August 2012

quinn emanuel

quinn emanuel urquhart & sullivan, llp | business litigation report

los angeles | new york | san francisco | silicon valley | chicago | washington, d.c. | tokyo | london | mannheim | moscow | hamburg

Raising the Stakes in International Arbitration

International arbitration of high-value disputes involving claims of $100 million to over $1 billion is on the rise. The largest international arbitration institutions are consistently reporting year-on-year growth in the number and size of disputes they administer, and have been doing so for several years. For example, 2011 saw the highest number of investment arbitrations ever filed. *See* United Nations Conference on Trade and Development (UNCTAD), *Latest Developments in Investor-State Dispute Settlement* (2011). According to the American Lawyer's *Arbitration Scorecard 2011*, between 2009 and early 2011, there were 113 known pending international arbitrations where the amount in dispute was $1 billion or more. *See* Michael D. Goldhaber, *2011 Arbitration Scorecard: High Stakes*, The American Lawyer (July 1, 2011) at 1 [hereinafter *2011 Arbitration Scorecard*]. The true figure is probably higher due to the confidentiality of many of these large arbitrations. *The Global Arbitration Review* ("GAR"), a leading publication in the field, reported that its measure of the total value of international arbitration claims and counterclaims that reached the merits stage jumped over 100% this year, from $96 billion a year ago to $206 billion this year. *See* Sebastian Perry, *The GAR 30 Unveiled*, GAR News (March 12, 2012), available at www.globalarbitrationreview.com/news/article/30389/the-gar-30-unveiled/. There is no sign of this upward trend slowing down.

Why International Arbitration?

International arbitration has become the preferred means of resolving cross-border business disputes. Anecdotal and empirical evidence suggest that the bigger the amount in dispute, the more likely it is that the dispute will be referred to international arbitration. *See* Queen Mary, Univ. of London & PricewatehouseCoopers, *International Arbitration: Corporate Attitudes and Practices 2008*, *available at* www.pwc.co.uk/forensic-services/publications/international-arbitration-2008.jhtml [hereinafter

(continued on page 2)

INSIDE

Quinn Emanuel Hosts U.S.-Style Mock Jury Trials in Taipei and Seoul *see page 11*

Quinn Emanuel Continues to Build Out International Arbitration Practice

The expansion of the firm's international arbitration practice is a priority for 2012. As part of that effort, Tai-Heng Cheng, tenured professor and Co-Director of New York Law School's Institute for Global Law, Justice and Policy, has now joined the firm's New York office as a partner. Stephen Jagusch, former Global Chair of Allen & Overy's International Arbitration Practice, and his partner Anthony Sinclair, one of the leading public international law practitioners in the field, have announced that they will join the firm's London office as partners. This follows on the recent additions of David Orta from Arnold & Porter in Washington D.C., and Ivan Marisin, former Managing Partner of Clifford Chance's Moscow office, and his colleague Vasily Kuznetsov in Moscow. Working alongside the firm's International and Domestic Arbitration Chair, Fred Bennett, these additions substantially enhance the firm's ability to represent clients in international arbitration matters.

Cheng has deep experience in all aspects of international commercial arbitration and investor-state arbitration, having served as counsel, tribunal chair, co-arbitrator, and expert in international arbitrations under ICDR, ICC, UNCITRAL, JAMS, SCC, HKIAC, and ICSID rules. Cheng has counseled and represented sovereign states in state-to-state disputes (including state succession),

(continued on page 9)

(continued from cover)

Corporate Attitudes and Practices]. There are a number of important reasons for this phenomenon. First, and perhaps foremost, businesses involved in multi-million and multi-billion dollar cross-border deals do not, generally speaking, feel comfortable leaving dispute resolution in the hands of local courts or local arbitration centers. They want to maximize the chances of having objective, neutral decision-makers resolve any disputes that may arise. Second, the parties can designate arbitral proceedings as confidential, which allows the parties to resolve their disputes outside of the public eye. Third, the parties are able to select the persons who will be deciding their dispute, based on, among other criteria, those persons' particular industry- and sector-specific expertise. Fourth, the flexibility of the procedure is appealing, as the parties can participate in designing the main aspects of their dispute resolution process. Fifth, the decisions of international arbitral tribunals are generally subject to limited review, either on appeal or in annulment proceedings. Sixth, arbitral awards are generally more easily enforceable as compared with foreign court judgments. The 1958 United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards ("New York Convention") and the 1965 Convention on the Settlement of Investment Disputes Between States and Nationals of Other States ("ICSID Convention"), ratified by 146 and 148 countries respectively, provide efficient and effective procedures for enforcing foreign arbitral awards in most countries of the world. In contrast, the 1971 Convention on the Recognition and Enforcement of Foreign Judgments in Civil and Commercial Matters has only 5 Contracting States, leaving foreign court judgment-holders at the mercy of local court procedures all over the world. These are but a few of the compelling reasons why international arbitration has become the gold standard for resolving international business disputes.

The 2008 study *International Arbitration: Corporate Attitudes and Practices* by the School of International Arbitration at Queen Mary, University of London—the most recent survey of corporate attitudes towards international arbitration—concluded that major corporations overwhelmingly prefer to arbitrate international disputes. This study offers insight into why international arbitration is a preferred method of dispute resolution for many large corporations involved in high stakes disputes:

- Of the companies polled, 88% have used arbitration. Certain industries, such as insurance, energy, oil and gas, and shipping rely on international arbitration as a default resolution mechanism.
- Of the in-house counsel polled, 86% said they were satisfied with international arbitration. Corporate counsel saw the enforceability of arbitral awards, the flexibility of the procedure, and the depth of expertise of the arbitrators as the major advantages to arbitration.
- In the vast majority of cases (up to 90% according to interviews with corporate counsel), the non-prevailing party voluntarily complies with the arbitral award. In cases of non-compliance, most companies are able to enforce arbitral awards within one year and usually recover more than 75% of the value of the award.

See Corporate Attitudes and Practices at 2–4.

The recent trend of high-value international arbitration should give companies that are not using international arbitration reason to reexamine the dispute resolution procedures they include in their high-value cross-border agreements.

Why Such an Increase in Billion-Dollar Disputes?

The increase in the size and volume of international arbitrations is correlated to the flow of foreign investment into emerging economies. In recent decades, a large influx of foreign investment poured into emerging economies in several areas, including India, Asia, Latin America, Eastern Europe, and Africa. As *The American Lawyer* put it, recent high-value arbitrations involve disputes ranging from "the Almaty Monorail and Bosphorus tunnel projects to Mongolian gold mines, Uruguayan cigarettes, and Zimbabwean farms seized by the thugs of Robert Mugabe." *See 2011 Arbitration Scorecard* at 1. These areas are rich in natural resources, but also often susceptible to economic and political instability, which in turn tends to generate business disputes. For the reasons noted above, international arbitration is a critical risk mitigation tool for companies as they do more business abroad in emerging economies, because it provides foreign investors a more level and manageable dispute resolution playing field in the event of a dispute.

We may also be witnessing a trend in high-value arbitrations sprouting interrelated cases and follow-on claims in multiple fora, thereby increasing the total overall aggregate value of the dispute. The incidence of parallel contract and investment arbitrations, as well as parallel U.S. and foreign litigation, seems to be increasing. For example, in a long-running dispute with Venezuela, ExxonMobil lodged claims where the amount in controversy (including counterclaims) reached upwards of $20 billion in parallel commercial and investment arbitrations under the rules of the International Chamber of Commerce (ICC) and

International Centre for the Settlement of Investment Disputes (ICSID). ExxonMobil recently won a $907.6 million award before the ICC tribunal (subject to discounting), while the ICSID proceeding remains pending. *See Mobil Cerro Negro Ltd. v. PDVSA Cerro Negro S.A.*, Final Award, ICC Case No. 15415/JRF, Dec. 11, 2011; *Mobil Corp. and Others v. Bolivarian Republic of Venezuela* (ICSID Case No. ARB/07/27).

The recent wave of high-value arbitrations may also be explained in light of regional economic crises. These include the spread of resource nationalism in Russia and Latin America, and the economic upheavals of debt-ridden Europe, where E.U. member states have implemented austerity measures with severe repercussions for foreign investors. Some of the largest arbitrations that were active in 2009 and 2010 centered on gas pricing regulation in Europe. Indeed, as of January 2011, oil and gas cases accounted for more than a third of the billion-dollar arbitrations and eight out of eleven awards of $350 million or more. *See 2011 Arbitration Scorecard* at 1.

Case Studies of Multi-Billion Dollar Arbitrations: 2009-2011

Between 2009 and early 2011, the largest arbitrations generally concerned disputes in the energy (mostly oil and gas), mining, and high-tech sectors. For example, in the largest reported arbitration to date, the majority shareholders of the defunct Yukos Oil Company sued Russia for over $100 billion in an UNCITRAL arbitration at the Permanent Court of Arbitration in The Hague, and survived jurisdictional challenges. *See Yukos Universal Ltd. v. Russian Fed'n*, Interim Award on Jurisdiction and Admissibility, PCA Case No. AA 227 (Nov. 30, 2009); Catherine Belton, *Yukos Owners Win Ruling*, Financial Times (Dec. 1, 2009). The claimants argue that Russia forced Yukos into bankruptcy by inflating tax claims in a politically-motivated attack on former CEO Mikhail Khodorkovsky.

Separately, ConocoPhillips brought a claim against Venezuela for up to $30 billion alleging breaches of its treaty obligations for its expropriation of a joint-venture project to produce crude oil from the Orinoco Belt. *See ConocoPhillips Co. and Others v. Bolivarian Republic of Venezuela* (ICSID Case No. ARB/07/30). The hearing on the merits took place in May-June 2010 and the parties are awaiting the tribunal's final award.

In another example, U.S. and Danish companies Anadarko Petroleum and Maersk Oil sought $10 billion from the Algerian state-owned oil company Sonatrach over its "windfall-profits" tax in parallel proceedings in ad hoc UNCITRAL and ICSID arbitrations. *See Mærsk Olie, Algeriet A/S v. People's Democratic Republic of Algeria* (ICSID Case No. ARB/09/14). In a positive resolution to this long-running dispute, the parties agreed to settle the arbitrations in March of this year in exchange for concessions on both sides, including large shipments of crude oil worth $1.8 billion to Anadarko and an additional $920 million in crude to Maersk. *See* Kyriaki Karadelis, *Anadarko and Maersk Settle with Sonatrach*, GAR News (Mar. 15, 2012), *available at* http://www.globalarbitrationreview.com/news/article/30402/anadarko-maersk-settle-sonatrach/. The parties also agreed to continue their profit-sharing agreements under revised terms, ultimately restoring their business relationship.

These are just a few examples of the high-stakes arbitrations that topped the charts between 2009 and early 2011.

2012 and Beyond

The trend toward high-value international arbitration disputes has continued in 2012. In May, an ICC tribunal awarded Dow Chemical Co. $2.16 billion plus costs and interest from Petrochemical Industries Company of Kuwait. *See* Sebastian Perry, *Dow Wins US$2 Billion Over Cancelled Kuwaiti Venture*, GAR News (May 24, 2012), *available at* www.globalarbitrationreview.com/news/article/30567/dow-wins-us2-billion-cancelled-kuwaiti-venture/. Dow Chemical filed the claims based on the cancellation of a planned joint venture to create the world's biggest polyethylene manufacturer ("K-Dow") after the plan was thwarted by parliamentary opposition.

The first half of 2012 has also seen billion-dollar settlements in international arbitrations. In January, the Canadian mining company First Quantum Minerals Ltd. settled multi-party ICSID and ICC disputes with the Democratic Republic of the Congo and the Eurasian Natural Resources Corp. (ENRC) over the government's cancellation of First Quantum's mining permits and nationalization of the mines for $1.25 billion. *See First Quantum Closes Congo Claims Agreement with ENRC*, Reuters (Mar. 2, 2012), *available at* www.reuters.com/article/2012/03/02/firstquantumminerals-idUSL4E8E26B420120302.
A few weeks later, two American oilfield services companies, William Cos Inc. and Exterran Holdings, settled their ICSID claim against Venezuela stemming from the nationalization of their natural gas compression facilities for $420 million, slightly over one-third of the $1.2 billion they had claimed in damages. *See* Marianna Parraga, *Venezuela to Pay $420 million to Williams and Exterran*, Reuters (Mar. 24, 2012), *available at* www.reuters.com/article/2012/03/24/us-venezuela-oil-

(continued on page 9)

Patent Litigation Update

***In re: Blaise Laurent Mouttet*:** The Federal Circuit recently loosened the rules regarding obviousness in *In re: Blaise Laurent Mouttet*, No. 2011-1451 (Fed. Cir. June 26, 2012). In affirming a Patent Office rejection of inventor Blaise Laurent Mouttet's crossbar arithmetic processor invention, the Court held that prior art references do not necessarily teach away from a proposed design merely because they suggest the use of a preferred embodiment over a disclosed, but non-selected, alternative.

Mouttet submitted patent application No. 11/395,232, entitled "Crossbar Arithmetic Processor," on April 3, 2006. It discloses a programmable arithmetic unit capable of performing addition, subtraction, and division using nanoscale materials in a "crossbar array"—a grid of microscopic conductive wires in which the wire junctions are bridged using a thin film or molecular component. By controlling the voltages applied to individual wires, each junction can be programmed to be in a high or low resistance state, allowing the grid to store data in binary form that a post-processing unit can output as numerical values.

The U.S. Patent Office rejected Mouttet's claims as unpatentable over a prior publication and four prior art patents, including U.S Patent No. 5,249,144 issued to Falk. The Falk '144 patent disclosed a device for performing arithmetic and logic operations. In the Patent Office's estimation, Falk disclosed all of the elements of Mouttet's invention, *except* that Falk's crossbar array used intersecting optical channels instead of electronic circuitry. In Falk, the intensity of light at each intersection along the crossbar's optical paths represented particular logic states used to perform the arithmetic processes. Because Mouttet's claims required use of wires in the array, the Patent Office combined the teachings of Falk with those of an article by Das, which taught a nanoscale crossbar array of electrical wires with molecular switches.

On appeal, Mouttet argued that Falk taught away from Mouttet's claimed invention, relying on a passage in Falk stating that optical devices are preferred to electronic devices because optical devices possess "interconnect possibilities that do not exist with electronic hardware." Under U.S. patent law, "teaching away" from the claimed invention can preclude a finding that the reference renders the claimed invention obvious. As the Supreme Court explained in *KSR International Co. v. Teleflex, Inc.*, 550 U.S. 398, 416 (2007), "when the prior art teaches away from combining certain known elements, discovery of a successful means of combining them is more likely to be nonobvious." On March 29, 2011, the Patent Office's Board of Patent Appeals and Interferences rejected Mouttet's argument and affirmed the examiner's rejection, agreeing that an electrical engineer with several years of experience would have recognized that combining the teachings of the prior art references would yield Mouttet's claimed circuit.

On appeal, the Federal Circuit affirmed the finding that Mouttet's invention was obvious in light of Falk and the other prior art. The court stated that the mere disclosure of alternative designs in a prior art reference does not teach away from a non-preferred alternative. Falk noted certain advantages to using optical devices in his design, but did not go as far as to suggest that using wires instead of optical channels would destroy the operability of the circuit as a programmable arithmetic unit. The Court further explained that "just because better alternatives exist in the prior art does not mean that an inferior combination is inapt for obviousness purposes." In particular, the Court held that even if Falk suggested that electrical circuits are inferior to optical circuits for some purposes, Mouttet failed to cite any reference showing that Falk's claimed invention would be unlikely to work using electrical circuitry.

Following this decision, it may be more difficult for applicants (or litigants) to show that a prior art reference disclosing multiple alternatives teaches away from the claimed invention, even in those instances where the reference expressly states that some alternatives are inferior to the preferred embodiment. When trying to oppose an obviousness rejection on the basis that a reference "teaches away" from the claimed invention, it will be important for applicants to establish that the reference does more than merely state a preference for a non-anticipating embodiment over a potentially anticipating, alternative. Applicants should emphasize that the reference affirmatively discourages using the non-preferred embodiment, or that the reference teaches that the non-preferred embodiment would be unlikely to work.

Entertainment Litigation Update

***Quirk v. Sony Pictures*:** On July 5, 2012, a federal court in California denied Sony Pictures's motion to dismiss writer Joe Quirk's beach of implied contract claim relating to the upcoming film, *Premium Rush. Quirk v. Sony Pictures Entm't Inc.*, No. C 11-3773 RS (N.D. Cal. July 5, 2012). Quirk alleged that *Premium Rush* is derived from his 1998 novel, *Ultimate Rush*, and that Sony breached an implied contract to compensate him for the use of his material. Although the court noted that Quirk's theory of liability stretches

California's law of idea theft to its "breaking point" (*id.* at 6), Quirk's claim was found to meet the low "facially plausible" standard required to survive a motion to dismiss.

Notably, Quirk failed to allege that Sony received a copy of *Ultimate Rush* directly from him or his agents. Instead, Quirk theorized that a copy of his novel "passed through one or more routes between those to whom his agent directly submitted the novel" and Sony. This distinction is important because, while there is significant precedent for implied contract claims when an author submits a literary work directly to a producer on the implied condition that the producer will pay if it uses the work, *see, e.g.*, *Desny v. Wilder*, 46 Cal. 2d 715 (1956), there is no previous authority to support such an implied contract without direct contact.

The court explicitly stated that its decision to deny the motion was a "close call" and it applied an extremely fact-specific analysis. Nonetheless, the fact that Quirk's claims were allowed to proceed may impact the landscape of implied contract and idea theft cases in California.

***FCC v. CBS*:** Eight years after the 2004 Super Bowl's infamous halftime "wardrobe malfunction," the legal battle between the FCC and CBS has finally concluded. In response to the musical halftime performance, which included 9/16ths of a second of nudity broadcast to 90 million viewers, the FCC fined CBS $550,000—the largest fine ever levied against a broadcaster. On June 29, 2012, the Supreme Court declined to hear an appeal from the Third Circuit's decision reversing the fine, thereby making the Third Circuit's ruling the final word.

In *CBS Corp. v. FCC*, 663 F.3d 122, 151 (3d Cir. 2011), the Third Circuit held that the FCC's fine was arbitrary and capricious, relying on the FCC's previous treatment of "fleeting words":

> [T]he balance of the evidence weighs heavily against the FCC's contention that its restrained enforcement policy for fleeting material extended only to fleeting words and not to fleeting images. As detailed, the Commission's entire regulatory scheme treated broadcasted images and words interchangeably for purposes of determining indecency. Therefore, it follows that the Commission's exception for fleeting material under that regulatory scheme likewise treated images and words alike.

Although the Supreme Court denied *certiorari*, Chief Justice Roberts issued a concurrence indicating that future FCC fines may not be treated in the same way because the FCC has clarified its rules on fleeting images and words since the 2004 Super Bowl:

> [T]he FCC no longer adheres to the fleeting expletive policy. It is now clear that the brevity of an indecent broadcast—be it word or image—cannot immunize it from FCC censure. *See, e.g., In re Young Broadcasting of San Francisco, Inc.*, 19 FCC Rcd. 1751 (2004) (censuring a broadcast despite the "fleeting" nature of the nudity involved). Any future "wardrobe malfunctions" will not be protected on the ground relied on by the court below.

Federal Commc'ns Comm'n v. CBS Corp., 567 U.S. __ (2012) (Roberts, C. J., concurring).

***Dish Network v. ABC*:** On July 9, 2012, a federal district court in New York dismissed Dish Network's copyright and contract claims against Twentieth Century Fox and its copyright claims against CBS and NBC, based on improper venue. *Dish Network, LLC v. ABC*, No. 12 Civ. 4155 (LTS) (S.D.N.Y. July 9, 2012). Dish's claims stem from its "Auto Hop" feature, also known as an "ad zapper," which allows Dish subscribers to skip over commercials on programs saved to their DVRs. Venue had been at issue in the case since Dish filed a lawsuit in New York the same day that Fox and other television networks filed in California.

The court ruled these claims would best be litigated in California. Rejecting Dish's argument that it had won the race to the courthouse, the court found that Dish's New York lawsuit "was motivated by a fear of imminent legal action by the networks and was, thus, improperly anticipatory." Dish had filed suit in New York on May 24, just hours before the television networks filed suit in Los Angeles and less than 24 hours after a Hollywood Reporter article "conveyed the unmistakable impression that a legal showdown was inevitable."

However, the court allowed Dish's contract claims against CBS and NBC to remain in New York because those networks have yet to assert contract claims in California. In addition, because ABC has not yet filed suit against Dish, Dish's claims against ABC will remain in New York for the time being.

ITC Litigation Update

***Federal Circuit Recants Criticism of Commission's "No Position" Rule*:** In an unusual turnabout, the Federal Circuit withdrew six pages of its precedential opinion in *General Electric Co. v. International Trade Commission*, 670 F.3d 1206 (Fed. Cir. Feb. 29, 2012), which had criticized the Commission's practice of taking "no position" on fully-litigated issues. *General Elec. Co. v. International Trade Comm'n*, No. 2010-

1223, 2012 WL 2626908 (Fed. Cir. July 6, 2012). The Court's July 6 order granted the Commission's petition for panel rehearing for the limited purpose of withdrawing Part III of its February 29 opinion and to make clear that the panel was not offering any decision as to the questions raised therein. In dissent, Judge Newman noted that the court's decision to withdraw Part III "ratifies the Commission's authority to negate the finality of [ ] final decisions, thereby forestalling judicial review and impeding expeditious resolution of ITC proceedings, as required by statute and as the Commission represents to the public."

The court's February 29 decision and subsequent dissenting opinion by Judge Newman highlight the tension between the Commission's statutory charge to adjudicate section 337 investigations as expeditiously as practicable and its practice of allowing piecemeal and prolonged appeals. Pursuant to 19 U.S.C. § 1337(c), any person adversely affected by a final determination of the Commission may appeal such determination to the Federal Circuit. What constitutes a "final determination" subject to appeal, however, is defined by the Commission's rules and governing precedent. Under Commission Rule 210.42, an unreviewed initial determination issued by an administrative law judge becomes a final determination and is automatically appealable. If the Commission chooses to review an initial determination, Commission Rule 210.45 permits the Commission to affirm, reverse, modify, set aside, or remand for further proceedings, in whole or in part. This rule also permits the Commission to take no position on specific issues or portions of the initial determination. Prior to its February 29 decision, in *Beloit Corp. v. Valmet Oy* and other cases, the Federal Circuit had consistently held that where the Commission takes no position on a particular issue, that issue is not appealable. *See, e.g., Beloit Corp. v. Valmet Oy*, 742 F.2d 1421 (Fed. Cir. 1984).

In the investigation underlying the Court's decision in *General Electric*, the ALJ found a violation based on Mitsubishi's infringement of General Electric's '039 and '221 patents. Although he also found that Mitsubishi infringed General Electric's '985 patent, the ALJ concluded there was no violation as to that patent due to a lack of domestic industry. The Commission noticed review of all aspects of the initial determination except for the issue of importation and the ALJ's finding on the intent element of inequitable conduct. On review, the Commission determined that the '039 and '221 patents were not invalid but were not infringed, and that the domestic industry requirement was not met for any of the three patents. The Commission took no position on any other issues.

General Electric appealed the Commission's final determination to the Federal Circuit. The court held that issues related to the '039 patent were moot in light of the patent's expiration, affirmed the Commission's finding of non-infringement as to the '221 patent, and reversed the Commission's determination of no domestic industry for the '985 patent. Because the Commission had taken no position with respect to infringement and validity of the '985 patent, however, the Federal Circuit remanded for further proceedings. In Part III of the opinion, the court criticized the Commission's practice of taking no position on certain issues, stating that "[t]he consequences of this practice are illustrated in this case, for all contested issues concerning the '985 patent were investigated by the Commission, tried to the ALJ, decided by Initial Determination, yet nearly all were held unavailable for judicial review." *General Elec.*, 670 F.3d at 1220. The court's February 29 opinion also clarified that, going forward, fully-litigated issues would be appealable even where the Commission took no position on them pursuant to Commission Rule 210.45. The court distinguished its holding in *Beloit* as addressing only the situation where the party *prevailing* before the Commission sought judicial review of issues that the Commission had not reached, and as not addressing the situation at hand where the party *losing* before the Commission sought judicial review. The court further explained that the "legislative purpose of expedited ITC resolution of unfair competition issues requires attention, in accord with statute and regulation, that issues decided by initial determination and not substantively reviewed by the full Commission are deemed determinations of the Commission . . . and entitled to appeal . . . ." *Id.* at 1220–21.

The Commission petitioned for panel rehearing and rehearing *en banc*. The Federal Circuit granted the Commission's petition for panel rehearing for the limited purpose of withdrawing Part III of the Court's February 29 opinion. A revised opinion, with Part III removed, was issued on July 6. In a dissenting opinion accompanying the court's order on rehearing, Judge Newman expressed her view that the court's decision to withdraw Part III ratifies the Commission's authority to negate the finality of its decisions, which will only result in further delay, cost, and burden to the parties, the Commission, and the Court, and is contrary to the purposes of section 337. *General Elec.*, 2012 WL 2626908, at *1. She further noted that the Commission's practice of taking no position on contested issues "is in conspicuous tension with the statutes, regulations, and with unambiguous precedent." *Id.* at *3. Judge Newman concluded her dissent by urging that rather than "simply ratifying this aberrant procedure and accepting its consequences, at a minimum the court should take the case *en banc* and obtain input from the communities that Section 337 is designed to serve," so as to resolve the lingering question whether judicial review is available for issues reviewed by the Commission, but upon which the Commission takes no position. *Id.* at *6.

It is unclear whether the Federal Circuit will use this case as a vehicle to reconcile the apparent incongruity between the statutory language of section 337, the Commission's rules, and the court's own precedent. Until it does, however, it appears that the Commission may continue to take no position on certain issues under review, and that those issues are not appealable to the Federal Circuit.

NOTED WITH INTEREST

Federal Circuit Establishes New Rule for Proving Willful Infringement: *Bard Peripheral Vascular, Inc. v. W.L. Gore & Associates, Inc.*

In a decision with significant implications for patent cases involving willful infringement, the Federal Circuit recently held that the threshold determination of objective recklessness under the *Seagate* standard for willful infringement is a question of law to be decided by the trial court and subject to *de novo* review. *Bard Peripheral Vascular, Inc. v. W.L. Gore & Assocs., Inc.*, 682 F.3d 1003, 1006-07 (Fed. Cir. 2012). While the ultimate determination of willful infringement had long been considered a question of fact to be decided by the fact finder and subject to the clearly erroneous standard of review, the Federal Circuit had not previously addressed the standards that apply to the threshold determination of objective recklessness. *Id.* at 1006.

Under the patent laws, if a patentee is able to prove that its patent was willfully infringed, it is entitled to enhanced damages, up to three times compensatory damages. *Id.* at 1005. In *Seagate*, the Federal Circuit, sitting *en banc*, overruled its prior standard for willful infringement, which was "more akin to negligence" than recklessness. *In re Seagate Tech., LLC*, 497 F.3d 1360, 1371 (Fed. Cir. 2007) (*en banc*). The court set forth a new two-pronged standard for proving willful infringement. *Id.* First, the patentee must prove by clear and convincing evidence that the alleged infringer acted despite "an objectively high likelihood that its actions constituted infringement of a valid patent." *Id.* Second, the patentee must then prove that this objectively high risk was "either known or so obvious that it should have been known" to the alleged infringer. *Id.* Subsequently, the Federal Circuit ruled that the first prong of this standard is generally not met where the alleged infringer relies on a reasonable defense. *Spine Solutions, Inc. v. Medtronic Sofamor Danek USA, Inc.*, 620 F.3d 1305, 1319 (Fed. Cir. 2010).

The Federal Circuit's recent decision in *Bard v. Gore* was the latest development in a long-running patent suit. On March 28, 2003, Bard filed suit against Gore in the District of Arizona, alleging infringement of U.S. Patent No. 6,436,135. *Bard Peripheral Vascular, Inc. v. W.L. Gore & Assocs., Inc.*, 670 F.3d 1171, 1177 (Fed. Cir. 2012). The technology at issue involved prosthetic vascular grafts that are fabricated from highly-expanded polytetrafluoroethylene, and that are used to bypass or replace blood vessels to assure adequate and balanced blood flow to particular body parts. *Id.* at 1175.

Following a 17-day trial, on December 11, 2007, the jury found that the '135 patent was valid and willfully infringed by Gore. *Id.* at 1177. The jury awarded Bard lost profits of over $102 million and reasonable royalties of over $83 million. *Id.* at 1178. Based on the jury's finding of willful infringement, the court awarded Bard enhanced damages of over $371 million, two times the compensatory damages awarded by the jury. *Id.* The court also awarded Bard attorneys' fees and non-taxable costs of $19 million and an ongoing royalty with a range of rates between 12.5% and 20% for Gore's various types of infringing grafts. *Id.* At the end of the case, the court described it as "the most complicated case this court has presided over." *Id.*

On appeal, the Federal Circuit initially affirmed the judgment of validity and willful infringement, as well as the district court's award of enhanced damages, attorneys' fees and costs, and an ongoing royalty. *Id.* at 1193. Gore timely filed a petition for rehearing and rehearing *en banc*. *Bard*, 2012 WL 2149495, at 1005. On June 14, 2012, the Federal Circuit granted the petition for rehearing *en banc* and returned the case to the original panel for reconsideration of the standard of review for willful infringement. *Id.*

In an opinion authored by Judge Garza and joined by Judge Linn, the panel revisited this issue. *Id.* As an initial matter, the court reviewed Supreme Court and Federal Circuit precedent and recognized that the simple statement that the ultimate determination of willful infringement is a question of fact oversimplifies the issue. *Id.* at 1006. For example, in an earlier opinion, the Federal Circuit had recognized that the issue is more complex, and held that the threshold determination whether an alleged infringer relied on a reasonable defense is a matter for the jury when the resolution of the defense is a question of fact, but that determination is a matter for the trial court when the resolution of the defense is a question of law. *Id.* While the second prong of the *Seagate* test, like the ultimate determination of willful infringement, may have been a question of fact, the issue in *Bard* was whether the determination of the first prong is a question of law, a question of fact, or a mixed question of law and fact. *Id.* That threshold question would determine which judicial actor would decide the issue at the trial court level, and what standard of review would apply to that determination on appeal.

Recognizing that the characterization of an issue as one of these types of questions is sometimes a matter of allocation and administration, as much as a matter of analysis, the Federal Circuit concluded that the trial court was better positioned than the jury to make the threshold determination of objective recklessness, including whether the alleged infringer relied on a reasonable defense. *Id.* The Federal Circuit therefore held that the threshold determination is a question of law, which is decided by the judge and subject to *de novo* review. *Id.* at 1006-07. The Federal Circuit noted that its holding was consistent with similar holdings in parallel areas of law, including Federal Circuit precedent on the standard for proving objectively baseless claims for purposes of obtaining enhanced damages and attorneys' fees, and Supreme Court precedent on the standard for proving objectively baseless litigation for purposes of establishing the "sham litigation" exception to antitrust immunity for bringing patent and other lawsuits. *Id.* at 1007-08.

With respect to the application of this new rule, the Federal Circuit explained that where the threshold determination of objective recklessness is dependent on purely legal questions such as claim construction, the determination should be made by the trial court. *Id.* at 1007-08. The Federal Circuit further explained that where the threshold determination is based on fact questions such as anticipation or on legal questions dependent on underlying fact questions such as obviousness, the ultimate determination should still be made by the court, although the underlying fact questions may be sent to the jury. *Id.*

In light of its clarification of the proper procedure for determining willful infringement, the Federal Circuit vacated the trial court's prior ruling and remanded the case for further proceedings consistent with the Federal Circuit's opinion. *Id.* at 1008-09. The trial court was directed to determine whether the defenses relied upon by Gore were reasonable. *Id.* at 1008. In her separate opinion, Judge Newman concurred with the decision to vacate the prior determination, but dissented from the decision to remand the case on the ground that it was apparent from the record that the finding of willful infringement was not supportable. *Id.* at 1009.

The Federal Circuit's decision in *Bard* raises a number of interesting questions. First, what effect will the decision have on the likelihood of proving willful infringement by shifting the decision maker from the jury to the judge and the standard of review from clearly erroneous to *de novo*? The decision may increase the consistency and predictability of willful infringement determinations, to the extent that the Federal Circuit will now review every determination *de novo*. The decision may also heighten the difficulty of proving willful infringement, to the extent a judge may apply the clear and convincing evidence standard more strictly than a jury. Second, what procedure will the courts use to make the threshold determination of objective recklessness? In a case where the threshold determination is dependent on underlying questions of law, such as the reasonableness of a defense based on claim construction, a court could make its determination of objective recklessness at a pre-trial hearing similar to a *Markman* hearing. In contrast, in a case where the threshold determination is dependent on underlying questions of fact, such as the reasonableness of a defense based on anticipation or obviousness, a court could wait to make its determination of objective reasonableness until after a jury determines the underlying questions of fact. The answers to these questions and the implications of this decision will become more evident once the lower courts have had the opportunity to develop a sufficient record in applying this new rule.

(Raising the Stakes in International Arbitration continued from page 3)

nationalizations-idUSBRE82N0BW20120324.

Full or even partial victory in high-value international arbitration can never be guaranteed, however, and there are recent examples of large claims being defeated before arbitration tribunals. A mutually-appointed sole arbitrator dismissed Thailand's state-owned CAT Telecom PCL's $735 million claim against rival Total Access Communication PCL for concession fees it claimed to be owed. The sole arbitrator found that Total Access Communication was legally entitled to subtract the fees to pay an excise tax. *See* Phisanu Phromchanya, *Total Access Communication PCL: Arbitrator Dismisses CAT Telecom's THB23 Billion Claim against Total Access*, Dow Jones Newswire (June 7, 2012), *available at* www.totaltele.com/view.aspx?ID=474133. A few days later, on June 5th, an ICSID tribunal dismissed for lack of jurisdiction an estimated $1.2 billion-dollar case brought by Kazakh oil company Caratube against Kazakhstan. The ICSID tribunal found that a U.S. national who owned 92% of the Kazakh-company-claimant lacked a sufficient nexus to the company to allow it to invoke the protections of the U.S.-Kazakhstan bilateral investment treaty. *See Caratube Int'l Oil Co. LLP v. Republic of Kazakhstan* (ICSID Case No. ARB/08/12); Kyriaki Karadelis, *Caratube Claim Dismissed for Lack of 'Foreign Control,'* GAR News (June 14, 2012), *available at* www.globalarbitrationreview.com/news/article/30613/caratube-claim-dismissedlack-foreign-control/.

Other high-value arbitrations are moving full steam ahead in 2012. At least eight new arbitrations have been publicly announced this year in which the claim value exceeds $1 billion. A number of these claims arise in the energy and telecom sectors. For instance, Norwegian telecom operator Telenor gave notice to the Indian government in March that it would file an international arbitration claim seeking nearly $14 billion in damages unless the government promised to reverse the revocation of its mobile licenses or provide adequate compensation for its expropriated investment. *See Telenor Seeks Arbitration, Claims Damages of $14 Billion from Govt in 2G Case*, The Times of India (Mar. 27, 2012), *available at* timesofindia.indiatimes.com/business/india-business/Telenor-seeks-arbitration-claims-damages-of-14bn-from-govt-in-2G-case/articleshow/12420404.cms. German utility company Vattenfall Europe AG filed a request with ICSID in June seeking $18.7 billion in damages from Germany due to the government's decision to exit nuclear power and shut down Vattenfall's reactors. *See Vattenfall AB and Others v. Federal Republic of Germany* (ICSID Case No. ARB/12/12); *Vattenfall Launches Second Claim Against Germany*, GAR News (June 25, 2012), *available at* www.globalarbitrationreview.com/news/article/30634/vattenfall-launches-second-claim-against-germany/. Similarly, in June of this year it was reported that the southern German state of Baden-Württemberg filed a €2 billion ICC claim over its purchase of a stake in German utility Energie Baden-Württemberg (EnBW) from French power company EDF. *See EDF faces ICC claim over German power company purchase*, GAR News (June 6, 2012), *available at* www.globalarbitrationreview.com/news/article/30593/edf-faces-icc-claim-german-power-company-purchase/. And in July, Reliance Power Ltd. filed for arbitration against eleven state distribution companies claiming $3.14 billion in damages in connection with a delayed 4000-MW power project in southern Indonesia, after changes in export rules by Indonesia raised prices of coal and made the project nonviable. *See* Sanjeev Choudhary, *India's Reliance Power Seeks Arbitration Against Distribution Cos*, Reuters (July 2, 2012), *available at* www.reuters.com/article/2012/07/02/reliancepower-arbitration-idUSWNAS994920120702.

This phenomenon is not going away. While some commentators question whether international arbitration is a better alternative to other forms of dispute resolution, the fact remains that many parties involved in significant cross-border deals and investments rely on, and prefer, international arbitration to resolve their controversies. Q

(Quinn Emanuel Continues to Build Out International Arbitration Practice continued from cover)

and represented clients in international parallel proceedings. He is the author of two books and dozens of articles on international law and international arbitration, which the Federal Circuit Court of Appeals and United States District Courts have cited and relied on as authoritative. Cheng holds a Doctor of the Science of Law degree and a Master of Laws degree from Yale Law School, where he was Howard M. Holtzmann Fellow for International Law. He also holds a Master of Arts degree and a law degree with first class honors from Oxford University, where he was an Oxford University Scholar. Q

Perfect 10 for Google

Quinn Emanuel recently obtained the complete dismissal of a long-running and high-profile copyright infringement case seeking billions of dollars in damages. Perfect 10, Inc., a publisher of adult entertainment images, filed suit against Google Inc. in 2004, alleging numerous causes of action and seeking expansive injunctive and monetary relief. Perfect 10 sought to hold Google liable for what it described as the rampant infringement of its images by various third parties on the Internet. More specifically, Perfect 10 claimed that Google's automated search engine, advertising, and website hosting activities triggered various forms of direct and secondary copyright infringement liability. Perfect 10 claimed that Google infringed thousands of its copyrighted works and sought billions of dollars in damages.

Google hired Quinn Emanuel in 2007, after the Ninth Circuit vacated and remanded a preliminary injunction against Google's Image Search that the district court issued when Google was represented by different counsel. Quinn Emanuel aggressively litigated the case on remand, and in 2010, the district court granted Google's motion for partial summary judgment of safe harbor under the Digital Millennium Copyright Act on Perfect 10's copyright infringement claims against Google's Web Search, Image Search, and Blogger services. The ruling precluded Perfect 10 from recovering any monetary damages on those sweeping claims. Also in 2010, the firm defeated Perfect 10's second motion for a preliminary injunction. This time, the district court found that Perfect 10 was not likely to succeed on the merits of its claims, and that Perfect 10 had failed to demonstrate that it would be irreparably harmed if an injunction did not issue. The Ninth Circuit affirmed the district court's ruling in 2011.

In April 2012, shortly before the close of discovery and in the middle of plaintiff's deposition, Perfect 10 agreed to dismiss its case with prejudice in exchange for Google's agreement not to seek attorneys' fees and costs. The dismissal completely vindicated Google's defense of the case over more than seven years of protracted litigation.

In addition to being a tremendous victory for Google, the case also has broader significance for other copyright litigants. For example, the district court's 2010 summary judgment decision confirmed that a service provider need not respond to defective DMCA notices. Furthermore, the 2011 Ninth Circuit opinion reversed a long line of Ninth Circuit cases holding that copyright plaintiffs are entitled to a presumption of irreparable harm, finding those cases irreconcilable with the Supreme Court's 2006 decision in *eBay v. MercExchange*. Copyright plaintiffs seeking a preliminary injunction within the Ninth Circuit now must prove that they will suffer irreparable harm, or face denial of their motion.

Victory for Motorola over Microsoft in Germany

Quinn Emanuel recently won two important victories in Germany for Motorola Mobility Inc. and its subsidiary General Instrument Corp. in patent infringement cases against Microsoft Corp. and its European subsidiaries. On behalf of General Instrument, the firm asserted two patents essential to the H.264 video coding standard, which has become increasingly important in the field of digital video coding. A wide variety of Microsoft's products make use of the H.264 standard, including Windows 7, Internet Explorer 9, Media Player 12, and the video game console Xbox 360. The case was filed in July 2011 with the Mannheim District Court. In its defense, Microsoft argued non-infringement, invalidity, and that the court should not grant injunctive relief because the patents were subject to FRAND commitments. At trial, Quinn Emanuel persuaded the court that the patents were valid and infringed, and that Microsoft was not entitled to rely on a FRAND defense, resulting in a full injunction against Microsoft in Germany.

In a separate case, Microsoft asserted one of its own patents against Android smartphones and tablet computers sold by Motorola Mobility Inc. and its subsidiary Motorola Mobility Germany GmbH. After two oral hearings and a total of 8 hours of oral argument, mainly on claim construction, Quinn Emanuel achieved a complete dismissal of the complaint based on non-infringement.

Class Certification Victory for Rail Freight Shippers

The firm, as court-appointed co-lead counsel for plaintiffs in *In re Rail Freight Fuel Surcharge Antitrust Litigation* (D.D.C.), recently won certification of a class of direct purchasers of rail freight services. Plaintiffs allege that the four major U.S. railroads (Union Pacific, BNSF, Norfolk Southern, and CSX Transportation), which together account for over 90 percent of rail freight shipments in the United States, conspired to utilize pretextual fuel surcharges as a means to impose across-the-board price increases on rail freight shippers. The class period covers July 2003 through December 2008. Quinn Emanuel filed the first of these cases in May 2007 on behalf of named plaintiff

Dust Pro, Inc. The named plaintiffs also include, among others, Olin Corporation, a major rail shipper, and U.S. Magnesium, another significant shipper. The participation of these class representatives reflects the significant and broad effects of the conspiracy. This is one of the largest pending antitrust cases in the United States.

In certifying the class, U.S. District Court Judge Paul Friedman issued an opinion of over 140 pages detailing the court's exhaustive analysis under Federal Rule of Civil Procedure 23. The court found that "the fuel surcharge programs applied by defendants before the class period were nothing like the widespread application of" the alleged conspiratorial "more aggressive, standardized fuel surcharges" defendants applied during the class period. The court also found "that these standardized fuel surcharges were applied uniformly, to all or virtually all class members," and that any purported discounting during the class period was "an anomaly."

In addition, the district court carefully analyzed and credited the conclusions of plaintiffs' expert and found that his "economic regression analysis"—which utilized all of defendants' transaction data from the relevant period—"is workable, and . . . presents a theory of proof that is plausible and susceptible to proof at trial through available evidence common to the class." By the time of class certification motion practice, fact discovery had been largely completed, and thus plaintiffs were able to present a comprehensive factual record—including, among many other things, expert analysis of the full set of defendants' transactional data—in support of the certification motion.

It is anticipated that notice of the class certification ruling, and of class members' rights and options, will be forthcoming, with a proposed notice plan to be submitted to the court for review and approval.

Quinn Emanuel Hosts U.S.-Style Mock Jury Trials in Taipei and Seoul

The firm recently conducted mock jury trial programs in Taipei, Taiwan and Seoul, Korea. The events were attended by top intellectual property lawyers, CEOs, business managers, and general counsel in both cities. The Taiwan event, co-hosted by the Taiwan Semiconductor Industry Association and the Asia Pacific Intellectual Property Association, attracted close to 350 attendees, while the Seoul event, co-hosted by Sogang University School of Law and sponsored by the Korean Industrial Property Law Association, the Korea In-House Counsel Association, and Joong-Ang Daily, attracted close to 250.

So far as the firm is aware, these were the first ever U.S.-style mock jury trials to be held in Taiwan and Korea. These events followed in the footsteps of the firm's successful mock jury trials in Tokyo, Japan (2008), Tel Aviv, Israel (2010), and Beijing, China (2011).

Professor Saghan Wang of Sogang University School of Law makes opening remarks in Seoul

Washington, D.C. partner Jeffrey Gerchick presents his opening statement for the plaintiff in Taipei

San Francisco partner Sean Pak presents his opening statement for the defense in Taipei

Mr. Pak conducts witness examinations in Seoul

Wang Jin-Pyng makes remarks in Taipei


The mock jurors deliberate in Taipei

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

PRESORTED
STANDARD
U.S. POSTAGE
PAID
PERMIT NO. 4338
INDUSTRY, CA

business litigation report

quinn emanuel urquhart & sullivan, llp

Published by Quinn Emanuel Urquhart & Sullivan, LLP as a service to clients and friends of the firm. It is written by the firm's attorneys. The Noted with Interest section is a digest of articles and other published material. If you would like a copy of anything summarized here, please contact David Henri at 213-443-3000.

- We are a business litigation firm of more than 650 lawyers — the largest in the world devoted solely to business litigation.
- As of August 2012, we have tried over 1739 cases, winning over 90% of them.
- When we represent defendants, our trial experience gets us better settlements or defense verdicts.
- When representing plaintiffs, our lawyers have garnered over $15 billion in judgments and settlements.
- We have won five nine-figure jury verdicts in the last ten years.
- We have also obtained eight nine-figure settlements and five ten-figure settlements.

Prior results do not guarantee a similar outcome.

LOS ANGELES
865 S. Figueroa St., 10th Floor
Los Angeles, CA 90017
213-443-3000

NEW YORK
51 Madison Ave., 22nd Floor
New York, NY 10010
212-849-7000

SAN FRANCISCO
50 California St., 22nd Floor
San Francisco, CA 94111
415-875-6600

SILICON VALLEY
555 Twin Dolphin Dr., 5th Floor
Redwood Shores, CA 94065
650-801-5000

CHICAGO
500 West Madison St., Suite 2450
Chicago, IL 60661
312-705-7400

WASHINGTON, D.C.
1299 Pennsylvania Ave. NW, Suite 825
Washington, DC 20004
202-538-8000

TOKYO
NBF Hibiya Bldg., 25F
1-1-7, Uchisaiwai-cho, Chiyoda-ku
Tokyo 100-0011
Japan
+81 3 5510 1711

LONDON
16 Old Bailey,
London EC4M 7EG
United Kingdom
+44 (0) 20 7653 2000

MANNHEIM
Mollstraße 42
68165 Mannheim
Germany
+49 (0) 621 43298 6000

MOSCOW
Paveletskaya Plaza
Paveletskaya Square, 2/3
115054 Moscow
Russia
+7 499 277 1000

HAMBURG
An der Alster 3
20099 Hamburg
Germany
+49 (0) 40 89728 7000