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National rankings

The following firms were consistently recommended as the best in the country for national-scale, “bet-the-company” litigation, while the highlighted rankings provide an overview of the nation’s leading litigation firms and star attorneys in eight key practice areas.

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Antitrust

Leading firms

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 Arnold & Porter

 Cleary Gottlieb Steen & Hamilton

 Gibson Dunn & Crutcher

 Jones Day

 Sullivan & Cromwell

 Weil Gotshal & Manges

Tier 2

 Cravath Swaine & Moore

 Davis Polk & Wardwell

 Dechert

 Heller Ehrman

 Hogan & Hartson

 Howrey

 Kirkland & Ellis

 Latham & Watkins

 O'Melveny & Myers

 Simpson Thacher & Bartlett

 Sidley Austin

 Skadden Arps Slate Meagher & Flom

 WilmerHale

Tier 3

 Hunton & Williams

 Mayer Brown

 Covington & Burling

 Paul Weiss Rifkind Wharton & Garrison

Stars

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 Simpson Thacher & Bartlett

 William Baer
 Arnold & Porter

 Robert Bloch
 Mayer Brown

 Stephen Bomse
 Heller Ehrman

 James Burling
 WilmerHale

 George Cary
 Cleary Gottlieb Steen & Hamilton

 Evan Chesler
 Cravath Swaine & Moore

 Robert Cooper
 Gibson Dunn & Crutcher

 Thomas Demitrack
 Jones Day

 Michael Denger
 Gibson Dunn & Crutcher

 Paul Denis
 Dechert

 Richard Favretto
 Mayer Brown

 Donald Flexner
 Boies Schiller & Flexner

 Martin Flumenbaum
 Paul Weiss Rifkind Wharton & Garrison

 Kenneth Gallo
 Paul Weiss Rifkind Wharton & Garrison

 Shephard Goldfein
 Skadden Arps Slate Meagher & Flom

 David Graham
 Sidley Austin

 Gary Halling
 Sheppard Mullin Richter & Hampton

 Ronan Harty
 Davis Polk & Wardwell

 Barry Hawk
 Skadden Arps Slate Meagher & Flom

 Steven Holley
 Sullivan & Cromwell

 Helene Jaffe
 Weil Gotshal & Manges

 Joseph Kattan
 Gibson Dunn & Crutcher

 William Kolasky
 WilmerHale

 Mark Kovner
 Kirkland & Ellis

 Mark Leddy
 Cleary Gottlieb Steen & Hamilton

 Jeffrey LeVee
 Jones Day

 Kenneth Logan
 Simpson Thacher & Bartlett

 Douglas Melamed
 WilmerHale

 Joel Mitnick
 Sidley Austin

 Peter Moll
 Howrey

 James Mutchnik
 Kirkland & Ellis

 Steven Newborn
 Weil Gotshal & Manges

 Richard Parker
 O'Melveny & Myers

 Debra Pearlstein
 Weil Gotshal & Manges

 M Laurence Popofsky
 Heller Ehrman

 Phillip Proger
 Jones Day

 Yvonne Quinn
 Sullivan & Cromwell

 William Bradford Reynolds
 Howrey

 Sean Royall
 Gibson Dunn & Crutcher

 Joel Sanders
 Gibson Dunn & Crutcher

 Tefft Smith
 Kirkland & Ellis

 Richard Steuer
 Mayer Brown

 Anita Stork
 Covington & Burling

 Joseph Tate
 Dechert

 John Treece
 Sidley Austin

 David Tulchin
 Sullivan & Cromwell

 Daniel Wall
 Latham & Watkins

 John Warden
 Sullivan & Cromwell

 Margaret Zwisler
 Latham & Watkins

Moving to compel arbitration in antitrust cases: be careful what you wish for

Steven Newborn, Helene Jaffe, Debra Pearlstein, Weil, Gotshal & Manges LLP

In the more than two decades since the Supreme Court approved the arbitration of antitrust disputes in *Mitsubishi Motors v Soler Chrysler-Plymouth*, federal and state courts have developed a body of law around the enforceability of arbitration clauses that bears directly on the advantages and disadvantages of compelling arbitration in antitrust cases. These cases also are useful to assess whether it is advisable to include certain arbitration provisions in contracts from the start.

There is no question that arbitrating antitrust matters has become common. Arbitration agreements have been enforced across a broad range of antitrust disputes, not only those between businesses accusing each other of market allocation, tying or monopolization, but also cases brought by injured buyers or sellers accusing defendants of price fixing. And it is in this last category of cases where courts struggle with the perceived imbalance of the parties' bargaining power that some of the most interesting – or troubling – law is being made.

Why Arbitration in the First Place?

Conceptually, arbitration is intended to allow parties to negotiate a means to resolve their disputes faster, more efficiently and less expensively than using the court system. It does not always work out that way. Arbitration can mean limited discovery and a specialized tribunal, but it also can mean prolonged and expensive proceedings and limited appeal rights for the losing party.

In a garden variety commercial dispute, the advantages and disadvantages of arbitration might apply equally to both sides. But many antitrust cases are class actions, where characteristics of arbitration can be to the defendant's significant advantage. More limited discovery, for example, benefits the defendant by reducing otherwise significant costs and business disruption. The lack of a jury can cut in favor of an unsympathetic defendant. And often arbitration provisions include limitations on plaintiffs' rights, such as class proceedings or treble damages.

Motions to compel arbitration

After passage of the Federal Arbitration Act, federal courts have strictly enforced arbitration agreements. Courts have held that any doubts about the scope of an arbitration clause should be resolved in favor of arbitration, that the party objecting to arbitration has the burden of defeating the motion to compel, and that a dispute falls within the scope of an arbitration clause so long as the allegations "touch matters" covered by the agreement containing the arbitration clause. The Supreme Court also has made clear that while courts should determine the scope of the arbitration clause, challenges to the form of the arbitration proceeding should be reserved to the arbitrator.

However, courts also have found grounds to deny enforcement of arbitration agreements. A party cannot be required to arbitrate a dispute that it did not agree to submit to arbitration. Some courts have denied arbitration of antitrust claims on the grounds that the statutory claim could be brought without reference to any agreement

between the parties. And some courts have held that arbitration provisions can be declared unenforceable if they make it impossible for the party bringing the claim to vindicate its statutory rights.

Two different approaches

Two recent circuit court cases illustrate very different outcomes when arbitration clauses are challenged, denying antitrust plaintiffs the opportunity to vindicate their statutory rights.

In *Kristian v Comcast*, cable subscribers brought a class action against Comcast asserting it had engaged in exclusionary conduct that violated state and federal antitrust laws. When Comcast moved to compel arbitration, plaintiffs challenged the arbitration provision because it warned of limited discovery, reduced the time to bring the claim, barred treble damages, disallowed recovery of attorneys' fees and denied class arbitration. The US Court of Appeals for the First Circuit referred the challenges to possibly limited discovery and a shortened limitations period to the arbitrator. However, it also held that denying prevailing plaintiffs treble damages was in conflict with the Clayton Act and against public policy, that the denial of attorneys' fees was unenforceable given plaintiffs' showing of the likely expense of litigating a complex antitrust case and that a bar on class arbitration proceedings was unenforceable in an antitrust context. It severed the objectionable clauses and compelled the parties to arbitration.

In contrast, the US Court of Appeals for the Fourth Circuit in *In re Cotton Yarn Antitrust Litigation* compelled arbitration of price-fixing claims notwithstanding a bar on joinder. The court found no right in the antitrust laws to join all defendants in a single proceeding, or to proceed as a class action, absent a showing that this limitation would make the arbitration prohibitively expensive. The circuit court also found a one-year limitations period in the arbitration clause reasonable and not inconsistent with the antitrust laws. The court concluded that plaintiffs failed to show they could not vindicate their statutory rights in an arbitral proceeding.

Defendants: be careful what you wish for

In moving to compel arbitration, or in the decision to incorporate arbitration provisions into agreements that may be the subject of antitrust claims, parties should keep in mind that the arbitration contemplated in the agreement may not be the arbitration that occurs. An arbitration that limits plaintiffs' rights, such as including a class action bar and damages limitation, may be attractive to the class action defendant who consequently moves to compel it. However, if plaintiffs can make the showing that the limitations prevent them from vindicating their statutory rights, the court may sever the "offending" provisions and compel the modified arbitration. That may suit the defendant, or, alternatively, the defendant may find itself unhappily compelled to an arbitration proceeding lacking protections it negotiated, with a result that is largely immune from appeal. Accordingly, before moving to compel arbitration, an antitrust defendant needs to consider the likelihood that any arbitration limitations will survive plaintiffs' challenge.

General commercial

Leading firms

Tier 1

Cravath Swaine & Moore

Paul Weiss Rifkind Wharton & Garrison

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Sullivan & Cromwell

Tier 2

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Dewey & LeBoeuf

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Jack Auspitz
Morrison & Foerster

Preeta Bansal
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Stuart Baskin
Shearman & Sterling

Brad Brian
Munger Tolles & Olson

James Brosnahan
Morrison & Foerster

Bobby Burchfield
McDermott Will & Emery

David Carden
Jones Day

Evan Chesler
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John Coffey
Bernstein Litowitz Berger & Grossmann

Vincent Connelly
Mayer Brown

Robert Cooper
Gibson Dunn & Crutcher

Paul Curnin
Simpson Thacher & Bartlett

Greg Danilow
Weil Gotshal & Manges

Michael Dell
Kramer Levin Naftalis & Frankel

Gandolfo DiBlasi
Sullivan & Cromwell

Carey Dunne
Davis Polk & Wardwell

Robert Fiske
Davis Polk & Wardwell

Andrew Frey
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Max Gitter
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Robert Giuffra
Sullivan & Cromwell

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Maureen Mahoney Latham & Watkins	Joseph Rebein Shook Hardy & Bacon
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Theodore Mirvis Wachtell Lipton Rosen & Katz	Paul Saunders Cravath Swaine & Moore
Gary Naftalis Kramer Levin Naftalis & Frankel	Stephen Shapiro Mayer Brown
Thomas Nolan Skadden Arps Slate Meagher & Flom	Jerold Solovy Jenner & Block
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Peter Ostroff Sidley Austin	Brendan Sullivan Williams & Connolly
Lawrence Pedowitz Wachtell Lipton Rosen & Katz	John Villa Williams & Connolly
Daniel Petrocelli O'Melveny Myers	Paul Vizcarrondo Wachtell Lipton Rosen & Katz
Robert Pietrzak Sidley Austin	Herbert Wachtell Wachtell Lipton Rosen & Katz
M Laurence Popofsky Heller Ehrman	Herbert Washer Shearman & Sterling
James Quinn Weil Gotshal & Manges	Seth Waxman WilmerHale
John Quinn Quinn Emanuel Urquhart Oliver & Hedges	Dan Webb Winston & Strawn
Roy Reardon Simpson Thacher & Bartlett	Theodore Wells Paul Weiss Rifkind Wharton & Garrison

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Heller Ehrman

Mound Cotton Wollan & Greengrass

Simpson Thacher & Bartlett

Anderson Kill & Olick

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Cadwalader Wickersham & Taft

Cahill Gordon & Reindel

Clifford Chance US

Dewey LeBoeuf

Dickstein Shapiro

McCarter & English

Rivkin Radler

Sonnenschein Nath & Rosenthal

Weil Gotshal & Manges

Tier 3

Debevoise & Plimpton

Hogan & Hartson

Proskauer Rose

Sidley Austin

Skadden Arps Slate Meagher & Flom

Stroock & Stroock & Lavan

Stars

Andrew Amer
Simpson Thacher & Bartlett

Reid Ashinoff
Sonnenschein Nath & Rosenthal

Miller Baker
McDermott Will & Emery

John Behrendt
Gibson Dunn & Crutcher

Bernard Bell
Jones Day

William Bowman
Hogan & Hartson

Lawrence Brandes
Cadwalader Wickersham & Taft

Donald Brown
Covington & Burling

Peter Chaffetz
Clifford Chance US

Nancy Cohen
Heller Ehrman

Stuart Cotton
Mound Cotton Wollan & Greengrass

Anthony Gambardella
Rivkin Radler

Wayne Glaubinger
Mound Cotton Wollan & Greengrass

Michael Goldstein
Mound Cotton Wollan & Greengrass

Robert Johnson
Sonnenschein Nath & Rosenthal

John Mathias
Jenner & Block

Jerold Oshinsky
Dickstein Shapiro

Barry Ostrager
Simpson Thacher & Bartlett

Edward Parks
Hogan & Hartson

Kirk Pasich
Dickstein Shapiro

William Savino
Rivkin Radler

Robert Sullivan
Skadden Arps Slate Meagher & Flom

James Stinson
Sidley Austin

Margaret Warner
McDermott Will & Emery

Recent cases examining insurers' consent to settlement

Bernard Bell, Jones Day

When does an insured forfeit coverage under a professional liability or directors and officers insurance policy by settling a lawsuit without first obtaining its insurers' consent? There were three 2008 cases that examined this question. Although they reached differing results in terms of coverage, the cases are easily harmonized. Together, the three cases teach lessons valuable for policyholders and insurers alike.

Policyholders risk coverage if they do not attempt to obtain their insurers' consent to a proposed settlement. On the other hand, insurers do not have veto power over reasonable deals that they consider too rich.

In the first case, the New York state trial court found that Bear Stearns lost coverage by failing to comply with a consent-to-settle provision. *Vigilant v The Bear Stearns*. Vigilant issued a primary professional liability policy that attached a more than \$10 million self-insured retention. Federal and Gulf issued follow-form excess policies providing additional coverage.

The underlying claims involved SEC, National Association of Securities Dealers and New York Stock Exchange investigations into practices of research analysts working at financial services firms, including Bear Stearns. Bear Stearns signed a settlement-in-principle and later a consent agreement agreeing to pay \$80 million to settle the claims. Bear Stearns did not request consent from its insurers until three days after executing the agreement. The Court held that Bear Stearns forfeited its coverage by not informing the carriers of the settlement until after the fact.

In the second case, the US Court of Appeals for the Seventh Circuit held that a policyholder's failure to consent precluded coverage. *Federal v Arthur Andersen*. A number of Andersen retirees sued Andersen after a run on Anderson's unfunded pension plan in the wake of the Enron collapse. Andersen notified its primary insurer, Federal, of the suits, and that Andersen hired defense counsel. Federal reserved rights and requested information, which Andersen provided. Andersen proposed a \$75 million payout to retirees and then asked Federal to contribute its \$25 million in limits which Federal refused.

A clause in the policy committed Andersen not to settle any claim for more than \$250,000 without Federal's "written consent, which shall not be unreasonably withheld." The Seventh Circuit found that Federal did not owe Andersen coverage for the settlement, for several reasons, including lack of consent. "Arthur Andersen didn't ask for the consent or even the comments of its insurers; it presented the deal to them as a *fait accompli*. By cutting Federal Insurance out of the process, Arthur Andersen gave up any claim to indemnity."

Andersen argued that Federal's failure to take action during the pendency of the claim stopped Federal from relying on the consent clause as a defense. The court rejected this argument, recognizing an exception to the doctrine where the insured indicates that it does not want the insurer's assistance or is unresponsive or uncooperative.

In the third case, the policyholder fared better. Another federal appellate court, the Second Circuit, found that the policyholder had not forfeited his right to coverage by requesting, at 10 pm on a Sunday night, consent to a settlement before trial in the underlying case resumed at 9 am on Monday morning. *Schwartz v Liberty Mutual*.

Schwartz was CEO of Globalstar, a company in the satellite telephone business. Globalstar's technology fizzled, and GlobalStar and Schwartz soon became defendants in a securities class action, of which Globalstar timely notified its insurers before filing for bankruptcy.

Insurers took an active role in the litigation, monitoring the claims,

evaluating settlement possibilities, participating in settlement negotiations and watching trial. Insurers participated in three mediation sessions between Schwartz and the plaintiffs. Schwartz and the excess carriers thought a \$12-13 million settlement was reasonable but the primary carrier would not agree. Insurers collectively pressured Schwartz to move for summary judgment even though the settlement value of the case would increase if he lost. After Schwartz filed the summary judgment motion, the plaintiffs offered to settle for \$15 million, but said the settlement value would rise if the court denied the motion or the case went to trial. The insurers refused to fund settlement at \$15 million.

Trial began, and the plaintiffs were presenting evidence in support of a \$600-800 million damage award. In a settlement conference during trial, the trial judge advised the insurers that the case would go to the jury, and that a plaintiff's verdict could be eight or nine figures.

After two weeks of testimony, Schwartz was scheduled to testify on Monday July 18, 2005. On Saturday, defense counsel notified the insurers that the plaintiffs would accept \$20 million to settle. At 10:04 pm on Sunday evening, defense counsel sought the insurers' consent to settle at that figure. Counsel offered to discuss the settlement that night or before 9:00 am the next morning. None of the implicated insurers consented, and Schwartz settled the case for \$20 million, which he paid by personal check.

Insurers contended that the settlement was not covered because it was unreasonable, because they had not consented to it, and, because the underlying carriers had not paid their limits.

Schwartz sued the insurers. The jury awarded Schwartz full coverage, and found that the failure to obtain the insurers' consent did not bar coverage, because the insurers breached their duties of good faith and fair dealing. The jury imposed bad faith judgments against the primary carrier, holding it liable for the difference between the \$15 million settlement offer and the \$20 million settlement. But the court dismissed the bad faith claims after post-trial briefing.

The *Schwartz* jury may have been influenced by the fact that Schwartz paid the \$20 million settlement with a personal check. Obviously, he thought the settlement was reasonable. The jury also felt that the primary insurer and not the excess carriers should have been borne the consequences of failing to settle at \$15 million. The primary carrier escaped without extra-contractual liability, but only because of a complex choice-of-law ruling by the Second Circuit.

The obvious lesson from *Bear Stearns* and *Andersen* is that, absent exigent circumstances, policyholders jeopardize their coverage if they do not attempt to obtain their insurers' consent to a proposed settlement. The corollary lesson, which is underscored by the *Schwartz* case, is that insurers do not have veto power over reasonable settlements, and that they frustrate legitimate settlement negotiations with niggling objections at their peril. The holding in *Schwartz* shows the wisdom for policyholders in maintaining frequent communication with the insurers, and of responding timely to legitimate information requests.

Even after *Bear Stearns*, *Andersen* and *Schwartz*, there remains no reported decision upholding as reasonable an insurer's refusal to consent to a covered claim because the insurer feels the deal is too rich.

Finally, *Schwartz* illustrates that it is risky for excess carriers to hide behind the intransigence of a primary carrier. In retrospect, the excess carriers may have been better served to help the policyholder fund a \$15 million settlement, rather than withhold consent because the primary carrier refused to pay its limits.

Intellectual property

Leading firms

Tier 1

Cravath Swaine & Moore

Debevoise & Plimpton

Kirkland & Ellis

Weil Gotshal & Manges

WilmerHale

Tier 2

Finnegan Henderson Farabow Garrett & Dunner

Fish & Richardson

Fitzpatrick Cella Harper & Scinto

Gibson Dunn & Crutcher

Heller Ehrman

Howrey

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Kaye Scholer

Latham & Watkins

Patterson Belknap Webb & Tyler

Paul Weiss Rifkind Wharton & Garrison

Sidley Austin

Quinn Emanuel Urquhart Oliver & Hedges

Stars

Robert Baechtold
Fitzpatrick Cella Harper & Scinto

Wayne Barsky
Gibson Dunn & Crutcher

Thomas Beck
Sidley Austin

David Bernstein
Debevoise & Plimpton

William Cavanaugh
Patterson Belknap Webb & Tyler

Evan Chesler
Cravath Swaine & Moore

Morgan Chu
Irell & Manella

Ruffin Cordell
Fish & Richardson

John Desmarais
Kirkland & Ellis

Donald Dunner
Finnegan Henderson

Katherine Forrest
Cravath Swaine & Moore

Robert Fram
Heller Ehrman

Cecilia Gonzalez
Howrey
[Note: Cecilia Gonzalez died of breast cancer in May 2009,
nine months after this writing.]

Nicholas Groombridge
Weil Gotshal & Manges

Robert Haslam
Heller Ehrman

Martin Katz
Sheppard Mullin Richter & Hampton

Bruce Keller
Debevoise & Plimpton

Josh Krevitt
Gibson Dunn & Crutcher

William Lee
WilmerHale

Harold McElhinny
Morrison & Foerster

Don Pelto
Sheppard Mullin Richter & Hampton

Stuart Pollack
Patterson Belknap Webb & Tyler

Matthew Powers
Weil Gotshal & Manges

David Pritikin
Sidley Austin

John Quinn
Quinn Emanuel Urquhart Oliver & Hedges

Pasquale Razzano
Fitzpatrick Cella Harper & Scinto

Lorin Reisner
Debevoise & Plimpton

Kelli Sager
Davis Wright Tremaine

Denis Salmon
Gibson Dunn & Crutcher

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Patricia Thayer
Heller Ehrman

Charles Verhoeven
Quinn Emanuel Urquhart Oliver & Hedges

Perry Viscounty
Latham & Watkins

Harold Weinberger
Kramer Levin Naftalis & Frank

What KSR did and did not change about the law of patent obviousness

Bob Baechtold and Christopher Loh, Fitzpatrick, Cella, Harper & Scinto

In its landmark 2007 *KSR v Teleflex* decision, the Supreme Court rejected the rigid application of the “teaching, suggestion or motivation” test for patent obviousness, unquestionably lowering the standards that infringers must meet to challenge the validity of patents. While *KSR* has been recognized for bringing about a major shift in the law of obviousness, three aspects of the decision merit a more nuanced analysis, and suggest ways in which patentees can continue to safeguard their interests after *KSR*.

TSM remains a useful test of obviousness

KSR did not abolish TSM, it simply held that TSM cannot be so rigidly applied to deny the existence of ordinary creativity and common sense. Under TSM, as applied by the Federal Circuit in its decision, an invention is obvious only if the prior art contains a teaching, suggestion or motivation that would have led a person of ordinary skill to have made the invention. As the test is traditionally described, the prior art in which the requisite teaching, suggestion or motivation can be found includes not only written references such as patents and publications, but also the knowledge of the person of ordinary skill and the nature of the problem solved by the invention. However, as a practical matter, courts before *KSR* chose largely to focus their obviousness inquiries upon patents and publications.

In *KSR*, the Supreme Court was careful to note there was no “necessary inconsistency” between TSM and the broader obviousness analysis set forth in its 1966 *Graham* ruling. Indeed, the *KSR* decision acknowledged TSM can be a “helpful insight” in avoiding hindsight and requiring that there be some plausible motivation that would have led one of ordinary skill to the patented invention. *KSR* simply mandated flexibility and reminded courts that the scope of the prior art need not be limited to art that addresses the specific problem the inventors had in mind, and the requisite motivation for the invention need not originate from the words of the written references, but instead can arise from the application of common sense to an apparent market or design need. As explained by *KSR*, persons of ordinary skill are not automatons, but persons of “ordinary creativity,” with the capacity to appreciate obvious uses of familiar items, and combine those items to solve obvious problems.

While *KSR* rejects the rigid application of TSM, the reasoning displayed *KSR* nevertheless resembles a traditional TSM analysis insofar as it relies primarily on the express teachings of written references. *KSR* did not eliminate TSM so much as permitted its limited supplementation. And decisions after *KSR* have continued to take advantage of the analytical logic afforded by the TSM framework.

“Obvious To Try” Did Not Become The New Standard For Obviousness

Before *KSR*, it was well-established that “obvious to try” was not the proper standard for determining obviousness. The logic behind this principle is as follows: most, if not all, inventions can be characterized as a combination of prior art elements assembled to address a particular technological problem. Given sufficient time and resources, a person of ordinary skill seeking to solve the problem would be able to try all possible prior art combinations, including the patented combination. If “obvious to try” were the true measure of

obviousness, brute-force drudgery would trump inspiration, and virtually all patents would be obvious. Accordingly, to be obvious, an invention must not merely be “obvious to try”; the prior art also must lead one of ordinary skill to make the invention with a reasonable expectation of success.

Contrary to some expressed beliefs, *KSR* did not make “obvious to try” the new standard for obviousness. *KSR* instead held that an “obvious to try” invention may be obvious if at least three other conditions are met: there is a design need or market pressure to solve a particular problem; there are a finite number of foreseeable solutions to the problem; and the result obtained is reasonably predictable. In essence, *KSR* re-confirmed the principle that “obvious to try” alone is insufficient to demonstrate obviousness. What it explained is that, while “obvious to try” is not alone sufficient for a finding of obviousness, it may be a viable starting point which, when supplemented by the other three desiderata, will carry the day.

After *KSR*, one would assume that patents concerning relatively “unpredictable” technologies, such as pharmaceuticals and biotechnology, would be relatively safe from being found obvious. However, courts have relied on *KSR* to invalidate some of these patents based upon findings that there were a finite number of possible choices leading to the invention, making and testing those choices was routine experimentation, and most importantly the results obtained were reasonably predictable. This growing body of post-*KSR* law cautions patentees in all fields to be proactive about documenting and preserving proof of the unpredictability of their work well before the start of any patent litigation. In terms of rebutting charges of obviousness under *KSR*, evidence of experimental failures and dead ends may well be as important as proof of technological and commercial success.

The burden of proof remains clear and convincing – for now

Least remarked upon – but perhaps most deserving of comment – is the doubt that *KSR* casts upon the long-standing requirement that obviousness must always be shown by clear and convincing evidence, rather than by a mere preponderance of evidence. The justification for this heightened burden of proof rests upon the legal presumption that the Patent and Trademark Office properly determines whether or not an invention is obvious in view of the prior art before it, and that any patent issued by the PTO accordingly is valid. However, one could reasonably question whether the presumption of validity and the clear and convincing burden and should apply in instances where, as in *KSR*, the evidence of obviousness was never before the PTO.

While the Supreme Court expressly declined to address whether or not the presumption of validity should apply in those circumstances, it did note in passing that the rationale underlying the presumption – that the PTO correctly issued the patent – “seems much diminished here.” In the year and a half since *KSR* was decided, lower courts have generally ignored this aspect of the *KSR* decision, and have continued to apply the presumption of validity and the clear and convincing burden even when the proffered proof of obviousness was not previously before the PTO. However, in view of *KSR*’s clearly expressed skepticism about the logic underpinning that practice, it remains to be seen whether it may soon take another case to address it.

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The unequal playing field: companies subject to section 1782 in international arbitration

C Mark Baker and Kinan H Romman

Some parties to international arbitration proceedings have recently applied to courts in the US pursuant to § 1782 of Title 28 of the US Code to obtain discovery in “aid” of arbitration. The following discussion briefly addresses section 1782 and its applicability in international arbitration proceedings, issues that might arise as a result of section 1782 filings made in international arbitrations and ways to alleviate these issues.

Section 1782 provides: “The district court of the district in which a person resides or is found may order him to give his testimony or statement or to produce a document or other thing for use in a proceeding in a foreign or international tribunal... The order may be made pursuant to a letter rogatory issued, or request made, by a foreign or international tribunal or upon the application of any interested person.” Section 1782 applications may be sought by either a party or non-party to the proceedings, without the need to notify in advance the target of the discovery request or the adverse party.

This provision has been used for many years to obtain discovery in the US in aid of litigation in foreign courts. However, as parties have sought to extend the scope of this provision to international arbitration proceedings, the issue of whether an international arbitral tribunal is an “international tribunal” within the meaning of section 1782 has been hotly debated.

The Second and Fifth US Circuits have addressed the issue and held that section 1782 does not apply to private international arbitration tribunals. A recent Supreme Court decision, *Intel v Advanced Micro Devices* did not address the issue, but established the following four factors as guidance in determining whether a section 1782 application should be granted: (1) whether the party from whom discovery is sought is a party to the proceedings and is thus under the jurisdiction of the tribunal (2) the nature of the tribunal and its receptivity to U.S. court assistance (3) whether the request conceals an attempt to avoid foreign proof-gathering restrictions and (4) whether the request is unduly burdensome.

Contrary to the clear authority from the circuit courts, however, US District Courts have interpreted *Intel* broadly in granting section 1782 applications in investor-state and private international arbitrations. Thus, the unequal playing field: only a party subject to US jurisdiction – often the US party – can be subjected to discovery while its foreign opponent cannot. Such a result is generally not what the parties’ contemplated at the time of contracting, and a successful section 1782 application in this context could result in delay, potential unfairness, additional cost and unpredictability in the arbitral process. For example, as section 1782 allows for *ex parte* applications outside the arbitration, the non-moving party in the arbitration may find itself unable to effectively respond to discovery despite properly adhering to the tribunal’s document exchange order.

In addition, when an application is granted without the knowledge of or the approval of the arbitral tribunal and when the application is targeted against a party to the dispute, as opposed to a non-party over which the tribunal may not have jurisdiction, problems will surely multiply. These may include, among others: the panel admitting or

refusing to admit evidence resulting from the section 1782 application; the tribunal imposing a sanction against the moving party by drawing an adverse inference against it or allocating the associated costs of the application to that party; and the attempted annulment of an award by either the party that had successfully prosecuted a section 1782 application but was not allowed to present the evidence obtained (in arguing that its right to present its case had been compromised) or the party who was unable to confront the results of the section 1782 discovery admitted in the arbitration.

The following represent a few specific situations in which some of the above issues associated with successful section 1782 applications can arise:

Conflict with the parties’ agreement or the governing rules of the arbitration

Arbitration is, by its nature, a consensual process governed by the parties’ agreement. If the parties have agreed, for example, to limit discovery to the use of reliance documents, or if they have incorporated the popular International Bar Association Rules of Evidence, tribunals are faced with a decision to admit evidence obtained by a section 1782 application or not. Similarly, if the governing rules of the arbitration conflict with the section 1782 application, should a tribunal exclude the resulting evidence? For example, under the International Centre for Dispute Resolution Guidelines for Arbitrators Concerning Exchanges of Information, depositions and interrogatories are disallowed. If a party to an ICDR-governed arbitration secured a section 1782 order for these types of discovery, the tribunal arguably should exclude that evidence, placing the tribunal and the court on a colliding course.

Conflict with the tribunal’s procedural order

If, by making a section 1782 application, a party is attempting to expand the discovery permitted by the tribunal, with regard, for example, to timing or breadth of discovery, should the tribunal exclude the evidence obtained? Should a tribunal draw adverse inferences in relation to the behavior of a party who sought a section 1782 application in contravention of the tribunal’s order? Again, an expansive reading by the two district courts contrary to circuit court authority is bound to multiply litigation – not what the parties’ intended when they agreed to arbitration.

Conflict with the Law of the Seat

Obtaining evidence by an application to a national court which may have a very different approach to discovery than the courts of the seat of the arbitration may also prove problematic. A US national court making a wide-ranging discovery order in relation to an arbitration which could have its seat in a jurisdiction prohibiting US-style discovery cannot be doing the arbitral dispute resolution process any favors.

To address these issues, the Supreme Court needs to squarely confirm that section 1782 does not apply to international arbitral tribunals. Two circuit courts have clearly said no but that has not resolved the matter as parties jockey for post-arbitration agreement advantage.

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Collective Scierter: an end run around the PSLRA

Bruce D Angiolillo and Michael J Chepiga, Simpson Thacher & Bartlett

Perhaps the most onerous pleading requirement for securities fraud plaintiffs is establishing corporate scierter. It requires demonstrating the *corporation's* fraudulent state of mind. To circumvent this burden, plaintiffs frequently ask courts to look to the “collective knowledge” of all of the corporation’s employees, rather than the knowledge of the individual corporate employee who made the misstatement or omission at issue. Under the “collective scierter” theory, a *corporation* could make a materially misleading statement with scierter, even if no individual employee does so.

For example, suppose that Widget, Inc. is in the process of designing a self-propelled widget. A company engineer knows that the most recent prototype is fraught with mechanical problems that will likely delay the product’s targeted release date.

Due to an internal communication failure, however, the company’s CEO is unaware of these mechanical problems. During an earnings call, he states: “We are on track to release several new products in 2009, including the much-anticipated self-propelled widget.”

The “collective scierter” doctrine would impute to Widget both the engineer’s knowledge and the CEO’s misstatement – to yield the illogical result that Widget “knew” that the CEO’s statement was misleading, even though the CEO himself did not. This hypothetical illustrates the fundamental flaw with “inferring a collective intent to deceive” based on a corporate misstatement or omission. As explained by the Seventh Circuit in *Makor Issues & Rights v Tellabs*, “[i]ntent to deceive is not a corporate attribute.”

Most circuit courts – including the Second, Third, Fifth, Seventh and Ninth Circuits – have held that “collective scierter” cannot be the basis for securities fraud liability. Nevertheless, courts are reluctant to dismiss securities fraud suits where the plaintiff lacks sufficient information at the pleading stage to identify a particular corporate employee who acted with scierter. Courts frequently give plaintiffs the benefit of the doubt where the pleaded facts “create a strong inference that someone whose intent could be imputed to the corporation acted with the requisite scierter,” *Teamsters Local 445 Freight Division Pension Fund v Dynex Capital* – even if that “someone” is not named in the complaint.

The Third Circuit

In *Tyson Foods Sec Litig*, the US Court of Appeals for the Third Circuit considered whether a press release adequately disclosed the company’s business reasons for terminating a planned merger. Tyson’s General Counsel authored the press release, but had little knowledge regarding the company’s business rationale. Tyson’s Senior Chairman and CEO, on the other hand, neither wrote nor reviewed the press release at issue. The Third Circuit determined that since “there is no primary liability on the part of any of the individual [Tyson] officers,” the district court “properly held [on summary judgment] that Tyson Foods could not itself be primarily liable.”

The Fifth Circuit

The US Court of Appeals for the Fifth Circuit has indicated that a plaintiff might be able to meet the requirements of Rule 10b-5 by establishing scierter on the part of a corporate officer who “order[s] or approve[s]” the statement at issue, “or its making or issuance, or who furnish[es] information or language for inclusion therein, or the like,” *Southland Secs v INSpire Ins Solutions*. Courts in this circuit

could potentially hold a corporation liable for securities fraud based on the scierter of a corporate employee who provided false information that was later included in a public misstatement, instead of requiring scierter on the part of the corporate employee who actually made the misstatement at issue.

The Seventh Circuit

In *Tellabs*, the US Court of Appeals for the Seventh Circuit rejected “collective scierter” but ruled that “it is possible to draw a strong inference of corporate scierter without being able to name the individuals who concocted and disseminated the fraud.” The Seventh Circuit offered this example:

Suppose General Motors announced that it had sold one million SUVs in 2006, and the actual number was zero. There would be a strong inference of corporate scierter, since so dramatic an announcement would have been approved by corporate officials sufficiently knowledgeable about the company to know that the announcement was false.

The “critical question” is “how likely it is that the allegedly false statements . . . were the result of merely careless mistakes at the management level based on false information fed it from below”?

Under *Tellabs*, a plaintiff could potentially survive dismissal simply by alleging a significant corporate misstatement or omission, without naming a single corporate agent or business unit with knowledge to the contrary.

The Ninth Circuit

After rejecting “collective scierter” in *In re Apple Computer*, the US Court of Appeals for the Ninth Circuit was recently willing to infer scierter in *Berson v Applied Signal Tech* based solely on the significance of the facts at issue and the job responsibilities of the company’s CEO and CFO. The Ninth Circuit reasoned that the two “must have known about the orders because of their devastating effect on the corporation’s revenue” and because they “were directly responsible for Applied Signal’s day-to-day operations[.]”

The Sixth Circuit

One notable exception to the chorus of judicial opposition to “collective scierter” is the US Court of Appeals for the Sixth Circuit, which has held that the “knowledge of a corporate officer or agent acting within the scope of his authority is attributable to the corporation.” *City of Monroe Employees Ret Sys v Bridgestone*. In *Bridgestone*, the Sixth Circuit reversed the district court’s dismissal of a securities fraud claim where the plaintiffs established that a senior Bridgestone executive had knowledge contradicting the company’s annual report – even though the executive did not author that report.

Where does this leave us? Standards and rules in the securities litigation context covering issues such as pleading requirements and loss causation seemed to develop slowly over time and through a substantial number of cases. The circuit courts are now struggling with the concept of “collective scierter.” These appellate courts haven’t written the final word yet, but the increased judicial willingness to entertain complaints that do not allege scierter on the part of specific corporate agents threatens to erode the heightened pleading standards for corporate scierter established by the PSLRA and strengthened by the Supreme Court in *Tellabs*.

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A clear and present danger for US companies and their corporate officials

Joseph B. Tompkins¹, Jr. and Sandra F. Palmer, Sidley Austin LLP²

The US Senate passed the Foreign Corrupt Practices Act in 1977. The statute gives the Department of Justice and the SEC authority to investigate and prosecute bribery of foreign government officials by US companies, including all companies that have registered securities or filed reports with the SEC. With the exception of a few early investigations, the FCPA was essentially an empty threat until the mid-1990's.

Today, almost daily news items appear regarding new FCPA investigations or developments in existing ones, including plea agreements with hefty fines and disgorgement of profits, deferred prosecution agreements, the imposition of outside monitors, or other sanctions. DOJ and SEC enforcement actions in recent years have led to penalties for Schnitzer Steel (\$7.5 million criminal and \$7.7 million civil fines), ABB Ltd. (\$10.5 million penalty and \$5.9 million disgorgement, injunction and independent monitor) and Titan Corp. (\$13 million penalty, \$15.479 million disgorgement, injunction, and independent monitor). Finally, Baker Hughes entered into a plea agreement imposing an \$11 million criminal fine and \$33 combined civil penalties, the largest FCPA sanction ever, and an independent monitor.

For example, in *US v The Titan Corporation* and *SEC v The Titan Corporation*, Titan Corp. pled guilty to DOJ charges of violating the Anti-Bribery and Books and Records provisions of the FCPA and settled charges with the SEC in connection with directing an agent in Benin to funnel funds to the re-election campaign of Benin's then-incumbent president. In addition to penalties, the charges resulted in the collapse of Lockheed Martin's proposed \$1.6 billion acquisition of Titan. Despite using more than 120 agents and consultants in over 60 countries, Titan never had a formal company-wide FCPA policy, disregarded or circumnavigated the limited FCPA policies and procedures in place, and failed to maintain sufficient due diligence files on its foreign agents.

Enforcement actions against individuals are also making new headlines, most recently in connection with a decision that could expand the scope of criminal liability under the FCPA. In April 2008, a Petition for Certiorari to the Supreme Court was filed seeking review of a Fifth Circuit decision interpreting the FCPA in *US v David Kay and Douglas Murphy*. Murphy and Kay, President and Vice-President of American Rice, Inc, a Houston-based company importing rice to Haitians, were indicted, convicted and sentenced to federal prison terms on 12 counts of FCPA violations for paying bribes to induce Haitian officials to accept bills of lading that understated the amount of rice sold into Haiti, reducing customs duties and taxes. The Fifth Circuit affirmed their convictions, having previously found a sufficient business nexus to make these payments come under the FCPA because the reduction in duties and taxes could have been intended to assist the American Rice company in obtaining or retaining business in Haiti by reducing the cost of doing business. The US Chamber of Commerce and the National Criminal Defense League have filed *amici curiae* briefs in support of the defendants' Petition for Certiorari.

Also increasing in frequency are anti-corruption investigations by non-US governments in connection with FCPA investigations –

Siemens, Statoil, Panalpina and Alstom are a few of the current examples. Given the undeniable enforcement reality, American companies should take extra precautions to avoid government interference.

First, it is difficult to overstate the importance of having a comprehensive and effective internal compliance program for FCPA and related matters. It is important to have well written compliance materials, but even more important to require training for employees, including attorneys. A recent international survey by Ernst & Young revealed that only 32 percent of respondents claimed to have some level of knowledge about the FCPA; 28 percent had heard of the FCPA, but knew nothing about it; and 40 percent had never heard of the FCPA. The same survey also found that 58 percent of senior in-house counsel were not familiar with the FCPA. This is not the level of knowledge and awareness a multi-national company should tolerate. And in order for any compliance program to be effective, there must be a clear and visible commitment from the senior management that the company is expected to have a culture of compliance, from the top down.

Further, if you detect a problem or potential problem, investigate it immediately and thoroughly. Potential FCPA problems should be investigated exhaustively in a way that preserves the attorney-client and attorney work product privileges. This is critical because it enables management to make an informed decision of whether to make a voluntary disclosure to the government. If a less than thorough investigation is done and a deficient disclosure is made to the government and subsequently found lacking, the government will not accept the results and will insist on doing its own investigation, which will add to costs and could lead to additional penalties.

Finally, if your company is contemplating a merger or acquisition with any company that is engaged in business in the international market, it is critical that potential FCPA risks be on your list of issues for thorough due diligence. The field is littered with companies that had to fall on their swords because of FCPA problems discovered during due diligence, resulting in either hefty fines or the cancellation of a deal or both. Unfortunately, the field is also full of cases where companies subject to the FCPA failed to conduct adequate due diligence then discovered expensive FCPA problems that they inherited a year or two after the merger or acquisition was consummated.

The DOJ has no sympathy with any of these situations. Thomas Jefferson famously said that "The price of freedom is eternal vigilance." Recent FCPA enforcement would indicate that such vigilance is needed to avoid problems with the FCPA and similar anti-bribery laws.

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