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# quinn emanuel

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## Patent Owners Beware: Lengthy Pre-Suit Discussions May Rule Out Forum of Choice

Patent owners seeking to assert their rights outside of their home states should continue to think twice about sending cease-and-desist or demand letters or traveling to meet with alleged infringers, lest they find themselves defendants in declaratory judgment actions in the alleged infringers' home jurisdiction. In *Apple v. Zipit*, the Federal Circuit recently reiterated that cease-and-desist letters and related in-person discussions may provide a basis for personal jurisdiction in a declaratory judgment action. 30 F.4th 1368 (Fed. Cir. 2022).

### Background

Applying one of the Supreme Court's seminal jurisdiction cases, *Burger King Corp. v. Rudzewicz*,

471 U.S. 462, 472-73 (1985), the Federal Circuit's decision in *Apple v. Zipit* reinforces a shift in the case law away from a bright-line rule that cease-and-desist letters may *not* provide a basis for finding that the party sending the letters has sufficient minimum contacts to establish personal jurisdiction in the alleged infringer's home state. After first finding that a nonresident defendant has purposefully established minimum contacts with the forum state, courts apply the *Burger King* factors to assess whether the assertion of personal jurisdiction comports with "fair play and substantial justice." See *Burger King*, 471 U.S. at 476. These factors include: (1) the burden on the defendant; (2) the interest of the forum state in adjudicating the dispute; (3) the plaintiff's interest

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## Firm Opens Office in Dallas, Texas, USA

Continuing its trajectory of growth, the firm has opened an office in Dallas, its third office in The Lone Star State. Partners Karl Stern, Elinor C. Sutton, and Will Thompson will anchor the office. Four associates have joined, and new hires are anticipated soon.

## Partner AJ Merton has been recognized in Bloomberg Law's 2022 edition of 'The 40 Under 40'



Partner Alexander "AJ" Merton has been recognized in Bloomberg Law's 2022 edition of 'The 40 Under 40' for White Collar, Government Investigations & Tax. Client, Gretchen Roos, the assistant general counsel of global ethics and compliance at PPG Industries, says, "We have many excellent outside lawyers to support our company. In my experience however, no one can top AJ with respect to the multitude of personal attributes that mean so much to a client."

## Law, disrupted – "Johnny Depp Trial Strategy and Tactics" with Camille Vasquez



This month, on the firm's podcast, *Law, disrupted*, founding partner John B. Quinn sits down with Camille Vasquez for her first ever podcast. Ms. Vasquez discusses her journey to becoming a lawyer and her work representing actor Johnny Depp in his defamation case against his ex-wife, Amber Heard, which has dominated headlines during the past year. To listen, visit the *Law, disrupted* website: <https://www.law-disrupted.fm/camille-vasquez-johnny-depp-trial-strategy-tactics/>

in obtaining convenient and effective relief; (4) the interstate judicial system's interest in obtaining the most efficient resolution of controversies; and (5) the shared interest of the several states in furthering fundamental substantive social policies. *Id.* at 477

Previous Federal Circuit cases, *Red Wing Shoe v. Hockerson-Halberstadt, Inc.*, 148 F.3d 1355 (Fed. Cir. 1998), and *Autogenomics, Inc. v. Oxford Gene Tech. Ltd.*, 566 F.3d 1012 (Fed. Cir. 2009), suggested that such a bright-line rule existed. In *Red Wing Shoe*, the Federal Circuit found that a limited number of communications informing a suspected party of infringement may fall short of establishing specific jurisdiction in a declaratory judgment action. *Red Wing Shoe*, 148 F.3d at 1355. Similarly, in *Autogenomics*, the court found there was no personal jurisdiction in the absence of sufficient activities “relat[ing] to the validity and enforceability of the patent” despite cease-and-desist communications between the parties. *Autogenomics*, 566 F.3d 1020.

By contrast, more recent Federal Circuit authority suggests a more individualized approach to pre-suit communications and correspondence, which ultimately makes it easier for companies accused of infringement to bring declaratory judgment suits in their home jurisdictions. In *Xilinx, Inc. v. Papst Licensing GmbH & Co. KG*, 848 F.3d 1346 (Fed. Cir. 2017), the Federal Circuit held that personal jurisdiction over German patent licensing firm Papst existed based on multiple notice letters and visits Papst made to Xilinx's headquarters in California. Then, last year in *Trimble Inc. v. PerDiemCo LLC*, 997 F.3d 1147 (Fed. Cir. 2021), the Federal Circuit found that, even when the only contacts with a foreign forum are communications related to enforcement or licensing (23 communications in a three-month period), fairness may nevertheless dictate exercising personal jurisdiction over the sender in that forum depending on the content and extent of the communications.

### District Court Decision

Zipit, a Delaware corporation with a principal place of business in South Carolina, first contacted Apple in 2013 regarding two patents related to Wi-Fi access points. Between 2013 and 2020, Apple and Zipit exchanged letters and claim charts, participated in calls, met in person on several occasions, and exchanged competing drafts of a license agreement. On June 11, 2020, Zipit filed suit in the Northern District of Georgia, accusing Apple of infringing Zipit's WiFi patents. For reasons not in the record, Zipit voluntarily dismissed the case two weeks later. Nine days after the voluntary dismissal, Apple filed suit in the Northern District of California,

seeking a declaratory judgment of non-infringement of Zipit's patents. Zipit moved to dismiss for lack of personal jurisdiction, and the district court granted the motion. The district court found Zipit had sufficient minimum contacts with California. However, based on Zipit's lack of binding obligations tying it to California, and because Zipit's contacts with California all related to the attempted resolution of Zipit's patent claims, the district court found that specific personal jurisdiction over Zipit in California would be “unreasonable” under the *Burger King* factors.

### Federal Circuit Decision

On appeal, the Federal Circuit in *Apple v. Zipit* agreed with the district court that the parties' pre-suit calls, letters, and in-person meetings established that Zipit had sufficient minimum contacts in California to exercise personal jurisdiction. In distinguishing the *Autogenomics* case—where a pre-suit notice letter did not establish jurisdiction—the Federal Circuit cited “material factual distinctions,” including Zipit's (a) updates to Apple about ongoing Patent Office proceedings regarding the patents in suit, (b) escalation to allegations of infringement, and (c) communications “going so far as twice describing Apple's infringement as willful.” *Apple v. Zipit*, 30 F.4th at 1376 n.3.

But the Federal Circuit reversed the district court's finding that it lacked personal jurisdiction over Zipit, explaining that Zipit did not, as it must, make a “compelling case” that other considerations would render the exercise of personal jurisdiction unreasonable. The Federal Circuit clarified that its statements in *Red Wing*, where it had noted that policy considerations favoring settlement may be a reason why pre-suit communications should not provide a basis for jurisdiction, do not control the jurisdiction inquiry and “must be considered together with the other *Burger King* factors.” *Id.* at 1378. Accordingly, the Federal Circuit found that the district court “erred in reading” Federal Circuit precedent as creating “a bright-line rule that communications directed to ‘the attempted resolution’ of the parties' dispute regarding the patents-in-suit trumps all other considerations of fairness and reasonableness.” *Id.* To reach its conclusion that the interaction between Apple and Zipit was not “one of the ‘rare’ situations in which sufficient minimum contacts exists but where the exercise of jurisdiction would be unreasonable,” the Federal Circuit applied the five factors set forth in *Burger King*.

Of note, with respect to the first *Burger King* factor (the burden on Zipit to litigate in California), the Federal Circuit focused on the “limited evidence” Zipit presented—a one-page declaration from Zipit's CEO

making generic allegations of inconvenience. That conclusory declaration did not establish that litigating in California would be so unreasonably burdensome as to be unconstitutional. *Id.* at 1379. The Federal Circuit also pointed to Zipit’s decision to file suit in Georgia as an event Zipit should have reasonably foreseen would cause Apple to respond with a declaratory judgment claim in a California court.

With respect to the fourth *Burger King* factor (obtaining the “most efficient resolution of controversies”), the Federal Circuit acknowledged its prior statements from *Red Wing Shoe* that the importance of resolving disputes without litigation “squarely invokes” the fourth *Burger King* factor. *Id.* at 1380. Although this factor militated against finding jurisdiction over Zipit in California, the Federal Circuit deemphasized the factor in light of certain facts specific to the case. While noting that Zipit’s initial contacts with Apple could be viewed as an attempt to settle, the Federal Circuit found that the parties’ communications “extend[ed] over the course of several years and reach[ed] beyond license negotiations to include the sale of its patents.” *Id.* Weighing all five *Burger King* factors together, the Federal Circuit found the exercise of jurisdiction over Zipit would not be “compellingly and constitutionally unreasonable given the nature and extent of Zipit’s contacts. Zipit went beyond attempting to resolve its dispute with Apple outside of court; it amplified its allegations of infringement after Apple stated it did not need a patent license, and Zipit, in the end, sued Apple for patent infringement.” *Id.* at 1381.

### **Ramifications of *Apple v. Zipit***

Post-*Trimble* and post-*Zipit*, both parties to pre-suit discussions will need to continue to think carefully before sending communications about alleged infringement. Although the line-drawing exercise is likely to remain case-by-case for the foreseeable future, certain principles emerge from the Federal Circuit’s more recent jurisprudence: Personal jurisdiction is more likely to be found when the pre-suit communications extend over time (*Trimble, Zipit*), relate in a material way to the enforcement or defense of the patents (*Xilinx*), and include progressively amplified demands (*Zipit*). Patent owners that want to preserve their ability to litigate in their forum of choice will have to balance providing notice of their claim and attempting to resolve the issue outside the courtroom with a strategy of filing first in their chosen jurisdiction and attempting to negotiate later. To the extent patent owners are faced with declaratory judgment claims, *Zipit* is instructive insofar as it provides an example of insufficient support for a motion to dismiss: a short boilerplate declaration indicating the company has no physical presence in the forum and the inventors do not reside in the forum. Parties seeking to avoid litigating in the alleged infringer’s home forum should undertake meaningful efforts, supported by specific information, to show the court why litigating in such a forum is unreasonable. Accused infringers, on the other hand, have an added incentive to engage with the patent owner and increase the volume of pre-suit communications. These dynamics will continue to play out as courts interpret and apply the Federal Circuit’s decisions in *Trimble* and *Zipit*. 

## **Quinn Emanuel Named Associate Satisfaction Leader in BTI Consulting’s Associate Satisfaction A-Listers 2022**

The firm has been named an Associate Satisfaction Leader, earning recognition in BTI Consulting’s *Associate Satisfaction A-Listers 2022: BTI Survey of Law Firms Where Associates are Happiest*. In the report, women associates name Quinn Emanuel a leader in providing activities associates value most in deriving high levels of job satisfaction at law firms. 



## **Partner Michael Carlinsky Selected as a Finalist for the *New York Law Journal*’s “Attorney of the Year” Category in the 2022 New York Legal Awards**

Managing Partner Michael Carlinsky has been selected as one of the 2022 finalists in the *Attorney of the Year* category in the *New York Law Journal*’s New York Legal Awards. Results will be announced at the New York Legal Awards ceremony in New York City on October 6, 2022. 

## Supreme Court Holds that PAGA Claims Can Be Compelled to Individual Arbitration

On June 14, 2022, the United States Supreme Court issued an 8-1 decision in *Viking River Cruises, Inc. v. Moriana*, 142 S. Ct. 1906 (2022), holding that claims brought under the California Private Attorneys General Act (“PAGA”) can be split into individual PAGA claims and representative PAGA claims, thereby allowing employee PAGA claims to be compelled to individual arbitration. The Supreme Court further held that, because of PAGA’s standing requirements, when an employee’s individual PAGA claims are compelled to arbitration, the employee loses standing to bring any representative PAGA claims in court, effectively foreclosing employees from pursuing such representative claims where the employee is subject to an agreement requiring individual arbitration. On the basis of preemption under the Federal Arbitration Act (“FAA”), the decision reversed a California Supreme Court ruling that categorical waivers splitting PAGA claims into arbitrable “individual” claims and nonarbitrable “representative” claims was contrary to California policy.

### Summary of PAGA

PAGA was enacted by the California Legislature in 2004 to address a concern that the state’s Labor and Workforce Development Agency, which had the authority to bring enforcement actions to impose civil penalties against employers for violations of the Labor Code, did not have sufficient resources to compel the appropriate level of employer compliance. Accordingly, PAGA permits individual employees aggrieved by a Labor Code violation to bring private actions on the state’s behalf. Under PAGA, the employee can seek civil penalties on behalf of themselves and other current or former employees for various Labor Code violations.

In 2014, the California Supreme Court issued a decision precluding employers from enforcing pre-dispute arbitration agreements to the extent the agreements require employees to arbitrate PAGA claims on an individual basis—i.e., where the arbitration agreement forecloses the ability to pursue civil penalties on behalf of other allegedly aggrieved employees. *Iskanian v. CLS Transportation Los Angeles, LLC*, 59 Cal. 4th 348 (2014). *Iskanian* held that, although employees could waive their right to participate in class actions, they could not waive the right to bring a PAGA action on behalf of the state. The court further suggested that individual PAGA claims could not be arbitrated because bringing these claims in separate arbitrations would not serve the deterrence purpose of PAGA. The court subsequently held, based on *Iskanian*, that a PAGA

claim could not be divided into arbitrable individual claims and non-arbitrable representative claims because a PAGA action is a single claim for civil penalties brought on behalf of all aggrieved employees. *Kim v. Reins*, 9 Cal. 5th 73 (2020).

### Background of *Viking River Cruises* Action

The plaintiff, Angie Moriana, was a former sales representative for Viking River Cruises. In connection with her employment, Moriana signed a mandatory bilateral arbitration agreement in which she agreed to arbitrate claims arising out of her employment. The arbitration agreement contained a “class action waiver,” which precluded both class actions and representative actions brought under PAGA.

At the conclusion of her employment, Moriana filed a PAGA claim in California state court alleging the company had failed to timely pay her final wages. She asserted a single violation of the California Labor Code on her own behalf in addition to a “wide array” of representative claims on behalf of all current and former aggrieved employees with Labor Code claims against Viking River Cruises. Viking moved to compel arbitration of Moriana’s individual claim and to dismiss her representative claims. The state court denied Viking’s motion, basing its decision on *Iskanian*’s holding that a PAGA claim could not be split into arbitrable individual and non-arbitrable representative claims, and noting that—as a result—the entire claim was outside the coverage of the FAA.

### Supreme Court Decision

The United States Supreme Court partially reversed the California Supreme Court’s decision in *Iskanian*, holding that the FAA preempted *Iskanian* to the extent the case prohibited dividing PAGA claims into individual and representative claims. In particular, the Court held that, given PAGA’s expansive joinder rules, which permit the joinder of other aggrieved employees’ claims regardless of whether the underlying arbitration agreement committed those claims to arbitration, the indivisibility rule “unduly circumscribes the freedom of parties to determine ‘the issues subject to arbitration’ and ‘the rules by which they will arbitrate.’” *Viking River Cruises, Inc.*, 142 S. Ct. at 1912. Such a result would be incompatible with the FAA.

The Court rejected the idea that a PAGA cause of action premised on multiple different Labor Code violations is a singular claim, holding instead that “a PAGA action asserting multiple code violations affecting a range of different employees does not constitute ‘a

single claim’ in even the broadest possible sense, because the violations asserted need not even arise from a common ‘transaction’ or ‘nucleus of operative facts.’” *Id.* at 1919-20. As a result, the Court determined Moriana’s individual claim could be separated and compelled to arbitration.

The Supreme Court further held that “[u]nder PAGA’s standing requirement, a plaintiff can maintain non-individual PAGA claims in an action only by virtue of also maintaining an individual claim in that action.” Because the plaintiff was required to arbitrate her individual PAGA claim, the Court held she lacked standing to maintain her representative claims in court, and therefore dismissed those claims.

Notably, however, Justice Sotomayor’s concurring opinion left open the possibility that the Court’s holding may be temporary, stating that “the California Legislature is free to modify the scope of statutory standing under PAGA within state and federal constitutional limits.” It remains to be seen whether and how the California legislature will respond to the *Viking River Cruises* decision.

### Impact of Decision

Going forward, and in the absence of any further judicial or legislative action, employers should keep in

mind several important practical implications of this decision.

- Every California employer should have an attorney review their existing arbitration agreements to account for this decision. Many arbitration agreements exclude PAGA claims because of *Iskanian*’s prohibition against individual arbitration of those claims. Because arbitration is a matter of contract, if an arbitration agreement contains such a PAGA exclusion, employers will be forced to litigate their PAGA claims in court, regardless of the Supreme Court’s recent decision.
- California employers should consider implementing arbitration agreements to the extent they do not already have such agreements in place. The Supreme Court’s decision now provides a way for employers to minimize the risk of representative PAGA claims with a properly drafted arbitration agreement.
- Consistent with Justice Sotomayor’s concurring opinion, employers should prepare for a possible amendment to PAGA which could, among other things, provide a PAGA plaintiff with standing to assert non-individual claims when their individual claims are ordered to arbitration. [Q](#)

## PRACTICE AREA NOTES

### Product Liability Litigation Update

#### *West Virginia Federal Court Rejects Claims That Three Opioid Distributors Are Responsible for the State’s Opioid Crisis in First Federal Bellwether Trial*

In a blow to state and local entities’ efforts to hold drug manufacturers liable for the opioid crisis, on July 4, 2022, Judge David A. Faber of the United States District Court for the Southern District of West Virginia entered a bench trial verdict in favor of defendants AmerisourceBergen Drug Corporation, Cardinal Health, Inc., and McKesson Corporation, three wholesale distributors of opioids. Among other findings, the court ruled that the sale and distribution of opioid products cannot constitute a public nuisance under West Virginia law.

The plaintiffs in the case are the city of Huntington and Cabell County, both in West Virginia. The plaintiffs asserted only one claim, public nuisance, against the opioid distributors. As a remedy, the plaintiffs had proposed an equitable “abatement plan,” which would have provided \$2.5 billion to the West Virginia city

and county. The Court ruled that (1) West Virginia law does not recognize public nuisance claims based on the sale and distribution of products, (2) even if West Virginia did recognize such a claim, the plaintiffs failed to prove the elements of that claim, (3) the alleged misconduct of the distributors did not proximately cause the damages suffered by the plaintiffs, and (4) the plaintiffs’ abatement plan was not a proper remedy. *City of Huntington v. AmerisourceBergen Drug Corp.*, No. 17-cv-01362, 2022 WL 2399876 (S.D.W. Va. July 4, 2022).

The first ruling—i.e., that the sale and distribution of products cannot constitute a public nuisance under West Virginia law—has not previously been addressed by the Supreme Court of Appeals of West Virginia, so the federal district court made a prediction of what the West Virginia high court would decide under *Erie R.R. Co. v. Tompkins*. In predicting that the Supreme Court of Appeals would not extend public nuisance law to the sale and distribution of products, the district court relied on the Restatement (Third) of Torts. (The West Virginia high court has followed the Restatement

(Second) of Torts in crafting its nuisance law in the past.) In doing so, the district court's holding departed from two previous decisions from West Virginia state trial courts. See *Brooke Cnty Comm'n v. Purdue Pharma L.P.*, No. 17-C-248, 2018 WL 11242293, at \*7 (Marshall Cnty. Cir. Ct. Dec. 28, 2018); *State ex rel. Morrissey v. AmerisourceBergen Drug Corp.*, No. 12-C-141, 2014 WL 12814021, at \*8-\*10 (Boone Cnty. Cir. Ct. Dec. 12, 2014).

In rejecting the plaintiffs' abatement theory, the district court cited with approval a 2021 decision from the Oklahoma Supreme Court. In *State ex rel. Hunter v. Johnson & Johnson*, 499 P.3d 719, 721 (Okla. 2021), the Supreme Court of Oklahoma declined to extend Oklahoma public nuisance law to the manufacturing, marketing, and selling of opioids. The district court noted that "[t]o apply the law of public nuisance to the sale, marketing and distribution of products would invite litigation against any product with a known risk of harm, regardless of the benefits conferred on the public from proper use of the product."

The court also ruled that, even if a public nuisance claim were available, the City and County failed to prove the elements of that claim. A public nuisance is defined as "an unreasonable interference with a right common to the general public." *Duff v. Morgantown Energy Assocs.*, 421 S.E. 2d 253, 257 n.6 (W.Va. 1992). The court found that the plaintiffs did not show that the distributors' conduct interfered with a public right. In making this finding, the court balanced the dangers of opioids against the public benefits of responsible opioid use. The court ultimately found that the distributors shipped prescription opioid pills to licensed pharmacists so patients could access the medication they were prescribed by doctors who were acting in good faith. The court found this conduct to be reasonable.

The court found that the distributors' conduct did not proximately cause the damages suffered by the City and County. In West Virginia, wrongful conduct is a proximate cause only if it "is the last negligent act contributing to the injury." *Sergeant v. City of Charleston*, 549 S.E. 2d 311, 320 (W. Va. 2001). The court found no proximate cause because (1) it was doctors—not distributors—who determined the volume of opioids dispensed in the City and County, and (2) the diversion of opioids from their legitimate use was due to the intervening criminal acts of third parties.

Finally, the court ruled that the plaintiffs' "abatement plan" was not a proper remedy. Abatement is an equitable remedy that has traditionally taken the form of an order enjoining the defendant from continuing the nuisance-causing conduct. The court noted that, although the City and County called

their remedy an "abatement plan," the plaintiffs were really seeking "remuneration for the cost of treating the horrendous downstream harms of opioid use and abuse." The \$2.5 billion award sought by the plaintiffs was not accompanied by a request for an order that the defendants stop distributing opioids (the conduct alleged to be wrongful).

The impact of the court's decision remains to be seen. On the one hand, the ruling is confined to the law of West Virginia and only addresses public nuisance claims. Moreover, the City and County could appeal the case to the United States Court of Appeals for the Fourth Circuit, which could either disagree with the district court's legal conclusions or ask the West Virginia Supreme Court of Appeals to weigh in. See W. Va. R. App. P. 17 (allowing certified questions). On the other hand, the court referenced general principles of nuisance law and remedies, and its holding was independently supported by findings of fact, which are reviewed on appeal only for clear error and which other courts may find persuasive.

## Appellate Litigation Update

### *Review of Selected Decisions of Interest to the Business Community from the U.S. Supreme Court's 2021-2022 Term*

This past term, the U.S. Supreme Court addressed the "safe harbor" exception to the Copyright Act, 17 U.S.C § 411(b), in *Unicolors Inc. v. H&M Hennes & Mauritz L.P.*, 142 S.Ct. 941 (2022). Unicolors sued H&M for copyright infringement, but H&M responded that Unicolors "could not maintain an infringement suit because [it] knowingly included inaccurate information on its registration application." The purported inaccuracy was Unicolors' filing of a single application seeking registration for thirty-one distinct works notwithstanding a Copyright Office regulation providing that an application may cover multiple works only if they were "included in the same unit of publication." The district court ruled that this inaccuracy was a good-faith mistake under the "safe harbor" exception, which permits copyright holders to pursue infringement claims "regardless of whether the certificate [of registration] contains inaccurate information, unless—(A) the inaccurate information was included on the application for copyright registration with knowledge that it was inaccurate; and (B) the inaccuracy of the information, if known, would have caused the Register of Copyrights to refuse registration." 17 U.S.C § 411(b). The Ninth Circuit reversed, holding that the exception applies only to good-faith mistakes of *fact*, as opposed to mistakes of *law*. The Supreme Court reversed. Writing for a 6-3

majority, Justice Breyer explained that the Copyright Act’s “safe harbor” exception “does not distinguish between a mistake of law and a mistake of fact . . . . Lack of knowledge of either fact or law can excuse an inaccuracy in a copyright registration.” *Id.* at 945. Justice Thomas dissented. He observed that Unicolors raised a “different argument in [its] merits briefing” than the specific issue on which the Court granted certiorari and that “no other court had, before today, ever addressed whether §411(b)(1)(A) requires ‘actual knowledge.’” *Id.* at 949.

The Court also decided several arbitration-related cases. We discuss two of them here. In *Badgerow v. Walters*, 142 S.Ct. 1310 (2022), the Court addressed the circumstances in which federal courts have subject matter jurisdiction to hear requests to confirm or vacate arbitral awards under sections 9 and 10 of the Federal Arbitration Act (“FAA”). Previously, in *Vaden v. Discover Branch*, 556 U.S. 49 (2009), the Court held that federal courts have subject matter jurisdiction in cases involving Section 4 of the FAA, which concerns petitions to compel arbitration, where the court is able to “look through” the petition to the “underlying substantive controversy” and determine whether that controversy would qualify for subject matter jurisdiction. *Id.* at 62. In *Badgerow*, Justice Kagan wrote for an 8-1 majority that sections 9 and 10 do not explicitly authorize a “look-through” approach, distinguishing the case from *Vaden*. The majority opinion further explained that, “without [a] statutory instruction, a court may look only to the application actually submitted to it in assessing its jurisdiction,” thus ruling out the possibility of a court “look[ing] through” the petition at the underlying controversy. *Badgerow*, 142 S.Ct. at 1314. Justice Breyer dissented, writing that the “[t]he need for simplicity, comprehension, workability, and fairness all suggest that these interrelated provisions [of the FAA]” should follow the *Vaden* look-through approach.

A second arbitration case was *Morgan v. Sundance Inc.*, 142 S.Ct. 1708 (2022). In *Morgan*, the Court addressed whether federal courts can adopt an “arbitration-specific waiver rule” requiring a showing of prejudice to waive the right to arbitration, where ordinary waiver principles do not require a showing of prejudice as a prerequisite to finding waiver. Robyn Morgan was an employee who signed an arbitration agreement with Sundance in which both parties consented that arbitration would resolve any employment disputes. Morgan later sued Sundance in court, and Sundance engaged in litigation with Morgan for about eight months before invoking the arbitration agreement. In light of the FAA’s “federal policy favoring arbitration,” the Eighth Circuit adopted the prejudice requirement, evaluating whether Morgan

was prejudiced by Sundance’s eight-month delay before invoking the arbitration agreement. The Eighth Circuit ultimately held that the dispute should be sent to arbitration, concluding that Morgan was not prejudiced because “the parties had not yet begun formal discovery or contested any matters ‘going to the merits.’” The Supreme Court unanimously reversed in an opinion authored by Justice Kagan, holding that federal courts may not create “special, arbitration-preferring procedural rules” based on the FAA’s “policy favoring arbitration.” *Id.* at 1713. The Court reasoned that federal waiver law does not generally require a finding of prejudice, and “a court may not devise novel rules to favor arbitration over litigation.” *Id.*

Finally, in *Hughes v. Northwestern University*, 142 S.Ct. 737 (2022), the Court addressed the requirements of the duty of “prudence” for plan fiduciaries administering retirement plans under the Employee Retirement Income Security Act of 1974 (“ERISA”), 29 U.S.C. §1104(a). The *Hughes* petitioners were current and former employees of Northwestern University who sued Northwestern for failing to abide by its duty to exercise “prudence” under ERISA by proposing “needlessly expensive investment options” and paying “excessive recordkeeping fees.” 142 S.Ct. at 739-40. The district court granted Northwestern’s motion to dismiss, and the Seventh Circuit affirmed, holding that petitioners’ arguments failed as a matter of law. The Supreme Court unanimously reversed in an opinion by Justice Sotomayor, holding that the Seventh Circuit erred in adopting a “categorical rule” that is “inconsistent with the context-specific inquiry that ERISA requires and fails to take into account [Northwestern’s] duty to monitor all plan investments and remove any imprudent ones.” *Id.* at 740. In so holding, the Supreme Court focused on the Seventh Circuit’s erroneous reliance on “the participants’ ultimate choice over their investments,” but the Court did not rule out the possibility that breach of fiduciary duty claims may still be dismissed at the Rule 12(b)(6) stage.

## White Collar Litigation Update

### *Department of Justice Announces Chief Compliance Officer Certifications as Part of Corporate Resolutions*

Over the past few months, the U.S. Department of Justice (DOJ) has repeatedly signaled its intention to include chief compliance officer (CCO) certifications as part of corporate criminal resolutions going forward. DOJ’s recent resolution with global mining giant Glencore appears to be the first to include a CCO certification as to the effectiveness of the company’s compliance program. This is a clear sign that DOJ

is placing added scrutiny on whether compliance professionals are being given enough authority, stature, access, and resources within the company. It also raises the possibility that compliance professionals of companies that are subject to enforcement actions may face individual liability.

## DOJ Announces CCO Certifications

In March 2022, Assistant Attorney General Kenneth A. Polite Jr. delivered remarks announcing initiatives regarding corporate compliance programs. In those remarks, he stated that, for all corporate resolutions, prosecutors have been instructed to consider requiring the chief executive officer (CEO) and CCO of a relevant corporate entity to certify, at the end of the term of an agreement, that the company's compliance program is reasonably designed and implemented to detect and prevent violations of the relevant law and is functioning effectively, before releasing a company from its obligations under a resolution agreement. In addition, where a company self-reports on its compliance program during the term of the agreement, the CEO and CCO may be required to certify that all compliance reports submitted during the term of the resolution are true, accurate, and complete. The Assistant Attorney General noted that the measure is "not punitive in nature," and instead is intended "to empower our compliance professionals to have the data, access, and voice within the organization to ensure you, and us, that your company has an ethical and compliance focused environment." He drew on his own experience as a compliance officer, and stated that he knew the resource challenges, challenges accessing data, relationship challenges, and "silo-ing" of compliance officer functions. He claimed that the certifications are intended to ensure CCOs "have true independence, authority, and stature within the company." See Assistant Attorney General Kenneth A. Polite Jr. Delivers Remarks at NYU Law's Program on Corporate Compliance and Enforcement (PCCE) (Updated March 31, 2022), *available at* <https://www.justice.gov/opa/speech/assistant-attorney-general-kenneth-polite-jr-delivers-remarks-nyu-law-s-program-corporate>.

In May 2022, Deputy Attorney General Lisa Monaco announced a new policy requiring chief compliance officers to sign off on certain agreements with DOJ, formalizing the initiatives referenced in the Assistant Attorney General's March remarks. See Al Barbarino, DOJ Defends New CCO Certifications Amid Industry Worry, *Law360* (May 26, 2022) *available at* <https://www.law360.com/articles/1496108/doj-defends-new-cco-certifications-amid-industry-worry>. The Deputy Attorney General noted that this is to "empower" CCOs

and ensure they have resources and are in the loop, and noted that a recent settlement with Glencore was the first that will require CCO certification "as part of the compliance process engagement by the company." See *id.*

## CCO Certifications in Practice: The Glencore Resolution

On May 24, 2022, Glencore, an international commodity trading and mining company, pled guilty to U.S. bribery and market manipulation charges and admitted to conspiring to violate foreign corruption laws, agreeing to pay over \$1.1 billion in criminal and civil penalties. As part of the plea agreement, Glencore agreed that it would implement a compliance and ethics program that meets, at a minimum, the elements set forth in an "Attachment C" to the agreement, such as: (a) a high-level commitment by the company's directors and senior management to compliance policies; (b) development and promulgation of a clearly articulated and visible corporate policy against violations of the relevant laws; (c) development of compliance policies and procedures on the basis of a periodic risk assessment addressing the individual circumstances of the company; (d) assignment of responsibility to one or more senior corporate executives of the company to implement and oversee compliance policies; (e) implementation of mechanisms and trainings to ensure compliance policies are effectively communicated to all directors, officers, employees, and relevant persons; (f) establishment and maintenance of an effective internal reporting system; (g) implementation of effective enforcement and discipline practices; (h) institution of risk-based due diligence and compliance requirements pertaining to the oversight of third parties such as agents and business partners; (i) development and implementation of policies for mergers and acquisitions; and (j) conducting of periodic reviews and testing of its compliance policies designed to evaluate and improve their effectiveness. See U.S. DOJ Evaluation of Corporate Compliance Programs (Updated June 2020) located at <https://www.justice.gov/criminal-fraud/page/file/937501/download>.

The plea agreement also requires that, prior to the expiration of the agreed term (i.e., three years in Glencore's case), the CEO and CCO must certify that (a) they are aware of the company's compliance obligations; (b) based on their review and understanding of the company's compliance program, the company has implemented a compliance program that meets the requirements set forth in Attachment C; and (c) that the compliance program "is reasonably designed to detect and prevent" future violations of the relevant law throughout the company's operations. The specific

required certification is set forth in a new “Attachment H,” and is required to be executed by the CEO and CCO thirty days prior to the expiration of the plea agreement’s term. Attachment H also makes clear that it shall “constitute a material statement and representation by the undersigned” and by the company, to the executive branch of the United States.

### Key Takeaways

These new certification requirements raise concerns that they could expose CCOs to individual liability for a compliance deficiency even in instances where the CCO was diligent in their performance, but their certification is determined (at the time or subsequently) to include a material omission or misstatement. This, in turn, could discourage qualified candidates from accepting such positions. Indeed, some within the compliance industry have already expressed unease at the requirements that would make an already-difficult job more difficult and risky. Further, depending on the size of the company, certifying the effectiveness of a compliance program could be a time-intensive and incredibly complicated

(if not practically infeasible) task.

In its remarks, DOJ has tried to emphasize that its focus is on CCO empowerment and that the new guidance is not intended to be “punitive,” but rather to encourage companies to devote more resources to CCO functions and take the role of CCOs more seriously. DOJ has indicated that it views the role of compliance officers within the company as key to ensuring prevention of future violations. The new policy may reflect a desire to encourage companies to make more permanent changes in company culture, following the execution of agreements, and even prior to situations arising if there is a need for the compliance function to be bolstered. Indeed, DOJ’s remarks suggest that the focus is on the importance of compliance programs and independent, resourced, and empowered compliance leadership.

How prevalent CCO certifications will now become, as well as the precise circumstances in which they will be required, remains to be seen. However, it seems clear that this will be an area of keen focus for DOJ for the foreseeable future. 

## VICTORIES

### Complete Victory in Investor Fraud Suit in Massachusetts Jury Trial

A federal jury in the District of Massachusetts handed a complete victory to Quinn Emanuel’s client, Peter Kruskall, on common-law fraud and contract reformation claims brought by Andre Crawford-Brunt, an investor in the artificial intelligence company that Mr. Kruskall co-founded as chief technology officer.

In 2013, MIT graduate Peter Kruskall and a co-founder launched Kensho Technologies, Inc., an artificial intelligence startup serving the financial industry, which was later acquired by S&P Global, Inc. for a purchase price of more than half a billion dollars. In 2014, Mr. Crawford-Brunt, then the Head of Global Equity Trading at Deutsche Bank, purchased an approximately 2% stake in Kensho from the company’s founders.

In 2017, Mr. Crawford-Brunt filed a lawsuit against Mr. Kruskall in the U.S. District Court for the District of Massachusetts, in which Mr. Crawford-Brunt demanded additional shares of Kensho based on allegations of common-law fraud and unilateral mistake. Mr. Crawford-Brunt alleged that when he purchased his shares in 2014, he was falsely told that the shares represented two percent of the company’s total equity calculated on a fully diluted basis, rather than just two percent of the outstanding common stock, and that the existence of previously-issued dilutive

instruments (including convertible notes, options, and warrants) were not properly disclosed to him. Mr. Crawford-Brunt also asserted that Mr. Kruskall’s co-founder had misrepresented the valuation that Kensho’s main strategic investor had attributed to the company. Based on these allegations, Mr. Crawford-Brunt alleged that he was entitled to receive significantly more shares of Kensho from both founders, which would have been worth more than \$40 million at the time of the S&P acquisition. The case was assigned to Chief Judge F. Dennis Saylor.

Mr. Kruskall was represented by two Massachusetts law firms before engaging Quinn Emanuel. He retained Quinn Emanuel in late 2021 after the Court issued a series of rulings in Mr. Crawford-Brunt’s favor on the proper measure of damages, Mr. Kruskall’s motion for summary judgment, and other motions in limine.

In the months remaining before trial commenced, Quinn Emanuel vastly expanded the record through independent fact gathering and by obtaining discovery produced in parallel litigation. Meanwhile, the Quinn Emanuel team filed and won a series of pretrial motions that excluded key exhibits relating to liability and damages. The six-day jury trial began on June 16, 2022, and concluded on June 27.

During Quinn Emanuel’s cross-examination of Mr. Crawford-Brunt, he admitted for the first time that he

knew of the allegedly undisclosed convertible note issued to Kensho's main strategic investor and knew that the purchase price and ownership percentage of his investment in Kensho did not take into account any shares that could be issued pursuant to the note. These admissions were fatal to the plaintiff's claims, because they demonstrated that he could not have reasonably believed that his investment was based on the "fully diluted" number of shares in Kensho; rather, it was truthfully represented to the plaintiff that he was purchasing 2% of the issued and outstanding shares of the company.

The Quinn Emanuel team also focused heavily on the credibility of Mr. Crawford-Brunt's testimony about what he had been told and the lack of documentary evidence supporting his recollections. After Mr. Crawford-Brunt took the stand, his cross-examination revealed significant inconsistencies in his testimony. For example, Mr. Crawford-Brunt purported to have a verbatim recollection of meetings that he had previously admitted he could not remember well, if at all. Since no documentary evidence supported Mr. Crawford-Brunt's allegation that his investment was based on Kensho's "fully diluted" equity, these challenges to his credibility seriously undermined his case. Quinn Emanuel's cross-examination also highlighted that Mr. Crawford-Brunt was a sophisticated investor who failed to conduct meaningful due diligence before deciding to invest. Third-party witnesses corroborated the truthfulness of what Mr. Crawford-Brunt had been told about Kensho's capital structure and the terms of a prior investment by Kensho's main strategic backer.

Quinn Emanuel's direct examination of Mr. Kruskall highlighted that he was a young, hard-working engineer who had designed and built Kensho's hugely successful technology; that he had not personally negotiated the deal with Mr. Crawford-Brunt; and that Mr. Crawford-Brunt had bought his shares at a fair price. Mr. Kruskall did not suffer serious blows to his credibility during his cross examination.

In closing argument, the Quinn Emanuel trial team successfully argued that Mr. Crawford-Brunt was not a victim of fraud, but was merely seeking to add to the millions of dollars he had already made on his investment in Kensho, based on allegations that he could not substantiate. The jury returned a unanimous verdict in favor of Mr. Kruskall on all counts after deliberating for little over an hour.

## Quinn Emanuel Successfully Defends Chiesi in Generic Challenge to Its Cleviprex® Pharmaceutical Product

In a complete victory for its client Chiesi, Quinn Emanuel defeated a generic challenge and secured a judgment for Chiesi on all counts. The Honorable Zahid N. Quraishi

(District of New Jersey) recently found, after his first trial, that Plaintiff Chiesi prevailed on all three asserted patents in the matter of *Chiesi USA, Inc. et al. vs. Aurobindo Pharma USA, Inc. et al.*, C.A. No. 3:19-cv-18756, a pharmaceutical patent litigation, and found that all of Chiesi's patents were infringed, not invalid, and not unenforceable. As a result, Defendant Aurobindo will be enjoined from bringing their product to market until October 10, 2031, when the patents-in-suit expire.

The case arose from Aurobindo's filing of an Abbreviated New Drug Application (ANDA) seeking FDA-approval to market a generic version of Chiesi's Cleviprex® (clevidipine) injectable product. Chiesi asserted that Aurobindo's ANDA infringed U.S. Patent Nos. 8,658,676, 10,010,537, and 11,103,490. Aurobindo's counterclaims sought declaratory judgments of non-infringement, invalidity, and unenforceability of the patents-in-suit. The Court held a 7-day bench trial in January 2022. The parties presented closing arguments and submitted post-trial submissions in April 2022. On August 24, 2022, the Court entered an unsealed Opinion and Order in favor of Chiesi on all counts tried for all patents-in-suit.

A central issue in the infringement case was whether Aurobindo's generic product containing 0.0005% EDTA infringed a claimed range with a lower limit of "about 0.001%" EDTA, an antimicrobial agent. The Court agreed with Chiesi and found that 0.0005% EDTA literally fell within the claimed amount. In so doing, the Court concluded that 0.0005% EDTA served the same purpose as the claimed EDTA amount and that there was no criticality as to the lower limit of the claimed amount.

The invalidity case turned on whether it was obvious to add EDTA to a clevidipine formulation. The Court noted that Aurobindo admitted that developing the formulations at issue "is a complex and unpredictable science." The Court found that there was no motivation for a person of ordinary skill to have added EDTA because Aurobindo's arguments were based on "impermissible hindsight" and that an earlier clevidipine formulation did not "pose[] a problem to be addressed."

And for unenforceability, Aurobindo accused the inventors, the in-house attorney, and multiple outside prosecuting counsel of inequitable conduct. The Court found that the bases for Aurobindo's arguments were "not material at all, much less but-for material." The Court further observed that, "[i]n an unlikely turn of events," Aurobindo itself filed a patent application and argued to the Patent Office for its own patent – "those arguments are the same ones that Aurobindo allege[d] in this case were intentionally misleading when made by the applicants" of the patents-in-suit asserted by Chiesi. When confronted about this at trial, Aurobindo's own expert said that this was "indefensible." Q

**business litigation report**

**quinn emanuel urquhart & sullivan, llp**

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- We have won seven 9-figure jury verdicts and four 10-figure jury verdicts.
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