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## Patent Applications Naming Artificial Intelligence System as Inventor Raise Intriguing Questions

In August 2019, a team of patent attorneys led by Ryan Abbott, a law professor at the University of Surrey in the United Kingdom, filed patent applications in various jurisdictions, including the United States, naming a sole inventor: DABUS, an artificial intelligence system developed by the physicist and computer scientist, Dr. Stephen Thaler. Some of the patent applications relate to a new type of beverage container design based on fractal geometry while others to a device for attracting search and rescue teams, which flashes a light in a rhythm that mimics neural activity. According to the University, if patents are granted, they would be the first patents ever issued with an artificial intelligence system as the sole inventor. These applications raise novel questions of U.S. patent law: Can a U.S. patent issue designating an artificial intelligence system as the inventor? If so, what would that mean for the rights and obligations that normally apply to inventors in the United States? If not, how should the law handle

inventions made by artificial intelligence?

These patent applications are the latest in a series relating to Dr. Thaler and artificial intelligence. In 1998, he received his first U.S. patent for an artificial intelligence system he called the “Creativity Machine.” According to Dr. Thaler and Professor Abbott, the Creativity Machine already has invented the claimed subject matter of another U.S. patent, U.S. Pat. No. 5,852,815, directed to certain neural networks. Dr. Thaler has indicated that, although he is listed as the sole inventor on that patent, the real inventor is the Creativity Machine. See Abbott, Ryan, “I Think, Therefore I Invent: Creative Computers and the Future of Patent Law,” *Boston College Law Review*, Vol. 57:1079 (2016). In addition, Dr. Thaler has said that his artificial intelligence systems have created new innovations, such as the cross-bristle design of the Oral-B CrossAction toothbrush.

According to the press release by the University

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### The Recorder Recognizes QE Women Leaders in Tech Law

Diane Doolittle, Co-Chair of the firm’s National Trial Practice, and Victoria Maroulis, Head of the firm’s Silicon Valley Office, were recognized as Women Leaders in Tech Law for the 2019 California Leaders in Tech Law and Innovation Awards by *The Recorder*. Doolittle’s work with LendingClub and Marvell, successfully defending them in securities actions and government investigations, and Maroulis’ role in winning a successful settlement for Samsung in a major patent dispute, garnered their award achievement. The awards recognize individual lawyers and companies who are innovators in technology and their overall career experience. [Q](#)

### Debbie Shon Is Recognized by National Asian Pacific American Bar Association

The National Asian Pacific American Bar Association (NABAPA) has presented Debbie Shon with the 2019 Women’s Leadership Award. This award recognizes the accomplishments of women lawyers and is presented to an individual who has achieved excellence in her field or who has demonstrated leadership and advancement of women or women’s issues. NABAPA has also recognized Debbie with the Daniel K. Inouye Trailblazer Award, which honors recipients for their significant accomplishments both in the legal arena and the Asian Pacific American community. [Q](#)

of Surrey, DABUS, the purported inventor of the latest applications, employs “a system of many neural networks generating new ideas by altering their interconnections” and a “second system of neural networks [that] detects critical consequences of these potential ideas and reinforces them based upon predicted novelty and salience.” In other words, one set of networks generates new ideas while the other set attempts to discriminate the more valuable ideas from the less valuable ones.

### ***U.S. Law Relating to Whether Artificial Intelligence Systems Can Be Inventors***

A patent application in the U.S. naming an artificial intelligence system as an inventor raises the question of whether a patent can have a non-human inventor. It appears that the Patent Office will weigh in on the issue initially, but eventually the matter will likely be decided by the courts.

The patent statutes do not expressly address whether an artificial intelligence can be an inventor. That is not surprising, as many of those statutes were drafted in 1952. The law defines “inventor” to mean “the individual or, if a joint invention, the individuals collectively who invented or discovered the subject matter of the invention.” 35 U.S.C. § 100(f) (1952). Another provision establishing standards for patentability, 35 U.S.C. § 102, states that “[a] **person** shall be entitled to a patent unless...” before listing categories of prior art that can make a claim unpatentable. (emphasis added). The statutory provision on joint inventorship, 35 U.S.C. § 116, refers to those who make inventions as “persons,” referring to the situation “[w]hen an invention is made by two or more **persons** jointly.” (emphasis added).

Based on those provisions, courts may rule that an inventor must be a “person” and, therefore, a human being. Notably, courts have held that the copyright statutes do not permit animals to sue for copyright infringement. *Naruto v. Slater*, 888 F.3d 418, 425-426 (9th Cir. 2018). Courts, however, may find that Congress did not intend for “person” in the patent laws to exclude artificial intelligence and only used that language to refer generically to individual inventors. Professor Abbott and his team may argue that Congress was not thinking of artificial intelligence, as we now understand it, when it drafted Sections 102 and 116, and that Congress did not intend to rule out the possibility of artificial intelligence inventors in all cases.

The legal test for whether an individual is or is not an inventor, which has been developed by the courts, focuses on identifying who first “conceived of the invention.” *Ohio Willow Wood Co. v. Alps S., LLC*, 735 F.3d 1333, 1350 (Fed. Cir. 2013). The explanations of “conception” in the case law frequently use terminology

referring to the “mind.” For example, conception has been defined as “the formation in **the mind of the inventor**, of a definite and permanent idea of the complete and operative invention, as it is hereafter to be applied in practice.” *Hybritech Inc. v. Monoclonal Antibodies, Inc.*, 802 F.2d 1367, 1376 (Fed. Cir. 1986) (emphasis added). Courts have noted that conception is complete when “the idea is so clearly defined in the **inventor's mind** that only ordinary skill would be necessary to reduce the invention to practice, without extensive research or experimentation.” *Burroughs Wellcome*, 40 F.3d at 1228 (emphasis added). On that basis, the Federal Circuit has ruled that inventors must be “natural persons,” as opposed to corporations. See *Univ. of Utah v. Max-Planck-Gesellschaft Zur Forderung Der Wissenschaften E. V.*, 734 F.3d 1315, 1323 (Fed. Cir. 2013) (“To perform this mental act, inventors must be natural persons and cannot be corporations or sovereigns.”).

Yet those cases do not address whether the “mind” in question can be an artificial intelligence. The references to the “mind” serve, at least in part, to distinguish conception from what is termed “reduction to practice,” which involves the ability to create a physical manifestation of an invention. It may be that some artificial intelligence system can form a definite idea of the complete invention, as required for conception.

If artificial intelligence systems can be inventors, it will be interesting to see whether courts will allow them to be sole inventors, as is purportedly the case for DABUS, or whether humans who worked with or developed the artificial intelligence should be joint inventors. Individuals should be joint inventors if they made contributions to the conception of the invention. The operator of an artificial intelligence system may provide input to direct its development of new ideas. For example, one of the inventions purportedly created by DABUS involves controlling a light to flash in a rhythm that makes it more noticeable to human observers. Depending on what information and guidance was provided to DABUS in looking for solutions to this problem, a court may find that the people who provided that input made a contribution sufficient to qualify them as joint inventors.

Indeed, some may argue that an artificial intelligence inventor must always have a human joint inventor when the artificial intelligence only sought to create an invention in the first place because it was requested to do so by a human being. Courts have held in some cases that “[o]ne who merely suggests an idea of a result to be accomplished, rather than means of accomplishing it, is not a joint inventor.” *Garrett Corp. v. United States*, 422 F.2d 874, 881 (Ct. Cl. 1970). But one could argue that a person who made such a suggestion to an artificial

intelligence system should be a joint inventor, if the invention never would have been created without that contribution.

Courts determining whether artificial intelligence can be a sole inventor will also take into account the requirement that a patent claim not be obvious in order to be patentable. Obviousness is determined from the point of view of a hypothetical person, the “person of ordinary skill in the art,” (“POSA”). A claim is unpatentable if it would have been obvious to a POSA at the time the invention was made in view of the prior art.

In the case of an invention purportedly created by artificial intelligence, the artificial intelligence itself is not what is new and inventive. Thus, one could argue that the hypothetical POSA would be another similar artificial intelligence system or researchers using such a system. One could imagine a hypothetical artificial intelligence system built to be the same as the one that purportedly made the invention. Would it be obvious for that artificial intelligence POSA to come up with the alleged invention? After all, in patent law, the POSA is presumed to know all the disclosures in the prior art. Given that, could the artificial intelligence that is the named inventor have come up with an invention that the hypothetical artificial intelligence POSA would not also have created? If the answer is that the artificial intelligence inventor was programmed differently or given different input by its users, does that mean that the humans who used or programmed it must be at least joint inventors?

### ***Permitting Artificial Intelligence Inventors Would Raise Issues Regarding the Obligations and Rights of Inventors***

In the United States, a key duty of an inventor is to “execute” an oath or declaration. *See* 35 U.S.C. § 115. Under 35 U.S.C. § 115, the oath or declaration must confirm that the inventor “believes himself or herself to be the original inventor or an original joint inventor of a claimed invention in the application.”

It will be necessary to determine in particular cases whether the artificial intelligence can form the belief that it is the original inventor. That may be possible, as some artificial intelligence systems may be able to confirm that they generated the idea for the invention. Notably, it is no longer necessary for inventors to state that they are the first inventor of an invention or that they submitted the application without deceptive intent. It will be interesting to see how artificial intelligence systems purport to sign a declaration or oath in order to execute it. The law provides exceptions to this requirement allowing someone other than the inventor to sign the oath and declaration if the inventor is dead, insane or

legally incapacitated, refuses to sign, or cannot be found or reached after diligent effort. But none of those exceptions apply to an artificial intelligence inventor.

The possibility of an artificial intelligence inventor also raises questions relating to ownership of inventions. Under U.S. law, every inventor has an ownership stake in the invention. An inventor can enter into an agreement assigning its ownership to another, but until it does, the inventor is the owner.

In order for artificial intelligence systems to be inventors, it will be necessary for ownership of the inventions to pass to human beings or organizations, such as businesses or universities. The artificial intelligence software could be programmed to transfer its rights to its developers or owners, and some may argue that there are artificial intelligence systems that can autonomously decide whether to enter into an agreement. Artificial intelligence systems, however, owned by other persons or organizations will not be able to voluntarily consent to transfer their inventorship rights the way human inventors can. It is not clear how courts would handle attempts by an artificial intelligence inventor to transfer ownership of an invention.

### ***The Implications of a Ruling That Only Humans Can Be Inventors***

If artificial intelligence systems cannot be inventors, that would raise the possibility that technological developments that normally would be considered new and non-obvious inventions would not be patentable because they had no human inventor.


One solution to that problem would be to designate the humans who developed or worked with the artificial intelligence as inventors. Although no human generated the new idea, at some point, the idea was shared with a human being. That person would then be the first person who conceived of the complete invention. If only human persons could be inventors, that person would be the inventor. As a practical matter, that person will often be one of the people who was working with the artificial intelligence system, such as its owner, or someone who works in the lab that employs the artificial intelligence system. The artificial intelligence system could be viewed as simply one of the tools that the inventor used to generate the invention. If other individuals provided input to the artificial intelligence system that contributed to obtaining the result it reached, then the law could consider those individuals to be joint inventors. After all, they would have made contributions to the conception of the invention.

One possible objection to such an approach is that the human inventors merely waited for the output of the

artificial intelligence system and did not generate the idea through an exercise of innovative thinking. Although courts in the 1930s and 1940s required a patentee to demonstrate a “flash of genius,” *see, e.g., Cuno Engineering Corp. v. Automatic Devices Corp.*, 314 U.S. 84, 91 (1941), that is no longer the law. Congress rejected the Flash of Genius Doctrine in 1952 when it passed the statutes that still form the backbone of patent law to this day. Now, it is “immaterial whether [an invention] resulted from long toil and experimentation or from a flash of genius.” *Graham v. John Deere Co. of Kan. City*, 383 U.S. 1, 15

n.7, 16 n. 8 (1966). Accordingly, operators of artificial intelligence could be inventors even if they do not make a contribution that demonstrates a flash of genius.

### Conclusion

It will be important to monitor how the Patent Office and courts deal with questions raised by the possibility of inventions made by artificial intelligence. Their rulings may have implications on patentability issues, such as inventorship and the requirements for inventors to transfer ownership. 

## NOTED WITH INTEREST

### Early Victory for Winery in “Pot v. Pinot” Case

A federal district court has provided guidance on how to state claims under the Racketeer Influenced and Corrupt Organizations Act (RICO), 18 U.S.C. § 1962 *et seq.*, for property owners aggrieved by nearby marijuana growing operations. On August 27, 2019 the U.S. District Court for the District of Oregon denied a motion to dismiss brought by defendant cannabis growers in the widely-publicized *Momtazi Family, LLC v. Wagner et al.* case. *See* 2019 WL 4059178 (D. Or. Aug. 27, 2019).

The plaintiff in *Momtazi* is a limited liability corporation that operates a certified biodynamic vineyard in Oregon that sells grapes to wine producers, including a wine producer owned by plaintiff that is the current lessee of plaintiff’s property. Asserting a claim under RICO, the plaintiff alleges that defendants developed a plot of land adjacent to plaintiff’s property into a marijuana farm. Plaintiff alleges it is unable to sell grapes grown on the portion of its property that abuts defendants’ property, and defendants’ “marijuana operation” diminished the fair market value of plaintiff’s property, decreased the marketability of grapes grown on plaintiff’s property, and diminished the income plaintiff could obtain by renting its property. Amongst other allegations, the plaintiff contends that one of its customers cancelled an order for grapes because the customer believed the smell created by the marijuana grown on defendants’ property contaminated plaintiff’s grapes and would affect the wine made from those grapes.

At issue on defendants’ motion to dismiss was whether the plaintiff has standing to assert claims under Article III or the RICO statute and whether plaintiff’s allegations state a RICO claim.

The court dispensed with the threshold question of constitutional standing first, finding that plaintiff’s

allegations of diminution in property value, inability to market and sell its grapes, and damage to plaintiff’s property – all allegedly caused by defendants’ marijuana-growing activities – are concrete, particularized, and actual and, therefore, sufficient to allege constitutional standing.

The court next addressed the plaintiff’s standing to state a RICO claim. The RICO statute provides that “[a]ny person injured in his business or property by reason of a violation of [RICO]” may bring a civil suit for damages. 18 U.S.C. § 1964(c). To show standing, a plaintiff must allege: (1) “harm to a specific business or property interest” and (2) that the injury was “a proximate result of the alleged racketeering activity.” *Momtazi*, 2019 WL 4059178, at \*4 (internal citation omitted). The injury must be proprietary and must result in “concrete financial loss.” *Id.* (citing *Canyon County v. Syngenta Seeds, Inc.*, 519 F.3d 969, 975 (9th Cir. 2008)).

The *Momtazi* court ruled that the plaintiff had alleged facts sufficient to confer RICO standing. As to concrete financial loss, the court held that plaintiff’s allegations of diminished rental income, decreased marketability of grapes grown on the property as a result of defendants’ marijuana operation, and the cancellation of a grape order over concerns relating to the quality of plaintiff’s grapes were sufficient to state a RICO claim under the standard for recovery set forth by the Ninth Circuit in *Canyon County*. *Momtazi*, 2019 WL 4059178, at \*5. Turning to direct or proximate cause, the court ruled that plaintiff’s allegation that it has been unable to sell its grapes as a result of defendants’ marijuana operation was sufficient to allege a direct link between plaintiff’s injuries and defendants’ alleged RICO violations. *Id.* at \*6.

The court also rejected defendants' argument that the complaint failed to show that defendants were conducting or participating in an association-in-fact enterprise of racketeering activity, as required to state a RICO claim. The court reasoned that plaintiff stated a claim with allegations that the presence of a marijuana operation on defendants' property – and the effects of that operation – directly and materially diminished the fair market value of plaintiff's property, the marketability of grapes grown on that property, and the decline in rental income from the property. *Momtazi*, 2019 WL 4059178, at \*7. Because the complaint plausibly alleged a direct link between defendants' marijuana operation and the claimed reductions in plaintiff's property value, the plaintiff stated a claim for relief under RICO, and defendants' motion to dismiss was denied.

The *Momtazi* case is significant. As an initial matter, the court did not even address whether a defendant engaged in the growing of marijuana is committing a pattern of predicate offenses associated with a commercial enterprise, as necessary to state a RICO claim. See 18 U.S.C. §§ 1961-62. The *Momtazi* court thus joins other federal courts in accepting that operating a marijuana business may constitute racketeering because it involves dealing in a controlled substance under federal law, even in states that have legalized the use of recreational marijuana. See, e.g., *Safe Streets Alliance v. Hickenlooper*, 859 F.3d 865, 882 (10th Cir. 2017) (“[C]ultivating marijuana for sale . . . is by definition racketeering activity.”). The same type of reasoning may subject future defendants to other RICO claims premised on activities that are legal under state law but prohibited under federal law.

*Momtazi* is also significant because it provides guidance to plaintiffs seeking to allege RICO claims against marijuana growers. Earlier cases in the District of Oregon dismissed claims asserted by adjacent property owners on the basis that mere allegations of diminished use or enjoyment of property, or the costs of increased security measures as a result of marijuana-growing operations, do not constitute injury to property under Ninth Circuit precedent. The *Momtazi* court distinguished those prior cases and, in so doing, provided a roadmap to plaintiffs seeking to assert analogous claims in that Circuit.

In *Ainsworth v. Owenby*, the district court dismissed an action brought by residential property owners against defendants who allegedly maintained a marijuana production and processing operation on nearby land because the plaintiffs did not allege concrete financial loss where they did not allege either “specific prior attempts to monetize a property interest” or “at least a present intent or desire to do so.” 326 F. Supp. 3d 1111,

1125 (D. Or. 2018). The court subsequently rejected an amended complaint alleging harm from plaintiffs' inability to obtain a larger home equity loan on the basis that plaintiffs were placed in a stronger financial position because a smaller loan meant less debt on a lower principal amount. 2019 WL 1387681, at \*1-2 (D. Or. Mar. 27, 2019). Similarly, in *Shoultz v. Derrick*, plaintiffs alleged that defendants' marijuana operation “interfer[ed] with [their] use and enjoyment of [their property], burdening it with noise pollution, diminishing its market value and making it more difficult to sell.” 369 F. Supp. 3d 1120, 1127 (D. Or. Feb. 22, 2019). Plaintiffs did not allege either a past attempt or a current desire to convert their property interests into a pecuniary form. *Id.* The court held that plaintiffs failed to allege concrete financial loss and their claim was dismissed. *Id.*

As the *Momtazi* court reasoned, both of these earlier cases “turned on whether an allegation of diminished market value was sufficient to constitute injury.” *Momtazi*, 2019 WL 4059178, at \*4. In *Ainsworth*, plaintiffs had not alleged either specific prior attempts or a present intent to monetize their property interest. *Id.* (citing *Ainsworth*, 326 F. Supp. 3d at 1126). In *Shoultz*, the mere allegation of diminished market value was insufficient. *Id.*, at \*5 (citing *Shoultz*, 369 F. Supp. 3d at 1128). While the *Momtazi* plaintiffs did not specify a dollar amount of loss sustained, the court reasoned that such an amount “would be calculable in a pecuniary form based on evidence that would be discoverable,” and plaintiffs' allegations, therefore, established “injury to a property interest” constituting a “concrete financial loss” sufficient to confer RICO standing. *Id.* Particularly in light of the proximity of many marijuana operations to wine growers in California and Oregon, it is easy to imagine allegations analogous to those asserted in *Momtazi* surfacing in future cases involving marijuana growers in the Pacific Northwest. [Q](#)

## Patent Litigation Update

### *Recent Decisions on Rights and Immunities of State and Federal Entities Before the PTAB*

The Supreme Court and Federal Circuit recently clarified the rights and immunities of government entities in post-issuance review proceedings before the Patent Trial and Appeal Board (PTAB). Their decisions will have immediate and potentially lasting implications for state universities, federal agencies, and other state and federal entities involved in patent disputes.

#### *The U.S. Government Cannot Seek PTAB Post-Issuance Review*

In *Return Mail, Inc. v. United States Postal Service*, 139 S. Ct. 1853 (2019), the Supreme Court addressed the question of whether the federal government may petition the PTAB for *inter partes* review (IPR), covered business method review (CBM), or post-grant review (PGR) under the Leahy-Smith America Invents Act (“AIA”). By statute, any “person” other than the patent owner may file a petition for post-issuance review. 35 U.S.C. §§ 311, 322, AIA § 18. Here, the U.S. Postal Service filed a CBM petition against a patent assigned to Return Mail directed to processing undeliverable mail. The PTAB instituted review, and found the patent invalid. The Federal Circuit affirmed the result, and the Supreme granted review.

In a 6-3 opinion authored by Justice Sotomayor, the Supreme Court reversed the Federal Circuit, holding that the USPS failed to overcome the “longstanding interpretive presumption” that the statutory term “person” does not include the federal government. The Court observed this presumption reflects both “common usage,” and the express statutory directive from Congress in view of the Dictionary Act (1 U.S.C. § 1) (which defines a “person” as including “corporations, companies, associations, firms, partnerships, societies, and joint stock companies, as well as individuals,” but *omits* the federal government).

The Court rejected USPS’s efforts to overcome this presumption, noting that USPS failed to persuade the Court that “person,” as used in Section 311 and 322, includes the government because the Patent Act elsewhere authorizes federal agencies to apply for patents and refers to them as “persons.” The Court instead found “no clear trend” across 18 references to “person” in the Patent Act and America Invents Act, and found multiple instances excluding government agencies as the referenced “person.” Nor was the Court persuaded by USPS’s argument that it had long participated in challenging patents in *ex parte* reexaminations before the Patent Office, as well as in obtaining patents. It found

these traditions shed no light on federal agency’s rights under the recently enacted AIA.

Finally, the Court found any concern over the apparent inconsistency between the federal government not being able to file for post-issuance review even while it could be sued for patent infringement to be “overstate[d] because the government is not subject to injunctive relief, punitive damages, or a jury trial in a judicial challenge, and, therefore, faces a lower risk than nongovernmental actors.” Further, the Court observed that denying federal agencies access to post-issuance review proceedings “avoids the awkward situation” of a private party defending their invention against a government entity (*e.g.*, USPS) before another government entity (the Patent Office).

#### *States Do Not Have Sovereign Immunity from Inter Partes Review*

In *Regents of the University of Minnesota v. LSI Corp. and Avago Techs. U.S. Inc.*, 926 F.3d 1327 (Fed. Cir. 2019), the Federal Circuit addressed whether the principle of state sovereign immunity shields state-owned patents from IPR proceedings. The Eleventh Amendment to the U.S. Constitution provides that the federal judicial power does not extend to “any suit in law or equity, commenced or prosecuted against one of the United States by Citizens of another State.” The University of Minnesota (UMN) sought to invoke state immunity to terminate IPR proceedings initiated by LSI and Ericsson on separate sets of patents assigned to UMN. The PTAB concluded UMN waived any sovereign immunity by filing infringement actions in district court against petitioners on these patents, and it denied UMN’s motions to dismiss. The Federal Circuit affirmed this result on the basis that “state sovereign immunity does not apply to IPR proceedings,” and concluded it need not reach the issue of waiver. The Federal Circuit held an IPR is more properly understood not as a private suit, but as the federal government’s “reconsideration of a previous patent grant aided by information supplied by a third party.”

The Federal Circuit drew heavily in reaching this result on *Saint Regis Mohawk Tribe v. Mylan Pharmaceuticals Inc.*, 896 F.3d 1322 (Fed. Cir. 2018), where it previously held tribal sovereign immunity does not bar IPR proceedings. There, the Court reasoned the PTAB acts as a “superior sovereign” in an IPR to protect the public interest by reconsidering a prior patent grant. In finding an IPR is more akin to an agency enforcement action than a private civil dispute, the Court found persuasive both that the USPTO director (not a private party) decides whether to institute an IPR, and that the PTAB can choose to continue an IPR even if the

petitioner decides later not to participate.

The Federal Circuit concluded in *Regents of the University of Minnesota* that the same reasoning applies to state sovereign immunity. The Court reiterated that an IPR is a federal agency action, not a private action, and observed that “[s]uits brought by the US have long been recognized as not being impeded by either tribal or state sovereign immunity.” The Court discounted UMN’s attempts to distinguish tribal from state immunity. It found no support for UMN’s argument that Congress intended to abrogate tribal sovereign immunity for IPRs but not state immunity, and rejected UMN’s argument that there is any heightened presumption of state sovereign immunity for federal agency actions.

## Construction Litigation Update

### *Arbitration Laws Updated in the UAE; New Construction Arbitration Guide Released; and the UK Court of Appeal Weighs in on Liquidated Damages*

**New UAE arbitration laws:** The UAE has introduced a new arbitration law, the *Federal Law No. 6 of 2018 on Arbitration*. It repeals the arbitration chapter previously embedded in the federation’s civil procedure laws, which had been criticized for failing to reflect international best practice, and replaces it with a stand-alone instrument. The new law is based heavily on the UNICTRAL Model Law and is designed to bring the UAE closer in line with other international arbitration hubs and make it a more attractive arbitration prospect. The new law clarifies various matters, including procedures for arbitrator recusal, limits on the challenging of an award, the rules relating to the conduct of the arbitration (such as venue and electronic communications), and technicalities relating to the signing of awards outside the jurisdiction. The Dubai International Finance Centre (DIFC) continues to operate its own English language, common law arbitration framework.

**The ICC construction industry arbitration guide:** In February 2019, the ICC published its updated guide on the tools and techniques for successfully managing construction arbitrations. The guide reflects the updated ICC Arbitration Rules of 2017 and recent developments in construction arbitration practice. The guide notes that international construction disputes are frequently more complex, both factually and technically, than other international commercial disputes. They often require more documents to be examined than other types of disputes and encompass a multitude of fact, opinion and law which could in themselves merit a decision as if they were their own arbitration. The complexity of the arbitrations is reflective of the various methods of procurement, pre-arbitral dispute methods (including

adjudication and dispute boards), number of parties (including subcontractors, consultants and engineers), and technical complexity (including the use of BIM modelling) of the mega-projects from which such disputes stem.

In that light, the ICC guide seeks to facilitate expeditious and cost-effective procedures in construction arbitrations. It discusses most aspects of the arbitral journey with a construction focus, from terms of reference, pleadings, case management, through to expert evidence and hearings. Amongst other matters, the guide notes it is “highly desirable” that the arbitrators are familiar with construction contracts, relevant regional and cultural nuances, and the evolution of construction disputes. It notes that delay and disruption claims, common in construction projects, can involve large sums of money and require careful handling. It further notes that although arbitrations on mega-projects often involve separate questions of jurisdiction, preliminary issues, liability and quantum, the decision to split a case into separate hearings should be left until it is clear that it is sensible and cost-effective to do so. A number of the issues in the guide, and more, are explored in the updated second edition of *The Guide to Construction Arbitration*, from the Global Arbitration Review. Quinn Emanuel London partner James Bremen, and Of Counsel Mark Grasso, contributed several important chapters to the text.

**Liquidated damages claims:** Earlier this year, the United Kingdom’s Court of Appeal resolved inconsistencies in a century of case law on the application of liquidated damages provisions. In *Triple Point Technology, Inc. v PTT Public Company Ltd [2019] EWCA Civ 230*, the Court denied an employer’s entitlement to liquidated damages for delay in completing a project, when the contract was terminated prior to completion. The Court held that the liquidated damages provision in question had no application because the contractor never handed over completed work to the employer. The Court clarified, however, that the employer remained entitled to claim general damages for delay. As the Court noted, each case will “turn on the precise wording of the liquidated damages clause in question.” In this case, the contract was a bespoke contract for the provision of a software system, which provided that the contractor would pay liquidated damages “per day of delay from the due date for delivery up to the date [the employer] accepts such work.” The Court held that the provision has “no application in a situation where the contractor never hands over completed work to the employer.” While not a standard form construction contract, the case law reviewed in the judgment included analysis of several construction cases, including those

applying the JCT standard forms. It is arguable that other forms, including some FIDIC contracts, may be susceptible to similar interpretation. Were the Court's interpretation found to apply to the liquidated damages provisions in other common, international construction contracts, and where a particular contract is governed by English law, the decision could have significant impact.

General damages for delay can be difficult and costly for an employer to prove, and in some cases no substantial losses can be identified. A pending decision to terminate a contractor for delay prior to completion may need to be reassessed based on the prospects of establishing actual delay damages. The ongoing entitlement of an employer to withhold liquidated damages from progress payments throughout the period of delay, but prior to termination, could also be affected by the decision.

But this is not all bad news for employers. Where the liquidated damages in an affected contract are significantly less than the employer's actual losses, the decision may permit the employer to jettison the liquidated damages regime and replace it with a larger claim for general damages that more accurately reflects the impact of the contractor's default.

## Crisis Law Update

### *Lessons Learned from a MeToo Settlement*

When a high-ranking female company executive endures years of an "Animal House" work culture, suffering discrimination, harassment, demotion, and constructive discharge due to her gender, her pregnancy, and her status as a mother, it usually results in protracted litigation and front-page news. This summer, the firm took a different approach on the plaintiff's side of a MeToo case and negotiated a favorable pre-litigation settlement, by preparing and presenting a complaint that thoroughly detailed the "boys club" atmosphere at the company, leaving little room for denials by the company and its executives. This victory was one of several favorable resolutions that led the firm to launch its plaintiff-side Sexual Harassment and Employment Litigation practice in late September. In the interview below, some of QE's Crisis Law Group members share their perspectives on crisis management lessons defendants can take away from the plaintiff's side of this "Me Too" case.

### *On lessons learned from this litigation for plaintiffs and defendants...*

For a defendant, hopefully with the right prevention mechanisms already in place, do your own investigation to evaluate the allegations and what the various stakeholders say. You must run a substantial investigation at every level of the company to determine what took place and to assess credible defenses and ways to reverse

the narrative. Be aware of the rules of discovery in your jurisdiction: Is your investigation discoverable, and to what extent? Consider ulterior motives on the part of the plaintiff. Look into the decisions that were made at issue in the case (such as salary reductions or termination) to determine if there was a valid reason for that decision, unrelated to discrimination. Keep in mind that you do not want to look like you're bullying the plaintiff. Talk to neutral third parties who were present during relevant events who are no longer affiliated with the company and therefore not biased. Ask questions of former employees. You need to thoroughly investigate all the facts in order to successfully reverse the narrative.

On the plaintiff's side, Quinn Emanuel attorneys recommend strongly that you should have a completely drafted, fully-baked complaint at the ready. Presenting a strong complaint before any litigation begins allows you to lead from a position of strength during negotiations because you're positioned to file at the drop of a hat—and the other side knows it. Indeed, in this era, they cannot afford to have such a complaint filed. Plus, if written effectively, the complaint should bring your client's narrative to life, and when the defendant sees those allegations in black and white, they'll likely recognize just how badly that narrative could potentially play out for them, including in the press and the court of public opinion. Presenting a strong complaint can really set the plaintiff on the right path early on.

### *On the benefits of an early settlement...*

In evaluating this case, Quinn Emanuel attorneys determined that they had the so-called "perfect" plaintiff and "perfect" defendant. What is meant by that? The plaintiff (our client) not only had a compelling narrative with detailed accounts, but she was a highly accomplished, likeable individual who wanted to tell her story and could withstand the pressures of litigation. She was articulate, presentable, and skilled at the job she did at the company. However, because litigation can be a sometimes consuming and distracting process—particularly for an individual—our client was open to a settlement for the right amount with the right factors. Meanwhile, the defendant was a company whose CEO did not want to risk its (or his) good reputation, undermine its executives, or put at risk its lucrative business deals because of the press of a "Me Too" scandal. For both sides, it made sense to avoid the lawsuit and the publicity as early as possible.

### *On preventing and defending against "Me Too" litigation...*

Companies – whether public or non-public – should have in place dedicated legal and human resources departments




that oversee and handle issues or reports of discrimination and harassment, and that are completely independent from company executives and directors. Companies also should have comprehensive training programs and literature to help educate employees, insulate legal claims, and prevent or address these situations hopefully before they arise. With those foundational elements in place, if your company does face allegations (like the ones the firm made in this case), then it's far better-positioned to run internal investigations and evaluate applicable defenses and counter-points. In fact, there may be perfectly valid counter-points to the allegations being lodged by the plaintiff, but in order to build those facts credibly, the company needs an independent body that lends legitimacy to that position. For example, decisions with respect to an employee's responsibilities or compensation may have been made for legitimate reasons, which have nothing to do with any discrimination or harassment. With these processes in place, the company is well-positioned to present a strong, credible counter-narrative during the litigation or settlement discussions.

In our case, the defendant was missing these fundamental elements. For example, its legal and human resources departments weren't independent at all, so employees like our client had nowhere to turn. Quinn Emanuel was able to capitalize on that deficiency, both in

writing the complaint and negotiating a settlement.

### *On building rapport with clients to discuss sensitive and uncomfortable allegations...*


Whether you're representing a plaintiff or a defendant in cases involving discrimination and harassment claims, it may be the first time your client is going through this type of legal action, so you have to take the time to build confidence both as an advocate and as a legal expert. Having candid conversations with your client from the outset about the procedures and claims at issue, and what's really at stake personally and financially, goes a long way in establishing trust and allowing the client to then open up about the uncomfortable and sensitive topics that form the heart of the dispute. Additionally, to the extent possible, it's ideal to include at least one member of the legal team with whom the client can identify on a personal level. Here, although not by design, two Quinn Emanuel attorneys that worked on this case happened to be in their third trimesters of pregnancy. That commonality helped our client to talk frankly about intimate details relating to her own pregnancy and how her company treated her as a result. Establishing trust early is important so that every detail, positive or negative, can be evaluated as the claims or defenses are evaluated from a juror's perspective. 

## Data Privacy in the Digital Age: The Risks and Opportunities of the California Consumer Privacy Act

The firm recently hosted a deep-dive presentation in Silicon Valley, San Francisco, and Los Angeles concerning the California Consumer Privacy Act ("CCPA"), which becomes effective on January 1, 2020. Los Angeles partner Viola Trebicka and San Francisco partner Sam Stake presented a litigator's perspective on what the CCPA's challenges and opportunities will mean for companies doing business in California.

The CCPA—which economists have predicted could cost as much as \$55 billion to implement—makes major changes to the legal privacy landscape in California by giving consumers important new rights in protecting their data privacy. These include rights to notice upon collection or sale of personal data to file claims (for statutory, liquidated amounts) after data breaches, to opt out of the sale of consumer's personal data to third parties, and to request that the consumer's data be deleted altogether. Each right has important exceptions, however, and the CCPA and its proposed regulations leave much room for interpretation by businesses and, ultimately, the courts.

One such area of interpretation is the exact contours of the "right to non-discrimination." Although, at first blush, the CCPA forbids companies from discriminating on the basis of a consumer's exercise of those rights, the CCPA and the proposed regulations outline many different bases upon which companies can offer differentiating products, services, and prices to consumers. Navigating the labyrinth of these exceptions will require astute legal and economic advice.

Another major aspect of the CCPA is the creation of a private right of action in the event of a data breach. Importantly, the Act creates a \$100 damages floor per incident, per consumer for a breach of unencrypted, identifying personal data that a company did not take reasonable steps to keep secure. Multiplied by the number of affected consumers, the potential damages exposure can increase very quickly. This potential for substantial statutory damages should give companies pause, and speaks to the value that a strong legal defense will provide in a post-CCPA world. 

# VICTORIES

## Complete Victory for Swiss Client in Contract Dispute

On August 14, 2019, the firm won a complete victory in the Second Circuit, which affirmed in its entirety the order of the District Court for the Southern District of New York dismissing all claims against our client, Mercuria Energy Trading, and several affiliated entities. This was a highly contentious contract dispute in which Mercuria's former employee claimed that Mercuria owed him more than \$32 million in carried interest payments. The plaintiff, Jeff Miller, had worked as a senior oil-and-gas trader at Mercuria between 2008-2012. During that time, Miller helped source and complete Mercuria's acquisition of an Argentine oil company named Glacco, and in exchange for this work had received all of the Class A preferred shares in Glacco's parent company. Those shares, which were governed by the parent company's by-laws, carried certain redemption and payout rights upon the occurrence of a dissolution or restructuring of the company. In 2012, Miller resigned from Mercuria. Before he resigned, Miller had been working on a deal that would merge Glacco and other Mercuria oil/gas assets in Argentina with another Argentine company: Roch S.A. It was anticipated that following the merger, Mercuria and Roch would take the combined company public on the Toronto Stock Exchange. So Miller negotiated—as part of his departure from Mercuria—an agreement that if the Mercuria/Roch merger were consummated and otherwise triggered a redemption payment on his Glacco shares, and if that merged company went on to undergo an IPO or a sale of its equity to a third party, then instead of his ordinary redemption payment Miller would be entitled to exchange his Glacco shares for (far more valuable) shares in the pre-IPO Mercuria/Roch company. This agreement was memorialized in a Separation Agreement between him and Mercuria signed at his departure.

Unfortunately for Miller, the Mercuria/Roch merger deal was never completed, leaving Miller with only his existing Glacco shares. Then, last year, Mercuria entered into an entirely different and unrelated transaction to form a company called Phoenix Global Resources. Miller, seeing public reports of the Phoenix Global transaction, claimed that Mercuria owed him a redemption payment on his Glacco shares using the valuation formula set forth in his Separation Agreement—which was specific to the Mercuria/Roch merger and share exchange for Mercuria/Roch shares—but this time using the value of the Phoenix Global transaction as a proxy for the Mercuria/Roch merger value. When Mercuria refused to pay, Miller filed suit in the Southern District of New York, claiming that Mercuria acted in bad faith and

breached the Separation Agreement. Miller sought more than \$32 million in damages.

The firm moved to dismiss the claims based on the plain language of the contract. In March 2018, the District Court for the Southern District of New York issued a 32-page opinion agreeing with our position across the board and dismissing the complaint in its entirety, with no opportunity to replead. The Court concluded that the plain language of the Separation Agreement provided for a redemption payment (in the form of an exchange of shares) only upon the occurrence of the Mercuria/Roch merger, which had never occurred. Therefore, the Court held, Miller was not entitled to any payment as a result of the Phoenix Global transaction, and Mercuria breached no contractual or other duties by refusing to pay him.

Miller appealed the District Court's order to the Second Circuit. On August 14, 2019, the Second Circuit affirmed the District Court's order in its entirety, fully adopting the reasoning set forth in Judge Rakoff's opinion and our briefs, and dismissing Miller's claims with prejudice.

## Appellate Victory in New York State Supreme Court

Quinn Emanuel recently achieved a substantial victory in the New York State Supreme Court, Appellate Division, First Department, which unanimously reduced a judgment against our client, A.O. Smith Water Products Company, from \$29 million to \$6 million in an appeal following a 3-week jury trial in the New York City Asbestos Litigation (“NYCAL”). The estate of a decedent with two young children who contracted mesothelioma in his late 50s had alleged that the decedent's injuries were caused by exposure to asbestos in A.O. Smith water heaters that he removed from residential homes in Brooklyn in the 1970s and 1980s. A.O. Smith, represented by another law firm, argued at trial that it did not manufacture any of the products that allegedly caused the decedent's injuries and that the decedent had failed to prove the elements of its wrongful death claim under New York law. After a 3-week trial, the jury unanimously found A.O. Smith liable for the decedent's injuries and awarded the estate \$60 million in damages as a result, including \$25 million for the decedent's pain and suffering and \$17 and \$18 million to each of the decedent's two children for their pecuniary loss.

Facing a \$60 million verdict and little chance of reversal on appeal, A.O. Smith turned to Quinn Emanuel. The firm successfully reduced the \$60 million verdict to \$29 million in post-trial motions before the same judge that presided over trial. The firm then engaged in a full challenge to the final judgment of \$29

million by seeking appeal to the Appellate Division, First Department. The firm raised several legal challenges to the judgment, including a “misidentification defense” that A.O. Smith was not liable at all because a different company, similarly named “H.B. Smith,” had actually manufactured and sold the injury-causing products. But the firm spent most of its briefing on the excessive judgment against A.O. Smith, explaining, with charts, why it was grossly out of line with precedent and should be reduced. The Appellate Division ultimately ruled in A.O. Smith’s favor, concluding that the judgment was excessive and out of line with precedent, and reducing the damages to a total of \$6 million—only 10% of the original verdict against our client.


### **Preliminary Injunction Victory for Autonomous Vehicle and Artificial Intelligence Practice**

The firm obtained a second preliminary injunction for autonomous vehicle start-up WeRide in trade secret litigation in the Northern District of California against two former employees and their new company, AllRide. A little over a year ago, WeRide fired its then-CEO (Jing Wang) and its then-VP of hardware engineering (Kun Huang) for assorted wrongdoing. Shortly after, WeRide began to see media reports tying both Wang and Huang to AllRide. Then, AllRide (which a few short weeks before had no funding, no public presence, and no research team) demonstrated a self-driving vehicle that purportedly was capable of advanced self-driving maneuvers that others in the field were only able to develop after years of work. Quinn Emanuel worked with WeRide to investigate, and found that Huang had made several large downloads in the months before his departure from WeRide, and then had wiped several devices before returning them to WeRide.

Quinn Emanuel promptly filed a complaint for trade secret misappropriation and moved for a preliminary injunction. In March, the Court granted a preliminary injunction against Huang and AllRide. However, the


Court declined to enjoin Wang at that time, based on Wang’s sworn insistence that he had “nothing to do” with AllRide.

Fortunately, the preliminary injunction required Huang to turn over his laptops, phones, and other devices. From forensic analysis of Huang’s devices, Quinn Emanuel recovered overwhelming evidence that not only was Wang involved with AllRide, he was at the top of their organization chart, and described in investment materials as the “leader” and “soul” of the company. At the same time, Quinn Emanuel obtained evidence through discovery that AllRide’s source code did not match the capabilities it displayed in marketing materials and which its corporate representative testified AllRide had independently developed. To make matters worse, Defendants had created new shell companies to avoid discovery and the preliminary injunction.

Quinn Emanuel filed a motion for an expanded injunction based on this new evidence, seeking to bind Wang and the new shell companies. The Court granted the motion, holding that Wang’s earlier declaration “was, at best, inaccurate,” and that Wang “frustrated the intention of the Preliminary Injunction by making these inaccurate statements to the Court.” The Court further enjoined Defendants from creating any new entities or transferring assets, found that they had been involved in “chicanery,” and ordered them to turn over their entire source code repositories to WeRide for forensic imaging and analysis. 

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## **Partner Susheel Kirpalani Invited to Join the National Bankruptcy Conference (NBC)**

Quinn Emanuel is pleased to announce that Susheel Kirpalani, partner and Chairperson of the firm’s Bankruptcy and Restructuring Group, has been invited to join the National Bankruptcy Conference (NBC). The NBC is a non-profit, non-partisan organization whose primary purpose is to advise Congress on policy regarding bankruptcy laws. Mr. Kirpalani will be joining Quinn Emanuel partner K. John Shaffer and a select group of approximately 60 other lawyers, law professors, and bankruptcy judges who are preeminent in their field in developing policy positions designed to improve the bankruptcy system, including debtor rehabilitation, fair treatment of creditors, preservation of jobs, prevention of fraud and abuse, and economical insolvency administration. 

**business litigation report****quinn emanuel urquhart & sullivan, llp**

Published by Quinn Emanuel Urquhart & Sullivan, LLP as a service to clients and friends of the firm. It is written by the firm's attorneys. The Noted with Interest section is a digest of articles and other published material. If you would like a copy of anything summarized here, please contact Elizabeth Urquhart at +44 20 7653 2311.

- We are a business litigation firm of more than 800 lawyers — the largest in the world devoted solely to business litigation and arbitration.
- As of November 2019, we have tried over 2,300 cases, winning 88% of them.
- When we represent defendants, our trial experience gets us better settlements or defense verdicts.
- When representing plaintiffs, our lawyers have garnered over \$70 billion in judgments and settlements.
- We have won five 9-figure jury verdicts.
- We have also obtained forty-three 9-figure settlements and nineteen 10-figure settlements.

Prior results do not guarantee a similar outcome.

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