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Transfers from the So-Called "Rocket Docket" May Reach Escape Velocity

Patent infringement suits against national corporations can be brought in virtually any district court in the United States. *See* Elizabeth P. Offen-Brown, *Forum Shopping and Venue Transfer in Patent Cases: Marshall's Response to TS Tech and Genetech*, 25 Berkeley Tech. L.J. 61, 66 (2010). The past decade saw a dramatic surge in the increase of patent infringement suits filed in the Eastern District of Texas. *See id.* at 70; Julie Creswell, *So Small a Town, So Many Patent Suits*, N.Y. Times (Sept. 24, 2006). The Eastern District's popularity is generally attributed to plaintiff-friendly juries, large jury awards in patent infringement cases, and relatively short times to trial. Even though most cases filed in the Eastern District have little or no connection to that forum, defendants have typically had little success in transferring cases elsewhere. However, the Eastern District may be losing its status as a "rocket docket" known for speedy trials and judges hesitant to grant venue transfer motions. Over the past two years, the Federal Circuit has increasingly scrutinized denials of motions to transfer venue, making the Eastern District less attractive to forum-shopping plaintiffs. Also, time to trial has increased to over two years.

Motions to transfer venue in patent cases, like all federal civil cases, are governed by 28 U.S.C. § 1404(a), which permits transfer "[f]or the convenience of the parties and witnesses." In the Fifth Circuit, a party seeking transfer must establish that the proposed venue is "clearly more convenient" than the plaintiff's chosen venue. *In re Volkswagen of America, Inc.*, 545 F.3d 304, 315 (5th Cir. 2008) ("*Volkswagen II*") (en banc). The transfer analysis requires courts to consider a number of "public" and "private" interest factors, including, among others: (1) the relative ease of access to sources of proof; (2) the availability of compulsory process; (3) the cost of attendance for witnesses; and (4) the local interest in having localized interests decided at home. *Id.*

Putting the Brakes on Forum Shopping

The Federal Circuit's crackdown on forum-shopping began with *In re TS Tech USA Corp.*, 551 F.3d 1315 (Fed. Cir. 2008). The plaintiff, a Michigan-based corporation, filed a patent infringement suit in the Eastern District of Texas against TS Tech, an Ohio corporation, and related defendants. TS Tech moved to transfer the case to the Southern District of Ohio, asserting that it was a far more convenient

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John Quinn Recognized as one of *The National Law Journal*'s "Most Influential Lawyers"

Firm Managing Partner John Quinn was recently ranked by *The National Law Journal* as one the "Most Influential Lawyers" in the United States. *The National Law Journal* weighed nominations and conducted research before selecting over 30 attorneys who have shaped the law and legal community. *The NLJ* recognized John for forging the firm into the "litigation powerhouse" it is today — a 450+ attorney firm, the largest in the world devoted solely to business litigation. Q

Charlie Verhoeven Named Favorite IP Lawyer by Corporate Counsel

Quinn Emanuel partner Charlie Verhoeven was identified as a "Client Service All Star" in a recent survey by BTI Consulting. To compile the report, BTI interviewed over 300 corporate counsel from large and Fortune 1000 companies asking which outside lawyers continually provide exceptional client service. Charlie was one of just 19 attorneys on the list who specialize in IP matters. Q

Martin Davies Joins London Office

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forum because most of the physical and documentary evidence was located in Ohio, and the key witnesses lived in Ohio, Michigan, and Canada. It also argued that the case had no meaningful connection to the Eastern District of Texas because none of the parties were incorporated or had offices in Texas. The plaintiff opposed transfer, maintaining that venue was proper because some of the allegedly infringing products were sold there. The district court denied the motion, holding that: (1) TS Tech had failed to demonstrate that the inconvenience to the parties and witnesses clearly outweighed the deference to the plaintiff's choice of forum, and (2) because some of the allegedly infringing products were sold in the Eastern District of Texas, its citizens had a "substantial interest" in having the case tried locally. *Id.* at 1318.

TS Tech filed a petition for a writ of mandamus. The Federal Circuit unanimously ruled in favor of TS Tech, holding that the district court had erred by treating the plaintiff's choice of forum as a distinct factor in the § 1404(a) analysis. *Id.* at 1320. The moving party's burden to show that the transferee venue is "clearly more convenient," said the Federal Circuit, already incorporates the proper deference to the plaintiff's choice of venue. *Id.* The district court had also erred by ignoring the Fifth Circuit's 100-mile rule, which holds that when the distance between the existing venue and the transferee venue is more than 100 miles, "the factor of inconvenience to the witnesses increases in direct relationship to the additional distance to be traveled." *Id.* Third, the district court had incorrectly treated the location of the physical and documentary evidence—all of which was far more conveniently located to Ohio—as a neutral factor in the analysis. *Id.* at 1321. Finally, it held that the mere fact that some of the allegedly infringing products were sold in the Eastern District did not create a meaningful connection to the venue. Rather, because the products were sold throughout the United States, the citizens of the Eastern District had no more interest in having the case tried locally than citizens of any other district. *Id.* The Federal Circuit therefore ordered the case transferred to the Southern District of Ohio.

The following year, the Federal Circuit decided a slightly more difficult case, *In re Genetech, Inc.*, 566 F.3d 1338 (Fed. Cir. 2009). In contrast to *TS Tech*—in which the physical evidence and witnesses were all located in or close to the transfer venue—*Genetech* involved decentralized evidence, parties, and witnesses. The plaintiff, a German pharmaceutical firm, had filed a patent infringement suit in the Eastern District of Texas against two California defendants. The defendants sought to transfer the case to the Northern District of California, identifying at least ten witnesses who resided in that state. The plaintiff, who opposed the motion, indentified several witnesses in Europe, on the East Coast, and in Iowa. Most of the defendants' physical evidence was located in California, while the plaintiff pointed to evidence located in Europe and Washington, D.C. It was undisputed that no witnesses or evidence were located in the Eastern District of Texas. The district court denied the motion, reasoning that it would be easier for the witnesses on the East Coast and in Europe to travel to Texas than to California, and easier for the plaintiff to transport its physical evidence from Europe to Texas. The district court also noted that one of the defendants had previously chosen to file an unrelated suit in the Eastern District of Texas, and therefore could hardly complain that the venue was now inconvenient. *See id.* at 1346.

On a petition for a writ of mandamus, the Federal Circuit rejected the district court's reasoning that Texas' "central" location in the middle of the country made the Eastern District a more convenient location than California. First, the witnesses from Europe, the East Coast, and Iowa would already be forced to travel a significant distance; it would be only slightly more inconvenient for them to travel the additional distance to California. Second, keeping the case in the Eastern District of Texas would impose a significant burden on the defendants to transport documents from California. Because the plaintiff already had to transport its evidence from Europe and Washington, D.C., bringing it to California rather than Texas could not pose a great additional burden. Third, there were a substantial number of witnesses who could be compelled to appear at trial in the Northern District of California through the court's 100-mile subpoena power, but no witnesses were within the Eastern District's subpoena power. Finally, because the case previously filed in the Eastern District involved a different set of parties, witnesses, and facts, the district court had erred by concluding that judicial economy weighed against transfer. The Federal Circuit ordered transfer to the Northern District of California.

Similarly, in *In re Nintendo Co. Ltd.*, 589 F.3d 1194 (Fed. Cir. 2009), witnesses resided in Washington, Japan, Ohio, and New York, but not Texas; no evidence was located in Texas; and none of the parties were incorporated or had offices in the state. The Federal Circuit ordered that the suit be transferred to the Western District of Washington, instructing that when "witnesses and evidence are closer to the transferee venue, and there are few or no convenience factors favoring the venue chosen by plaintiff, the trial court should grant a motion to transfer." *Id.* at 1198.

The Federal Circuit Rejects Plaintiffs' Attempts to Prevent Transfer

In *In re Hoffman-La Roche Inc.*, 587 F.3d 1333 (Fed. Cir. 2009), the Federal Circuit unanimously granted a writ of mandamus and ordered transfer of a patent infringement suit to North Carolina, where several key witnesses were located. Attempting to create a connection with the Eastern District of Texas, the California plaintiff had converted 75,000 pages of documents into electronic format and transferred them to its counsel's Texas office. The Federal Circuit dismissed that as a thinly-veiled attempt to manipulate venue. *Id.* at 1336-37.

Similarly, in *In re Zimmer Holdings, Inc.*, 609 F.3d 1378 (Fed. Cir. 2010), the Federal Circuit rejected the plaintiff's claim that its business presence in the Eastern District weighed against transfer. The plaintiff, a Michigan corporation, had merely transferred files from its corporate headquarters in Michigan to recently-acquired Texas office space, which it shared with another of its counsel's clients. The plaintiff had no employees in Texas and, in the view of the Federal Circuit was "attempting to game the system by artificially seeking to establish venue." *Id.* at 1381. The Federal Circuit also rejected the district court's finding that judicial economy would be served by keeping the suit in the Eastern District because the plaintiff had also sued another defendant in the district. According to the Federal Circuit, the overlap between the two cases was "negligible" and both were in the early stages of litigation. *Id.* at 1382. The court ordered transfer to the Northern District of Indiana, where the defendant's principal place of business and at least eight witnesses were located.

Most recently, in *In re Microsoft Corp.*, 630 F.3d 1361 (Fed. Cir. 2011), a plaintiff opened an office in Texas, moved documents there from the United Kingdom, and incorporated in Texas before filing suit in the Eastern District. The district court relied on these facts in denying a motion to transfer—a decision unanimously reversed by the Federal Circuit, on the basis that the plaintiff's Texas office staffed no employees and was "recent, ephemeral, and an artifact of litigation [that] appeared to exist for no other purpose than to manipulate venue." *Id.* at 1365. The Federal Circuit ordered transfer to the Western District of Washington, where the defendant's principal place of business, all its witnesses, and all its relevant documents and evidence were located.

A Defendant's Presence in Texas Does Not Preclude Transfer

In addition to rebutting attempts to establish a presence in the Eastern District to avoid transfer, the Federal Circuit has also recently rejected the argument that a *defendant*'s presence in the state is enough to tilt the scales against transfer. In *In re Acer America Corp.*, 626 F.3d 1252 (Fed. Cir. 2010), a corporation headquartered in California brought suit in the Eastern District against 12 companies, 5 of which were also headquartered in California. Defendants sought transfer to the Northern District of California, but the district court denied the motion, largely because one defendant, Dell, Inc., was headquartered in the Northern District of Texas, approximately 300 miles from the court. The Federal Circuit unanimously granted a writ of mandamus, noting that all of the U.S.-based corporations except Dell, were headquartered in California, while *none* were located in the Eastern District. Further, significant numbers of witnesses were located in or near the Northern District of California, and therefore subject to that court's subpoena power. Likewise, a significant portion of the evidence was located in California, but none was in the Eastern District of Texas. Finally, because a number of the companies alleged to have caused the harm, as well as the plaintiff, were all residents of the Northern District of California, the local interest factor strongly favored transfer.

Time to Trial in Eastern District Now Over Two Years

In addition to this increased likelihood of transfer, the Eastern District appears to be losing its status as a "rocket docket" where plaintiffs can be assured of a short time to trial. According to official statistics, the median time interval from filing to trial for civil cases in which trials were completed has now reached 24.2 months for the Eastern District. *See Judicial Business of the United States Courts, Annual Report of the Director* (2010) at Table C-10. Numerous district courts throughout the United States have shorter median times to trial. *Id.* While certain factors may continue to favor plaintiffs in the Eastern District, it should thus no longer be assumed that a speedy time to trial will be one of them.

Conclusion

The recent decisions of the Federal Circuit have made cases with little or no connection to the Eastern District of Texas far more susceptible to transfer. An article published last year noted that motions to transfer patent suits filed in the Eastern District have risen 270 percent since *TS Tech.* In addition, there is evidence that as the district's popularity has risen, the time to trial has increased. These developments may diminish the district's appeal to forum-shopping plaintiffs, but it remains to be seen whether the Eastern District's popularity will disappear altogether. Q

Martin Davies Joins London Office

Leading commercial litigator and former head of Olswang's Litigation Department, Martin Davies, has joined the firm's London office. Martin's practice covers the full range of commercial disputes, with a focus on contractual and corporate matters. He has particular expertise in the media, broadcasting and communication markets. His work has included not only High Court litigation, but also extensive arbitration and tribunal experience before major tribunals including the ICC, LCIA, Copyright Tribunal, Court of Arbitration for Sport, Football Association Arbitrations, and IFTA (Independent Film and Television Alliance), both in the U.K. and in the U.S. Martin also regularly advises clients on public law issues and has considerable experience running internal investigations. Martin has been recognized by *Chambers* and *Legal 500* as a leading lawyer in his field. *Legal Business* named Martin as one of the ten lawyers to consult in a crisis. Q

NOTED WITH INTEREST

Making Sense of Fraudulent Transfers, Intangible Benefits, and Lender Liability After TOUSA II

In October 2009, Bankruptcy Judge John K. Olson of the United States Bankruptcy Court for the Southern District of Florida (the "Bankruptcy Court"), issued a controversial decision in In re TOUSA, Inc., ordering that the $403 million paid by TOUSA to settle litigation with certain lenders outside the Bankruptcy Code's "preference" period be avoided and recovered for the benefit of certain of TOUSA's subsidiaries' estates as a fraudulent transfer and awarding prejudgment interest. On February 11, 2011, the district court reversed the Bankruptcy Court without remand, holding that Judge Olson's decision was clearly erroneous. Given the complex facts and the alternative theories asserted by the plaintiff official committee of unsecured creditors, it is instructive for future stakeholders in large chapter 11 cases in which value-shifting is sought through the avoidance powers of the Bankruptcy Code to reflect on those decisions.

Factual Background

TOUSA and its subsidiaries designed, built, and marketed various sorts of residences. TOUSA was obligated on debt incurred to finance the so-called "Transeastern Joint Venture," a very unsuccessful venture that TOUSA undertook in 2005. On July 31, 2007, TOUSA entered into a $500 million loan (the "New Loans") with a group of new lenders (the "New Lenders") to pay $421 million (the "Cash Transfer") to holders of the Transeastern Joint Venture debt (the "Transeastern Lenders") in satisfaction of their claims against TOUSA. Certain of TOUSA's subsidiaries (the "Conveying Subsidiaries") that were not previously liable to the Transeastern Lenders guaranteed and pledged their assets to secure the New Loans (the "Lien Transfer"). Six months later, on January 29, 2008, TOUSA and the Conveying Subsidiaries filed for chapter 11 protection.

The bankruptcy court held that the New Lenders' claims and liens on the Conveying Subsidiaries' assets and the Cash Transfer were fraudulent obligations of, and fraudulent transfers by, the Conveying Subsidiaries. The district court decision reversed the holding that the Cash Transfer was a fraudulent transfer by the Conveying Subsidiaries. Significantly, the opinion included findings that could impact separate appellate proceedings before the district court concerning the avoidance of the New Lenders' claims and liens. The district court declared that the bankruptcy court had erred in concluding that: (1) the Transeastern Lenders were liable to the Conveying Subsidiaries as direct transferees of the Cash Transfer (the "Direct Transfer Holding"); and (2) pursuant to section 550(a)(1) of the Bankruptcy Code, the Transeastern Lenders were liable to the Conveying Subsidiaries as entities "for whose benefit" the Conveying Subsidiaries effectuated the Lien Transfer to the New Lenders (the "§550(a)(1) Holding").

Dispositive Holdings

The district court rejected both premises on which the Bankruptcy Court's Direct Transfer Holding was based. First, it held that the New Loan proceeds had never been the property of the Conveying Subsidiaries because they lacked any dominion or control over the use or disposition of the proceeds. Rather, the funds were clearly owned by TOUSA (the parent company), which had exclusive authority to control where such funds were transferred. Second, the court summarily rejected the Bankruptcy Court's alternative basis, that the Transeastern Lenders had a property interest in the Cash Transfer because the New Loan proceeds were generated, in part, by the Conveying Subsidiaries' agreement to be co-borrowers under the New Loans.

The district court also struck down the §#550(a)(1) Holding that the Transeastern Lenders were liable to the Conveying Subsidiaries as entities "for whose benefit" the Conveying Subsidiaries effectuated the Lien Transfer to the New Lenders, reasoning that the Lien Transfer facilitated the Cash Transfer. Citing Eleventh Circuit authority explaining that the "paradigm case of a benefit under [§ 550(a)(1)] is the benefit to a guarantor by the payment of the underlying debt of the debtor," the district court found that the Transeastern Lenders could not be the entities for whose "benefit" the Lien Transfer was made to the New Lenders because the benefit received by the Transeastern Lenders—the Cash Transfer—was not the immediate and necessary consequence of the lien transfers. Rather, the Cash Transfer was a separate and distinct transfer.

Reasonably Equivalent Value

The district court could have reversed the Direct Transfer Holding and the §#550(a)(1) Holding based solely on the foregoing. Nonetheless, mindful that these issues would likely be appealed to the Eleventh Circuit and "for purposes of full analysis," the district court chose to address whether the Conveying Subsidiaries received "reasonably equivalent value"—another Transeastern Lender defense to liability—in exchange for the Cash Transfer and the Lien Transfer. In doing so, it created the potential for inconsistent rulings because whether the New Loans and the Lien Transfer are avoidable by Conveying Subsidiaries is the subject of an appeal before District Judge Jordan.

Addressing the Direct Transfer Holding, the district court held that even if the Conveying Subsidiaries had a cognizable interest in the Cash Transfer, there was no fraudulent transfer liability because the Conveying Subsidiaries received reasonably equivalent value for the Cash Transfer. The court's analysis is hard to reconcile with its other holdings. It did not focus on what the Conveying Subsidiaries received for the Cash Transfer; rather, the court focused solely on the property interest the Conveying Subsidiaries received for the Lien Transfer (*i.e.*, the New Loan proceeds). In doing so, it therefore found value in the very property interest it held the Conveying Subsidiaries did not own.

Second, as a belt and suspenders holding to the §#550(a)(1) Holding, and notwithstading that that avoidance of the Lien Transfer was the central issue on appeal before Judge Jordan, the court addressed whether the Conveying Subsidiaries received reasonably equivalent value in exchange for the Lien Transfer. The court's theory was that if the Lien Transfer could not be avoided, there could be no §#550(a)(1) liability because recovery under §#550(a)(1) requires avoidance as a prerequisite. Reversing the bankruptcy court's holding that "value" must refer to an enforceable tangible or intangible article, the district court held that the Conveying Subsidiaries received indirect economic benefits constituting reasonably equivalent "value." *See Mellon Bank, N.A. v. Metro Communications, Inc.*, 945 F.2d 635 (3d Cir. 1991). The court found that such indirect benefits included avoiding the triggering of cross-guarantee obligations against the Conveying Subsidiaries and the concomitant disappearance of the Conveying Subsidiaries' existing source of financing, and the resulting need to file for bankruptcy which, in turn, would raise major concerns regarding the whole enterprise's ability to continue operating as a going concern. Notably, the district court found that those indirect benefits constituted reasonably equivalent value and reversed without remand for "quantification" of the benefit to the Conveying Subsidiaries and their unsecured creditors. The district court did not analyze whether the unsecured creditors really were better off being junior to more than $400 million of secured debt than they would have been had there been a mid-2007 bankruptcy filing. Unless the Eleventh Circuit agrees with the court's §#550(a)(1) Holding, the failure to quantify in any fashion the indirect benefits purportedly received by the Conveying Subsidiaries may lead to reversal.

In sum, the court's opinion appears well-reasoned concerning certain dispositive holdings. However, the alternative holdings addressing "reasonably equivalent value" may be subject to reversal, and may have created the potential for inconsistent rulings by Judge Jordan. The bar will be watching closely to see which of these issues Judge Jordan or the Eleventh Circuit chooses to address.

Arbitration Update

France Unveils New International Arbitration Statute: In January, France adopted a statute governing arbitration that took effect May 1, 2011. The statute is intended to maintain France's role as a leading venue for international arbitration disputes.

Under the statute, the president of the Paris Court of First Instance is given the title of "support judge" and has the authority to support international arbitration proceedings in the event of procedural disputes. The support judge has jurisdiction when arbitration is in France or the parties have selected French procedural law. Remarkably, the support judge also has jurisdiction if one of the parties to the dispute is exposed to a risk of denial of justice, even if there is no link to France.

With respect to discovery, the new law allows parties to the arbitration to ask the support judge to order a third party to produce documents provided they first obtain permission from the tribunal. In addition, an arbitral tribunal can order the parties to produce documents subject to a penalty if they fail to comply. Another notable feature of the statute is that international arbitration clauses no longer need to be in writing, even if concluded before May 1.

The statute also changed the rule regarding suspension of the enforcement of international arbitration awards that are the subject of setting-aside proceedings in France. Under the statute, international arbitral awards are capable of enforcement in France while French proceedings to set aside the award are ongoing. An effort to set aside an award will stay enforcement only if the party seeking the stay demonstrates to the support judge that enforcement would be highly detrimental. The objective is to stop parties from initiating frivolous set-aside proceedings to delay enforcement of an arbitration award. Another provision allows the parties to waive their right to seek set aside. This provision does not, however, impact the parties' right to appeal a court's decision to enforce an award in France.

The law also addresses the availability of conservatory and provisional measures. It provides that once an arbitration tribunal is constituted, the tribunal has the ability to take conservatory or provisional measures. Before the tribunal is appointed, national courts have jurisdiction to order conservatory or provisional measures. These modifications to the law make France an even more attractive venue for parties engaging in international arbitration.

Motions to Vacate Arbitration Awards Are on the Uptick in U.S. Courts: *The National Law Journal* reports a sharp increase in the number of motions to vacate arbitration awards brought in state and federal courts. In 2010, state and federal courts issued 208 written decisions on motions to vacate arbitration awards. That was a 48% increase from 2005, when courts issued 141 decisions on motions to vacate arbitration awards. Although the increase is partially attributable to an increase in the number of arbitrations, the number of challenges are increasing at a faster rate than the number of additional arbitration proceedings.

Nevertheless, the success rate for motions to vacate remains low. The study concluded that only 13.9% of the motions decided in 2010 were successful. In 2005, 13.5% of the filed motions to vacate were successful and 16.8% of the motions to vacate filed in 2000 succeeded. This low rate of success is not surprising given the limited grounds for vacating arbitration awards under the Federal Arbitration Act and other applicable laws.

Class Action Litigation Update

***Federal Courts Rein In California Supreme Court's* Tobacco II *Decision*:** The California Supreme Court's decision in *In re Tobacco II Cases,* 46 Cal. 4th 298 (2009), appeared to be grim news for companies defending consumer class actions under California's Unfair Competition Law ("UCL"). The Court held that only the named plaintiffs, and not all absent class members, are required to show an "injury in fact" that resulted from the defendants' conduct. The ruling appeared to gut a primary defense to certification in such cases: that individual issues of reliance, causation, and injury predominate over any common issues.

Many consumer class actions are now litigated in federal court under the Class Action Fairness Act, and an open question from *Tobacco II* was whether its relaxed standing approach conflicted with Article III's requirement that federal court plaintiffs have suffered an injury in fact. The Eighth Circuit recently addressed the interplay of Article III and *Tobacco II* in *Avritt v. Reliastar Life Ins.,* 615 F.3d 1023, 1034 (8th Cir. 2010). The *Avritt* plaintiffs were California residents who allegedly bought fixed deferred annuities based on a misleading rate-setting practice. They filed a class action that asserted, among other claims, violation of the UCL. The district court denied certification, finding that plaintiffs had failed to establish that common questions predominated over individual issues.

On appeal, the Eighth Circuit discussed the applicability of *Tobacco II* in federal courts, reasoning that "to the extent that *Tobacco II* holds that a single injured plaintiff may bring a class action on behalf of a group of individuals who may not have had a cause of action themselves, it is inconsistent with the doctrine of standing as applied by federal courts." Although each class member is not required to submit evidence of personal standing, a class cannot be certified if it contains members who lack standing. As the *Avritt* court further stated, "[a] class must therefore be defined in such a way that anyone within it would have standing. Or, to put it another way, a named plaintiff cannot represent a class of persons who lack the ability to bring the suit themselves." According to the Court of Appeals, the determination in *Tobacco II* that only the named plaintiffs asserting a representative UCL claim, and not all absent class members, are required to meet standing requirements "diverged from federal jurisdictional principles, which we are bound to follow." The Eighth Circuit affirmed the district court's denial of the plaintiffs' class certification motion.

At least one California district court has followed *Avritt*'s analysis. *See Webb v. Carter's, Inc.*,—F.R.D. —, 2011 WL 343961, at *6-9 (C.D. Cal. Feb. 3, 2011) (Feess, J.) (declaring that "*Tobacco II* does not persuade the Court that a class action can proceed even where class members lack Article III standing," and denying certification of UCL, FAL, CLRA and fraud claims). Time will show whether other courts, including the Ninth Circuit, will ultimately agree with *Avritt*. Until this issue is definitively resolved, the ability of defendants to invoke Article III to countervail *Tobacco II* will provide a powerful incentive to remove consumer class actions to federal court when possible.

White Collar Litigation Update

SEC Exercises Expanded Power to Bring Administrative Enforcement Proceedings: The passage of the Dodd-Frank Act in July 2010 broadened the SEC's power to bring administrative proceedings rather than civil actions in federal court for violations of securities laws. The SEC has now begun exercising that expanded power. Before Dodd-Frank, the SEC could bring administrative cases only against individuals and entities whom the SEC directly regulates, such as broker-dealers, brokerage firm executives, investment banks, mutual funds, and brokerage firms themselves. If the SEC wanted to challenge the conduct of public companies or officers or directors who did not fit within the above groups, it had to bring civil actions in federal court. Further, the SEC could not seek monetary remedies beyond disgorgement of illegal profits in administrative proceedings.

The Dodd-Frank Act expanded the SEC's powers on several fronts. The SEC can now bring administrative proceedings against any public company and its officers or directors for violations of federal securities laws. Dodd-Frank also authorized the SEC to obtain substantial monetary penalties in addition to disgorgement in administrative proceedings. Further, Dodd-Frank expands the "collateral bar" remedy so that an individual may be barred not just from working in his specific job role again, but also from associating with any entity the SEC regulates. These expanded administrative powers are significant to SEC targets because, as described below, administrative proceedings give the SEC distinct procedural advantages not available to it in federal court proceedings. For example:

- In federal court, a defendant has a right to a jury trial. An administrative proceeding is only decided by an administrative law judge, who, unlike a life-tenured and independent federal judge, is employed by the SEC itself. Administrative proceedings are subject to an accelerated schedule that excludes depositions and other forms of discovery that can take months or years in federal court.
- The Federal Rules of Evidence do not apply to administrative proceedings, potentially allowing the admission of hearsay and other evidence

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routinely barred in federal court.

- An appeal of the administrative law judge's decision does not go directly to a federal appeals court. Rather, the appeal is first reviewed by the SEC Commissioners—the same Commissioners who directed that the administrative proceeding be filed. After that review, an appeal can be taken to a federal appeals court, but the decision of the Commissioners receives deference.
- After an administrative proceeding, the SEC may still file an action in federal court, and may rely on evidence obtained in the administrative proceeding.

The SEC's expanded administrative powers may also help the Department of Justice in its prosecution of criminal securities fraud cases. Federal prosecutors and the SEC often find themselves investigating and prosecuting the same conduct in parallel proceedings. Because federal criminal proceedings do not afford defendants the same discovery tools as civil court actions, defendants charged in parallel civil and criminal securities fraud cases typically seek to use discovery from the civil court case to defend the criminal case. The government, in turn, usually seeks to stay the SEC proceeding pending resolution of the criminal action, but sometimes courts deny such requests. Because SEC rules permit stays of administrative proceedings, the SEC may resort to administrative proceedings to give the government a better chance of delaying such discovery.

The SEC recently flexed its expanded regulatory muscle by bringing administrative proceedings in parallel with the highly watched insider-trading criminal prosecution involving the hedge fund Galleon Group. Galleon was one of the world's largest hedge fund management firms before the federal government criminally charged myriad Galleon employees, including billionaire co-founder Raj Rajaratnam, with insider trading in 2009.

The SEC's parallel administrative proceeding involves Rajat Gupta, a former managing director of McKinsey & Co. and director at Goldman Sachs and Procter & Gamble. Gupta is accused of repeatedly passing on inside information to Rajaratnam, including information Gupta learned while serving at McKinsey and Goldman Sachs. In the pre-Dodd Frank world, the SEC would have had to bring a civil court action against Gupta to win civil penalties. The SEC has instead brought the administrative proceedings pursuant to the Dodd-Frank amendments.

Gupta is challenging the validity of the SEC's action by seeking declaration from a federal court that the SEC can not apply the civil penalty provisions of Dodd-Frank against him. Although Gupta has raised issues concerning the retroactive application of the amendments, he also contends that using administrative proceedings against him would violate his rights to due process, because of the lack of equivalent federal court protections. The SEC has yet to respond to Gupta's complaint.

Although the extent to which the SEC uses its expanded administrative proceeding powers remains to be seen, the procedural benefits that the SEC enjoys in administrative proceedings suggest that the power will not be used sparingly.

DOJ Fends Off Challenges to Concept that Employees of State-Owned Companies Fall Under FCPA: The DOJ and SEC show no signs of slowing in their aggressive stance towards possible FCPA violations. In the last few months, for example, both Kraft Foods and Las Vegas Sands Corporation received subpoenas indicating that they were being targeted under the FCPA. And the DOJ recently succeeded in persuading courts in two pending California cases that state-owned or state controlled enterprises can be "foreign officials" for the purposes of FCPA enforcement. On April 4, 2011, U.S. District Court Judge Matz in Los Angeles issued the first ruling on this issue in *United States v. Noriega*, holding that executives of state-owned corporations do count as foreign officials. The FCPA defines a "foreign official" as an "officer or employee of a foreign government or any department, agency, or instrumentality thereof." Neither the statute nor the legislative history define "instrumentality," "department," or "agency." Although past FCPA defendants have challenged claims that particular parties acted as foreign officials, the present cases appear to be the first to raise the purely legal question whether employees of state-owned companies are public officials under the FCPA.

In *Noriega,* Lindsey Manufacturing Company executives faced charges that they paid a state-owned Mexican electric utility to bribe government officials. In moving to dismiss, defendants challenged the definition of "foreign official," arguing that the government's theory has no basis in the text or history of the FCPA, and is contradicted by the plain meaning of the term "instrumentality" in the context of the "foreign official" definition (and the FCPA as a whole), the legislative history of the statute, and Congress' intent in enacting it. The government contended that whether employees at state-controlled utility companies are foreign officials is "not a difficult question." First, it argued that, under the Mexican Constitution, supplying electricity is exclusively a government function and public service. Second, it argued that "instrumentality" plainly includes state-owned entities, and that any other interpretation would leave a portion of the FCPA without effect and take the U.S. out of compliance with its OECD treaty obligations.

Judge Matz denied the motion to dismiss primarily based on the legislative history of the FCPA and on the ordinary definition of "instrumentality," which is "serving as a means or agency." He also noted that electricity is a government function in Mexico and that the utility company refers to itself on its website as a governmental agency. Trial in the *Noreiga* case began in late April 2011 and, on May 10, 2011, after only a day of deliberations, a Los Angeles jury found all defendants—that is executives of Lindsey Manufacturing company and the company itself—guilty of conspiracy to violate the FCPA. Lindsey Manufacturing is the first American company to be charged and convicted under the FCPA, but Assistant Attorney General Lanny Breuer definitively stated that "it will not be the last."

In the second case raising the issue of whether employees of state-owned companies are foreign officials for purposes of the FCPA—*United States v. Carson*—former executives of valve manufacturer Control Components are charged in Santa Ana federal district court with bribing employees of state-owned companies in China, Malaysia, and the United Arab Emirates. The defendants moved to dismiss, arguing that employees of state-controlled companies are not foreign officials under the law and that the "government's sweeping and aggressive interpretation is wrong as a matter of law." They based their argument on the ordinary meaning of the term "instrumentality," the "absurd results" that would result under the government's definition, and the original legislative intent to prevent overseas bribery scandals from bringing down the foreign governments with whom our diplomats worked. On May 18, 2011, Judge Selna denied the motion, referencing the *Lindsey* case and stating that "state-owned companies may be considered 'instrumentalities' under the FCPA, but whether such companies qualify as 'instrumentalities' is a question of fact." Judge Selna included a non-exhaustive list of factors to be considered, including the level of ownership or control, how the entity and its personnel are characterized by the foreign government, the entity's purpose, its obligations and privileges under the foreign law including exclusivity or controlling power in its functional area, and the circumstances surrounding its creation.

It is unclear if other courts will follow *Noreiga* and *Carson*, especially in cases involving state-owned companies less entwined in quintessential government functions than, for example, the utility company in *Noriega*. The scope of the FCPA will be significantly narrowed if courts hold that it applies only to "true" government officials, thus exempting transactions with state-owned or state-controlled companies from its record-keeping and anti-bribery provisions. To some, this will be viewed as a leveling of the playing field because the U.S. has been the only major economic power to prohibit its companies from bribing foreign officials. To others, it will be seen as an end-run around a law that combats corruption. Q

Technology Licensing Trial Victory in Delaware

Quinn Emanuel obtained a remarkable victory on behalf of Nuance Communications, Inc. following a bench trial in Delaware Chancery Court. The plaintiff, Vianix, claimed over $30 million in unpaid royalties under a technology license agreement involving audio compression technology. The underlying contract, negotiated by an unrelated company later acquired by Nuance, was ambiguous. Accordingly, the parties had vastly different views of how royalties were to be calculated. Adding fuel to the fire, Vianix made extremely aggressive claims concering the extent to which its technology was incorporated into Nuance products. Because of a fee-shifting provision, Nuance faced a considerable risk, in that owing to record-keeping errors, Nuance had underpaid royalties to at least some degree. Further, Vianix had secured an independent audit showing that Nuance owed several million dollars.

Quinn Emanuel quickly took the offensive. Digging deeply into the draft agreements and contemporaneous email messages, it established that virtually every aspect of the plaintiff's contract interpretation had been specifically rejected during the negotiations, notwithstanding the lingering ambiguities in the text. It concurrently developed a deep understanding of the technology and products at issue so it could conclusively establish that the plaintiff's technology was used only sparingly, and in very few Nuance products. Because some underpayment had occurred, Quinn Emanuel conservatively calculated what was owed, and had the client send the plaintiff a check in that amount.

During discovery, Quinn Emanuel obtained damaging admissions from the plaintiff's witnesses concerning the underlying technology and highlighted the wide inconsistencies between the plaintiff's interpretation of the contract and the evidence of the negotiations. In an unusual development, Quinn Emanuel learned that the plaintiff had secretly recorded its fake phone calls with Nuance employees during the life of the license agreement. The plaintiff thought that the recorded evidence would be its ace in the hole, but Quinn Emanuel instead used the recordings to support Nuance's defense.

Following trial, and extensive post-trial briefing, the Court found for Nuance on almost every issue, awarding Vianix well under $1 million of the $30 million sought, and denying Vianix an award of attorneys' fees.

Another Summary Judgment Victory for Google Affirmed

Quinn Emanuel had previously won summary judgment of non-infringement for Google and AOL in the Eastern District of Texas. In 2007, an Acacia plaintiff, represented by Dovel and Luner, filed suit against all major online search engines, including Google, AOL, Microsoft and Yahoo!, accusing their online advertising auction systems of infringing U.S. Patent No. 6,978,253. In particular, the plaintiff accused Google's AdWords auction system, which is used by Google to sell advertising space on search results pages for Google.com and partner sites.

The alleged innovation of the '253 patent was to offer buyers the opportunity to pay a lower price for a product based on the buyer's performance in a collateral "price determining activity" or "PDA." For example, a buyer might obtain a discount on the purchase of a Mark McGwire rookie card based on his level of success in a "PDA" such as a trivia quiz or game. All defendants other than Google and AOL settled before the claim construction hearing. In September 2009, the court issued a claim construction order favorable to the defendants. Consistent with the defendants' proposal, the court found that a PDA "is used to determine the price paid for the product or service and is not otherwise part of a sales transaction." The defendants then moved for summary judgment of non-infringement arguing in part that there is no PDA in AdWords.

The case was then transferred to Judge Randall R. Rader of the Federal Circuit sitting by designation in the Eastern District of Texas. On March 18, 2010, Judge Rader issued an order granting summary judgment of non-infringement in favor of Google and AOL. He agreed that there is no PDA in AdWords. The plaintiff had argued that the advertiser's creation and submission of ad text in AdWords is a PDA. However, the court found that the creation and submission of ad text is otherwise part of the AdWords sales transaction and, thus, cannot be a PDA under the court's construction. The court explained that, in AdWords, the ad text defines the product itself. Additionally, the ad text may influence the selection process for the ad space awarded to the advertiser. The court further noted that the plaintiff's arguments intended to "create an issue of fact" were "non-sequitors," and concluded that "AdWords is not at all akin" to the patent.

In February 2011, the Federal Circuit affirmed the summary judgment of non-infringement, handing another appellate victory to Quinn Emanuel. This affirmance was *per curium*, and issued only two days after oral argument.

Whoa! Sub-in Mid Trial—QE Wins Again

After testifying on hostile direct examination in the plaintiff's case for 1½ days, a widow defending against a claim of an alleged $18 million charitable pledge retained Quinn Emanuel to take over her defense. The firm immediately assumed the role of lead trial counsel.

The firm's client was Dawn Arnall, the widow of founder and owner of Ameriquest Mortgage Company Roland Arnall. Mr. Arnall was a Holocaust survivor who emigrated to the United States and became a highly successful businessman and philanthropist. The plaintiff was Chabad of California, a well-known charity headed by Rabbi Baruch Schlomo Cunin. Chabad alleged that in 2004, Mr. Arnall pledged to donate between $18 million and $40 million, before fixing the amount at $18 million on the day in 2008 he was diagnosed with cancer. The only witness to the alleged pledge was Rabbi Cunin. At trial, Rabbi Cunin's son testified that the Rabbi had told him in 2004—and again in 2008—about Mr. Arnall's alleged pledges. Ms. Arnall and people associated with her testified that they never heard of any such pledge until Chabad alleged it following Mr. Arnall's death.

Chabad had no documentary support for the alleged pledge but offered an explanation for why no such record was created. Quinn Emanuel cross-examined Rabbi Cunin demonstrating numerous inconsistencies and implausibilities in his testimony. The firm also offered Ms. Arnall's testimony to demonstrate both the absence of any knowledge of the alleged pledge and the funding of a separate private charitable foundation with more than $32 million only a few months following the alleged 2004 pledge. Following four weeks of trial, including several days of closing argument by Quinn Emanuel, and then an extensive hearing on the court's proposed statement of decision, the court issued a 69-page final Statement of Decision that Chabad had failed to prove any pledge whatsoever to Chabad.

Real Estate Appellate Victory

Quinn Emanuel recently won an expedited victory on appeal for Harry Mansdorf, a 90-year-old disabled World War II veteran, that secured recovery of real estate estimated to be worth up to $200 million, in which he and his brothers had invested their life savings.

Mr. Mansdorf was a decorated bomber pilot who lost the use of his right knee when he was shot down on a mission over Austria. After the war, Mr. Mansdorf and his three brothers founded an aviation business, which later played a key role in the space program. When the brothers sold the business in the late 1960s, they placed their money into a trust. Mr. Mansdorf's older brother, Lee, used the trust funds to buy real estate in Southern California. Eventually, the trust assembled approximately 1300 acres of undeveloped beachfront property north of Malibu.

Two days after Lee's death in 2003, Michele Giacomazza approached Mr. Mansdorf, claiming that he was Lee's long-time partner and that Lee owed him $7 million. When Mr. Mansdorf refused to pay, Giacomazza said that he would make Mr. Mansdorf's younger brother, who was bedridden with advanced Parkinson's disease, "look like Lee" if Mr. Mandorf did not pay up. Using such threats of physical violence, bogus mechanics liens that tied up Mr. Mansdorf's assets, fraud, and psychological manipulation, Giacomazza took control of Mr. Mansdorf's life and induced him to sign over title to the Malibu properties and the Mansdorf family home.

This nightmare lasted for four years, until Giacomazza was hospitalized with heart problems and Mr. Mansdorf managed to break free. He then sued Giacomazza for elder abuse and sought to revoke the deeds transferring his home and the Malibu properties based upon undue influence. Mr. Mansdorf prevailed at trial and then retained Quinn Emanuel to protect his victory.

In light of Mr. Mansdorf's age and health, Quinn Emanuel requested a calendar preference so that the appeal be heard as quickly as possible. On March 15, the California Court of Appeal held oral argument. Three days later, it issued an opinion adopting arguments in Quinn Emanuel's brief, unanimously affirming the judgment in Mr. Mansdorf's favor. Q

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business litigation report

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