establishment of an industry in the United States, or (iii) has restrained or monopolized trade and commerce in the United States. 19 U.S.C. § 1337(a)(1)(A). Typically, this involves proving, first, that a domestic industry exists, and second, that this domestic industry has been injured or is under a threat of injury from the importation of the accused articles.

Importantly, trade secret actions brought under Section 337(a)(1)(A) do not require a complainant to prove that a domestic industry exists as to the *specific* trade secret that was misappropriated. Unlike copyright and patent infringement claims, which require proof of a domestic industry related to the *asserted* intellectual property rights, a trade secret misappropriation claim only requires that "*an* industry" be threatened or injured by the accused products. 19 U.S.C. § 1337(a)(1)(A)(i) (emphasis added); *TianRui*, 661 F.3d at 1335. For instance, a complainant can meet this requirement by demonstrating that the imported articles could directly compete with articles produced domestically by the trade secret owner, even where the domestic article is manufactured using different trade secrets than those that were misappropriated. *TianRui*, 661 F.3d at 1337.

In determining whether a domestic industry has been substantially injured under Section 337(a)(1)(A)(i), the ITC considers a "broad range of indicia, including the volume of imports and their degree of penetration, lost sales, underselling by respondents, reduction in complainants' profits or employment levels, and declining production, profitability and sales." *Certain Electric Power Tools, Battery Cartridges, and Battery Chargers*, Inv. No. 337-TA-284, USITC Pub. 2389, Initial Determination at 246 (June 1991) ("*Electric Power Tools*"). The Commission has found that this requirement is met "[w]hen an assessment of the market in the presence of the accused imported products demonstrates relevant conditions or circumstances from which probable future injury can be inferred." *Id.*

Remedy

A successful complainant at the ITC can obtain an exclusion order enjoining the respondent from importing the offending articles into the United States and/or a cease and desist order enjoining domestic manufacture or sale of the relevant articles by the respondent within the United States. 19 U.S.C. § 1337(d), (f). Before issuing any such orders, the ITC is required by statute to consider their effect on the public interest. *See* 19 U.S.C. § 1337(d)(1). Generally, unless unusual and compelling factors are present—*e.g.*, factors affecting the public health and welfare, competitive conditions in the United States economy, the production of like or directly competitive articles in the United States, or United States consumers—such considerations do not preclude or alter the proposed remedial orders.

In the context of trade secrets, a "complainant would be entitled to the issuance of a limited exclusion order that covers all of respondents' [accused products] . . . that are the result of respondents' misappropriation." *Cast Steel Railway Wheels*, Inv. No. 337-TA-655, USITC Pub. 4265, Comm'n Op. at 7 (Oct. 2011). The duration of a remedial order based on trade secret misappropriation is calculated as "the amount of time it would have taken [respondent] to reproduce [complainant's] trade secret by lawful means, i.e., a reasonable research and development period . . . ." *Copper Rod*, Inv. No. 337-TA-52, USITC Pub. 1017, Comm'n Op. at 67. Where multiple trade secrets are involved, the ITC looks to the necessary development time "required to develop the complete processes in which the misappropriated trade secrets were used" as opposed to the time it would have taken to develop each trade secret independently. *Viscofan, S.A. v. U.S. Int'l Trade Comm'n*, 787 F.2d 544, 551 (Fed. Cir. 1986). The term of the remedial order runs from the date of the ITC's order, not the date of misappropriation. *Id.* In past trade secret investigations, the ITC has issued orders between five and ten years in length.

Advantages to Bringing Trade Secret Claims at the ITC

The ITC offers several advantages to a U.S. company seeking to respond to cyber attacks conducted by foreign entities from remote locations overseas. For example, the ITC permits a complainant to obtain discovery from a foreign respondent without the same procedural hurdles found in district court. *See* 19 C.F.R. § 210.27 – 210.34 (governing discovery at the ITC). This advantage derives from the fact that the ITC has national *in rem* jurisdiction over imported products, regardless of whether such products are imported or sold by a foreign or domestic party.

The time within which an aggrieved party may obtain relief can also be expedited in the ITC. ITC investigations are generally conducted at a much faster pace than district court proceedings. All § 337 investigations must be concluded within 16 months of being instituted, absent extenuating circumstances. Further, while the Commission Rules calculate a respondent's response time differently depending on the means of service on foreign parties, the remaining Commission Rules apply equally to both foreign and domestic respondents. Thus, a foreign party to an investigation may only decide not to appear at its own peril, and a failure to respond can result in a finding of a § 137 violation by default judgment, with the consequence of exclusion of the respondent's products from the United States market. *See* C.F.R. sections 210.16, 210.17.

Not surprisingly, these advantages inure to the benefit of an aggrieved complainant. In at least one case, a party was able to obtain protection for its domestic industry while the local courts where the misappropriation occurred—in France and Spain—declined to pursue claim altogether. *See Sausage Casings*, Inv. No. 337-TA-148/169, USITC Pub. 1624, Comm'n Op. at 12.

Conclusion

Given the advantages available to a complainant at the ITC, including the ability to exclude articles made with trade secrets misappropriated abroad, the different mechanisms for obtaining foreign discovery, and rapid timetable in which relief can be obtained, the ITC is an attractive forum for pursuing the theft of trade secrets stolen through cyber attacks. Q

NOTED WITH INTEREST

Supreme Court Decides Landmark Gene Patent Case

Actress Angelina Jolie recently spent around $3200 to take one of Myriad Genetics' many breast cancer screening tests. When the test revealed that a mutation existed somewhere in a sequence of 81,000 nucleotides found on her seventeenth chromosome, Jolie made an aggressive decision. She opted for a double mastectomy to remove the entirety of her breast tissue. In doing so, she drastically reduced the 50-80% chance that women with mutations in the BRCA1/BRCA2 sequence will develop breast or ovarian cancer.

The Supreme Court recently issued its unanimous decision in the closely-watched case of *Association for Molecular Pathology v. Myriad Genetics*, in which it held that an isolated segment of human DNA is not eligible for patent protection. The Court held that Myriad Genetics did not have the right to be the sole user and analyst of two genes critical to the detection and diagnosis of breast cancer. Because the genetics company "did not create anything," but rather only isolated a segment of naturally-occurring DNA, the Court ruled that Myriad's claims were invalid based on the subject matter requirements of 35 U.S.C. § 101.

The Court found the mere act of isolating certain gene segments insufficient to receive patent protection. The Court affirmed the patentability of synthetic, man-made genes, and left open the possibility of providing patent protection for natural gene sequences that have been subject to some alteration. The ruling also provides guidance for drafting patents that claim other biomolecules, such as carbohydrates and lipids.

By invalidating Myriad's patents, other genetic companies may be able to offer screening tests at competitive pricing. Whether the Court provided a definitive answer to the question, "are human genes patentable?" may not be known until these issues are further tested by the lower courts.

Isolating the BRCA1 and BRCA2 Genes

In 1994, researchers at Salt Lake City-based Myriad Genetics identified and obtained a patent on the precise genetic sequences that may harbor a mutation that corresponds to a significantly increased risk for breast cancer. By studying the genetic sequences of thousands of women, Myriad was able to pinpoint the mutation-carrying genes—a distinct sequence of 81,000 nucleotides designated BRCA1 and BRCA2. With this knowledge, Myriad has been able to offer a number of predictive breast cancer tests, albeit at a cost reflecting the $500 million that was spent in research and development.

The human genome is composed of DNA, the well-known double-helix chain. DNA is found in all known forms of life and functions as a blueprint for the various proteins that help to build cells. Although it is comprised of both coding and non-coding segments, only the coding segments of DNA are relevant to the creation of new compounds. By splitting DNA into two strands and excising the non-coding portion, the body is able to use the resulting genetic code to generate different amino acids, the building blocks of proteins. In this manner, the human body constantly produces a vast number of different proteins based on the discrete segments of DNA known as genes.

This same replication process can be performed in the laboratory. Moreover, lab technicians can create synthetic DNA that includes only the coding portions of the genetic sequence. By utilizing these well-known procedures, Myriad isolated and recreated the precise mutation-carrying gene its researchers had already identified. By comparing patients' BRCA gene with normal BRCA genes to identify any discrepancies—known as mutations—Myriad's test can inform individuals if they are genetically predisposed to a severely increased risk of developing breast cancer.

Myriad obtained a composition patent on BRCA1 and BRCA2, thereby preventing any other company from reproducing the genes for the purposes of screening tests. When the University of Pennsylvania's Genetic Diagnostic Laboratory (GDL) began offering genetic testing services to women, Myriad filed suit to enforce its patent. The case settled when GDL agreed to stop testing and otherwise cease all allegedly infringing activity. In similar fashion, Myriad prevented a number of other entities from providing BRCA1 and BRCA2 genetic testing.

In 2009, Dr. Ostrer, a researcher at New York University School of Medicine who routinely sent his patients' DNA samples to GDL for testing, sought declaratory relief to obtain a judgment of patent invalidity.

Affirmed in Part, Reversed in Part

Myriad presented the Court with a profoundly fundamental question to resolve, especially in the face of very complex science: where to draw the line between natural and man-made. The Supreme Court and the Federal Circuit have interpreted patent laws to allow protection for "anything under the sun made by man," while also denying the grant of a patent monopoly to laws of nature, natural phenomenon, or discoveries of such laws of nature, no matter how ground breaking, innovative or brilliant.

On March 29, 2010, Judge Sweet of the Southern District of New York issued a 152-page opinion determining that isolated DNA molecules were not patent eligible subject matter. The Court of Appeals for the Federal Circuit reversed, explaining that the claimed isolated strands did not exist independently in nature, but only as part of a longer DNA chain. The Federal Circuit upheld the claims on both the DNA and synthetic DNA compositions, as well as the method claims for screening of cancer-causing mutations.

Writing for the Supreme Court, Justice Thomas reversed the Federal Circuit on the DNA claims, but affirmed the portion of the ruling pertaining to the synthetic DNA. Myriad's discovery and isolation of the naturally-occurring genetic sequences were not sufficiently transformative for patent protection, Justice Thomas explained. Conversely, the synthetic DNA—a copy of DNA, only without the coding segments—was unlikely to ever be naturally occurring and therefore was eligible for patent protection.

The decision comports with the Supreme Court's previous jurisprudence relating to bioengineering inventions. In *Diamond v. Chakrabarti*, the Court gave the nod to a patent claiming an engineered bacterium that had never before existed in nature. 447 U.S. 303 (1980). In *Funk Brothers Seed Co. v. Kalo Inoculant Co.*, however, the Court ruled that discovering compatible combinations of bacteria without altering them in any way was not enough for patent protection. 333 U.S. 127 (1948).

Conclusion

The impact of the Supreme Court's decision may be felt most by women who soon might be able to purchase more affordable screening tests for the BRCA1 and BRCA2 genes. More than 1 in 10 women develop breast cancer, and it is not unreasonable to assume that the social importance of this technology weighed on the minds of the Court's members.

However, Myriad is not ready to give up its monopoly on BRCA gene testing without a fight. When Ambry Genetics publicly announced that it had begun offering cheaper breast cancer testing as a result of the Court's ruling, Myriad filed a patent infringement suit asserting a number of patent claims that were left intact by the Court. Myriad argues that the Supreme Court affirmed the validity of its claims directed to synthetic DNA and methods of testing. Ambry Genetics disputes that its tests utilize synthetic DNA or Myriad's testing methods. Only time will tell whether competitors will be able to offer genetic screening tests while successfully steering clear of Myriad's surviving patent claims.

Finally, it is unclear how the Court's ruling—which addresses only DNA—will affect the rest of the biotech industry, especially with respect to the practice of patenting other isolated organic compounds, such as lipids and carbohydrates. The same day the Court issued its ruling, the PTO released a memorandum instructing patent examiners to "reject product claims drawn solely to naturally occurring nucleic acid, or fragments thereof, whether isolated or not." The decision may encourage the biotech industry to draft patents regarding the human genome differently, emphasizing the method of creation and the dissimilarity with the naturally-occurring version of the biomolecule. Q

International Arbitration Conferences in Moscow and Palo Alto

In collaboration with The Russian Corporate Counsel Association (RCCA), Quinn Emanuel recently hosted a Moscow international arbitration conference on the subject of "The Secrets to Winning International Arbitrations Today – An Inside Counsel's Guide." The conference focused on unique, practical, and highly effective strategies for winning international arbitrations. Lawyers from 150 Russian and international companies such as Gazprom, Interros, Renova, Sberbank, VTB, Rosnano, Rushydro, UAC, General Electric, Enel, Samsung, JTI, and PepsiCo attended the event. The firm also hosted an international arbitration seminar for Northern California in-house counsel entitled, "Choosing, Drafting and Managing International Arbitration." The seminar addressed the advantages of international arbitration, its perceived problems and criticisms, the arbitration clause, the seat of the arbitration, choosing arbitration rules, third party funders, documents and "discovery," remedies and enforcement. Both events were highly successful and were led by Quinn Emanuel's international arbitration experts from the United States, United Kingdom, France, and Russia. Q

Appellate Update

U.S. Supreme Court Concludes October 2012 Term. The U.S. Supreme Court concluded its October 2012 Term in June with a number of highly publicized cases on issues like race and gay marriage, but equally notable are the Term's major business decisions. In the fields of arbitration, class action, preemption, and employment law, the Roberts Court continued its striking trend toward interpreting statutes and procedural rules so as to make it more difficult to pursue claims in civil litigation.

Arbitration. In *American Express Co. v. Italian Colors Restaurant*, 133 S. Ct. 2304 (2013), the Court interpreted the Federal Arbitration Act ("FAA") to make class action waivers in arbitration clauses enforceable even where the cost of bringing a federal statutory claim in individual arbitration exceeds the potential recovery. Italian Colors Restaurant, on behalf of itself and other merchants, sued American Express for violations of the federal antitrust laws, arguing that American Express had used its monopoly power in the charge card market to extract excessive fees from merchants accepting its credit cards. The Court, in a 5-3 decision, reversed the Second Circuit, which had found an exception to the waiver because the costs of bringing the antitrust claim on an individual basis (including seven-figure expert fees) exceeded the potential recovery of only $38,549. The Court thus held that American Express was entitled to compel arbitration on an individual basis pursuant to the agreement between American Express and its customer-merchants. "[T]he fact that it is not worth the expense involved in *proving* a statutory remedy," the Court wrote, "does not constitute the elimination of the *right to pursue* that remedy."

Class Actions. In *Comcast Corp. v. Behrend*, 133 S. Ct. 1426 (2013), the Court reversed a ruling affirming a class certification in an antitrust case where there was an issue whether class-wide damages could be proved. Reversing the Third Circuit, the Court held by a vote of 5-4 that, in applying Fed. R. Civ. P. 23(b)(3)'s requirement that common issues of law or fact predominate over individual facts, a court may not ignore questions at the certification stage just because they also go to the merits of the claim; that the rigorous analysis required at the class certification stage applies to issues of damages as well as liability; and that plaintiffs' damages model—which assumed the validity of four different theories of antitrust impact, three of which the district court had rejected—fell "far short" of satisfying the predominance requirement. The decision gives defendants a new argument against class certification in any case where plaintiffs are unable to develop a damages model based on a theory of liability that is susceptible to class-wide proof. While the reach of *Comcast* outside the antitrust context is yet to be determined, the Court has already vacated and remanded, in light of *Comcast*, three appeals court judgments that had affirmed class action certifications in wage-and-hour and product-liability cases. In contrast to recent decisions increasing burdens on class action plaintiffs, however, *Amgen Inc. v. Connecticut Retirement Plans & Trust Funds*, 133 S. Ct. 1184 (2013), held by a vote of 6-3 that class plaintiffs in a securities fraud case under § 10(b) need not prove at the certification stage that defendant's alleged misrepresentations were "material"—an essential element of the underlying § 10(b) claim.

Preemption. In *Mutual Pharmaceutical Co., Inc. v. Bartlett*, 133 S. Ct. 2466 (2013), the Court held that federal law preempts state-law design-defect claims against manufacturers of drugs that are the generic equivalents of FDA approved drugs. Reversing the First Circuit, the Court held by a vote of 5-4 that a $21 million judgment against Mutual Pharmaceutical under New Hampshire law had been improperly granted. The majority found that the state's design-defect law required the company to alter either the labeling or the chemical composition of the challenged drug and thus conflicted with the Federal Food, Drug, and Cosmetic Act's requirement that a generic drug use the same labeling as its brand-name equivalent. The Court rejected the First Circuit's suggestion that Mutual Pharmaceutical could have complied with state and federal law by withdrawing its drug from the market, holding that "[o]ur pre-emption cases presume that an actor seeking to satisfy both his federal- and state-law obligations is not required to cease acting altogether in order to avoid liability." The decision extended the Court's earlier decision in *Pliva v. Mensing*, 131 S. Ct. 2567 (2011), which had found the same kind of conflict preemption under the FDCA for state-law negligent-failure-to-warn claims; the cases leave *branded* manufacturers, however, subject to such state-law claims under the Court's previous decision in *Wyeth v. Levine*, 555 U.S. 555 (2009), where the Court held that branded manufacturers (unlike generic manufacturers) *can* change their labels under the FDCA.

Employment. In employment discrimination cases last Term, the Court made it more difficult for plaintiffs to succeed on workplace harassment and retaliation claims. Under Title VII, an employer is strictly liable when a "supervisor" commits workplace harassment that results in a tangible employment action. In *Vance v. Ball State University*, 133 S. Ct.

2434 (2013), the Court, in a 5-4 decision, narrowed the definition of "supervisors" under Title VII to those who are "empowered by the employer" to make "a significant change in employment status, such as hiring, firing, failing to promote, reassignment with significantly different responsibilities," rejecting the broader definition urged by the plaintiffs that would have defined a "supervisor" as one who assigns a worker day-to-day tasks. In *University of Texas Southwestern Medical Center v. Nassar*, 133 S. Ct. 2517 (2013), the Court held, again in a 5-4 decision, that a retaliation claim may not proceed unless the plaintiff employee can prove that his employer would not have taken the adverse employment action "but for" a desire to retaliate. The Court rejected, for retaliation claims, the less stringent standard used in some other kinds of employment discrimination actions that allows a plaintiff's case to proceed if the prohibited ground is merely a "motivating factor" in the employer's decision.

This Term thus reinforced that, where statutes or procedural rules are ambiguous, the Roberts Court tends to use the tools of statutory interpretation to read them in ways that limit civil litigation. Such decisions, this Term, as in previous Terms, have yielded significant victories for the business community.

Arbitration Update

U.K. Supreme Court Affirms Power of English Courts to Issue Anti-Suit Injunctions Against Proceedings Commenced Overseas in Breach of an Arbitration Agreement. The U.K. Supreme Court recently handed down its decision in *Ust-Kamenogorsk Hydropower Plant JSC v. AES Ust-Kamenogorsk Hydropower Plant LLP* ([2013] UKSC 35), a dispute between a Kazakhstani hydroelectric plant owner and the operator of that plant. The ruling affirmed the power of English courts to restrain foreign proceedings that violate arbitration agreements, at least if they were commenced in a jurisdiction outside the regime of the EU Brussels Regulation (44/2001) or the Lugano Convention.

The plant owner and plant operator entered into an agreement requiring the arbitration of all disputes in London. Even so, the plant owner later brought suit against the plant operator in a Kazakhstan court. Shortly after, the plant operator sought from an English court an injunction prohibiting the plant owner from commencing or pursuing legal proceedings in Kazakhstan. The court granted the plant operator's request based on the terms of the parties' arbitration agreement, and two higher courts affirmed that decision. The plant owner then appealed to the U.K. Supreme Court.

Affirming the lower courts, the U.K. Supreme Court stated that nothing in the Arbitration Act 1996 removed the power of English courts to declare rights and to enforce the "negative obligation" of an arbitration agreement—*i.e.*, the express or implied agreement not to bring actions outside of the forum specified in the agreement. Because the Kazakhstan court did not enforce the parties' agreement to resolve the dispute in England, English courts could intervene to do so, even where arbitration proceedings have not been commenced or are in contemplation.

The U.S. Supreme Court Tentatively Re-Opens the Door to Class-Wide Arbitration. Aside from the Supreme Court's decision enforcing class action waivers in arbitration clauses in *American Express Co. v. Italian Colors Restaurant*, discussed above, in *Oxford Health Plans v. Sutter*, No. 12-135, slip op. (U.S. June 10, 2013), a unanimous Supreme Court held that, where parties agree to allow an arbitrator to decide the availability of class-wide arbitration, and the arbitrator purports to do so based on the underlying arbitration agreement, courts cannot overturn the arbitrator's decision even if it is wrong.

Sutter, a doctor, and Oxford Health Plans, an insurer, entered into a contract that required binding arbitration of contractual disputes. Sutter later brought suit in state court against Oxford on behalf of himself and a proposed class of doctors, alleging Oxford violated their contracts. The state court compelled arbitration based on the parties' contract. The parties then agreed that the arbitrator should decide whether their contract authorized class arbitration, and the arbitrator concluded that it did. However, following the U.S. Supreme Court's decision in *Stolt-Nielsen S.A. v. AnimalFeeds Int'l Corp.*, 548 F. 3d 85 (2010)—which held that an arbitrator may employ class procedures only if the parties authorized them—Oxford sought to vacate the arbitrator's decision in federal court, arguing the arbitrator "exceeded [his] powers" under Federal Arbitration Act §10(a)(4).

Affirming the lower courts, the Supreme Court held that the arbitrator's decision survived the limited judicial review permitted by § 10(a)(4). The Court stated that where the parties bargained for the arbitrator's construction of their agreement, an arbitral decision that even barely construes the agreement must stand. Therefore, the sole question on judicial review is merely whether the arbitrator interpreted the contract, not whether the contract was interpreted correctly. Because the parties here agreed to have the arbitrator decide the availability of class-wide arbitration and the arbitrator purported to do so, the Court refused to vacate the decision.

Class Action Litigation Update

Retail Pricing: The New Class Action Beachhead. "Labels matter." With those two words, penned in *Kwikset v. Superior Court,* 51 Cal. 4th 310 (2011), the California Supreme Court opened up a new frontier for class actions against product manufacturers and retailers. Any product attribute represented on a label or in conjunction with the sale of the product is fair game for a class action lawsuit, whether it pertains to a product's origins ("Made in U.S.A."), ingredients ("all natural"), or, most recently, pricing ("on sale"). The first wave of cases to follow *Kwikset* concerned food labeling, a genre which quickly has become a staple of class action litigation. The next wave may be starting to take shape as a result of the Ninth Circuit's recent decision in *Hinojos v. Kohl's Corp.,* No. 11-55793, 2013 U.S. App. LEXIS 10185 (9th Cir. May 21, 2013).

The sales practice at issue in *Hinojos* was offering a product "on sale" when in fact the "sale" price did not necessarily reflect a discount. Mr. Hinojos bought some luggage and clothing at Kohl's at their offered sale price, represented as a discount from the "original" or "regular" price. He then sued, alleging that Kohl's routinely sold the luggage at the so-called sale price and that the "regular" price did not reflect prevailing market prices for the goods. He alleged that he would not have purchased the merchandise had he known the sale price did not represent a true discount. He brought suit under California's triumvirate of consumer statutes: Business & Professions Code § 17200, the Consumers Legal Remedies Act, and the False Advertising Law.

As in *Kwikset*, the central issue was standing—whether Mr. Hinojos had suffered the loss of money or property that has been required to bring suit under the Unfair Competition Law since the California electorate passed Proposition 64 in 2004. Kohl's argued that Mr. Hinojos suffered no loss because there was "no difference in value between the product 'as labeled' and the product 'as it actually is,' because the products . . . are one and the same." *Id.* at *4. As Kohl's explained it, "when a merchant misrepresents the 'regular' price of his wares, it does not misrepresent the innate value of those wares so the misled consumer has suffered no economic injury; he gets the product he expected to get at the price he expected." *Id.*

The Ninth Circuit emphatically disagreed. In a clear reference to *Kwikset,* the Court summed up its decision with the words "price advertisements matter." *Id.* at *6. Drawing from an experience common to all—shopping—the Court pointed out that consumers love a bargain and, as a result, retailers have "an incentive to lie to their customers by falsely claiming that their products have previously sold at a far higher 'original' price in order to induce customers to purchase merchandise at a purportedly marked-down 'sale' price." *Id.* at *1. It concluded that the California legislature had prohibited such practices because they are "misleading—and effective." *Id.* According to the Court, there was "obvious economic injury" in this circumstance because the consumer was duped into believing the purchased product had a "higher perceived value and therefore has a higher resale value." *Id.* at *5.

The decision sweeps broadly in that the Court rejected Kohl's argument that *Kwikset* applies only to false statements about the "composition, effects, origin, and substance" of products. In disputing Kohl's reading of *Kwikset,* the Court provided examples of other common marketing representations that it intimated were deceptive if not true, including such time-honored claims as: "not available in stores," "available for a limited time only," and "more doctors recommend our product than any other brand." All of these statements are an entrenched part of marketing products in this country.

In the end, *Hinojos* is a case about standing only. Still, standing is a foot in the door and with the Court's help, Mr. Hinojos has opened that courthouse door wide enough for a broad array of new false advertising claims to enter. Q

Apple's Slide-to-Unlock Patent Ruled Invalid by the German Federal Patent Court

The firm recently obtained a victory for Motorola in the German nullity proceedings against Apple's "slide-to-unlock" patent. The teaching of said patent generally relates to "*unlocking a device by performing gestures on an unlock image*," more precisely moving a GUI object along a predefined displayed path, known from Apple products such as the iPhone and iPad. It is one of Apple's most often cited patents, and has been asserted against three competitors in Germany, including Motorola. Now the patent has been invalidated by the German Federal Patent Court (decision appealable). Based on the revocation of the patent in suit, the infringement court stayed the proceedings pending a final nullity decision. The firm represents Motorola in both the nullity action and the infringement proceedings (Germany has a bifurcated system in which infringement and validity of an asserted patent are decided by different courts).

Delaware Supreme Court Victory for AIG

The firm recently obtained an important victory for our client, AIG, securing a summary order from the Delaware Supreme Court in a suit in which the eight plaintiffs—joint ventures between branches of the United States military and large real estate development corporations—alleged that AIG breached their guaranteed investment contracts ("GICs") in 2008 by triggering the GICs' event of default provisions, notwithstanding that the plaintiffs had received back their full principal invested under the GICs, with accrued interest, when AIG's ratings were downgraded in 2008.

The plaintiffs filed their complaint in August 2011, copying their allegations almost word-for-word from another complaint that was filed against AIG in the Southern District of New York in September 2009. Following briefing and oral argument, the Delaware Superior Court had indicated from the bench its intent to grant AIG's motion to dismiss the suit, agreeing with its argument that, having received back all principal invested under the GICs, with accrued interest, the plaintiffs could not recover under any theory of damages for any alleged event of default, even if one had occurred. The plaintiffs sought leave to amend their complaint, and the Superior Court reluctantly agreed.

Just days before filing their Amended Complaint, the plaintiffs contacted AIG and sought to reinvest funds under the GICs, arguing that, if AIG was correct that no event of default occurred in 2008, the GICs were still in force and the plaintiffs still had the right to invest. AIG refused the investment, arguing that the GICs had terminated by their own terms following repayment of the plaintiffs' invested funds in 2008. In the Amended Complaint, the plaintiffs added a claim for breach of the GICs on the basis of AIG's refusal to accept the additional investments. The Superior Court refused the plaintiffs' request for a second oral argument, and by order dated September 27, 2012, granted AIG's motion to dismiss the Amended Complaint in its entirety. The Court reiterated its conclusion that the plaintiffs had suffered no damages from any alleged event of default, and also agreed with AIG that the GICs terminated upon repayment of the plaintiffs' invested funds in 2008.

The plaintiffs appealed and, following briefing and oral argument, the Delaware Supreme Court issued a summary affirmance, agreeing in full with the Delaware Superior Court's dismissal of the Amended Complaint. This total victory was especially important for AIG, as it put an end not only to the plaintiffs' case, but to potential copycat cases from other parties who had entered into substantially similar contracts with AIG.

Complete Arbitration Victory for Kingdom of Cambodia

Working as co-counsel with Freshfields, the firm recently obtained an important international arbitration victory denying all claims for damages against our client, the Kingdom of Cambodia, and awarding substantial attorneys' fees and costs.

In 2009, Cambodia Power Company initiated an arbitration claim through the International Center for the Settlement of Investment Disputes (ICSID) against the Kingdom of Cambodia, alleging that the Cambodian government had committed numerous breaches of contracts for the development of a major power plant in Phnom Penh, and claiming over $250 million in damages. At the outset, the firm participated in the successful defense of two key motions by the Cambodia Power Company to exclude the vital witness statements of the Cambodian government's key witness, a former consultant for Cambodia Power Company who had shepherded the development effort of the power plant over its 4 year history and, in the process, had retained voluminous project documents, correspondence, and notes.

The arbitration hearing was held in September 2012. On April 22, 2013, the ICSID tribunal rendered its decision, holding that the Kingdom of Cambodia did not breach its agreements with

Cambodia Power Company and denying all of the claims brought against the Kingdom of Cambodia. The ICSID tribunal also ordered Cambodia Power Company to pay the Kingdom of Cambodia over $5.6 million for legal costs and expenses in arbitration and costs incurred by counsel over the last four years. As a result, the Kingdom of Cambodia may continue the development of much needed power infrastructure, free of the huge financial impact that an adverse decision in the arbitration would have caused to those efforts. Q

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business litigation report

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