

Second Circuit Update



The Business Litigation Practice Group of Hodgson Russ LLP is pleased to provide you with the following update on notable recent cases from the Second Circuit.

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Arbitration

The Second Circuit recently sustained the right of a U.S. parent company, a nonsignatory to its foreign subsidiary's contract, to have the question of whether it had agreed to arbitrate disputes determined independently by a U.S. District Court under U.S. law—not by the arbitrators under the law chosen in the contract. Whether the U.S. parent, as a nonsignatory, was bound to arbitrate, was a question of U.S. law to be determined by a U.S. court, unless there was "clear and unmistakable evidence" that the U.S. parent had agreed to arbitrate that question. Based on these principles, the Second Circuit vacated and remanded a District Court judgment that enforced the arbitration award against the non-signatory U.S. parent. *Sarhank Group v. Oracle Corp.*, 2005 U.S. App. LEXIS 6161 (2d Cir. April 14, 2005).

▶ The Convention on Recognition and Enforcement of Foreign Arbitral Awards (the New York Convention) allows a U.S. Court to refuse to recognize and enforce a foreign arbitration award when the panel is not constituted according to the agreement of the parties. Enforcement was denied, on this ground, in *Encyclopedia Universalis S.A. v. Encyclopedia Britannica*, 403 F.3d 85 (2d Cir. March 31, 2005). In *Britannica*, the agreement required the two party-appointed arbitrators to reach impasse before the selection of the third arbitrator would be referred to an appointing authority. As this did not occur, the Court held, appointment of the third arbitrator was irregular, and enforcement of the resulting award should have been denied.

▶ Hodgson Russ scored a significant victory for its client, a German manufacturer, and made new law in the Second Circuit, when the Court held that a foreign arbitration award may be enforced in a United States court even if the arbitration clause does not state, explicitly, that the parties consent to the jurisdiction of U.S. courts. *Phoenix Aktiengesellschaft v. Ecoplas, Inc.*, 391 F.3d 433 (2d Cir. Dec. 10, 2004). Such "consent to jurisdiction" clauses are common features of arbitration agreements drafted by U.S. counsel, because Section 9 of the Federal Arbitration Act (FAA) provides that such consent is a prerequisite to award confirmation in cases to which Section 9 applies. But the Second Circuit here accepted the argument that no such requirement applies under the

Convention and Chapter Two of the FAA (which implements the Convention).

▶ Hodgson Russ recently completed the successful recognition and enforcement of a foreign arbitration award against two state-owned companies of the People's Republic of China. The Firm obtained an Order of Attachment against a Canadian company that owed substantial funds to one of the Chinese companies. That Order required the Canadian firm to deposit funds with the Clerk of the Court. Once final judgment had been entered confirming the award, the judgment was satisfied from the funds held by the Clerk. Subscribers to the PACER system may review the proceedings at Docket No. 04 CV 09392 (LTS) in the U.S. District Court for the Southern District of New York, *Opera on Original Site, Inc. v. China Performing Arts Agency and China Arts & Entertainment Group*.

Electronic Privacy

The Second Circuit upheld regular business practices of an internet service provider (ISP), in closing the e-mail account of a suspected "spammer," and held that such practices are not illegal "interception" of e-mails under the federal Electronic Communications Privacy Act of 1986 (ECPA). *Hall v. Earthlink Network, Inc.*, 396 F.3d 500 (2d Cir. Jan. 25, 2005). In *Hall*, a former customer claimed the ISP had unlawfully "intercepted" hundreds of incoming e-mails by failing to forward them after the ISP closed his account. "Interception" under the ECPA, the Court observed, excludes receiving e-mails "in the ordinary course of business." Looking at the legislative history of the ECPA, the Court found that ISPs were clearly intended to be protected by the "ordinary course of business" exception. The Court held that where the ISP routinely retained incoming e-mail sent to closed accounts, and did not have the ability to return e-mail to the sender automatically, its retention of such e-mail could not be unlawful "interception" under the act.

Securities Litigation

In a case of first impression under the Securities Litigation Uniform Standards Act (SLUSA) of 1998, the Second Circuit rejected efforts by former Merrill Lynch brokers and cus-

tomers to circumvent limits on federal securities cases by filing suits in state courts. *Dabit v. Merrill Lynch*, 395 F. 3d 25 (2nd Cir. Jan. 11, 2005). Plaintiffs' lawsuits sought to sidestep the co-ordinated federal securities litigations arising out of Merrill Lynch's alleged misleading promotion of certain stocks to garner investment banking business. Plaintiffs purported to sue only for commissions and fees, and not for investment losses, and therefore argued that their lawsuits were not "in connection with the purchase and sale of a security."

SLUSA was enacted to overcome the perceived failure of the Private Securities Litigation Reform Act of 1995 (PSLRA) to curb class action "strike suits." Congress found that the plaintiffs' bar had circumvented the PSLRA by bringing class actions in state courts under state law.

In *Dabit*, Second Circuit held that SLUSA was intended to preempt state law-based securities actions that involved claims for damages resulting from the purchase or sale of a security—that is to say, actions that meet the traditional "in connection with" requirement for a private civil cause of action under Section 10(b) of the Securities and Exchange Act of 1934 and SEC Rule 10b-5.

Trademark Infringement

The Second Circuit held that the federal Cuban Embargo Regulations prohibit a Cuban cigar manufacturer from acquiring U.S. trademark rights in the COHIBA cigar brand. The regulations bar transfer of Cuban-owned U.S. property, from the United States to Cuba, absent a specific permissive license from the Secretary of the Treasury. The Second Circuit held that acquisition of trademark rights was prohibited under the clear language of the regulations, and that the Treasury License to the Cuban manufacturer, which allowed it to bring trademark infringement claims, did not also permit the cigar maker to acquire U.S. trademark rights. *Empresa Cubana del Tabaco v. Culbro Corp.*, 399 F.3d 462 (2d Cir. Feb. 24, 2005).

Copyright Infringement

In an important ruling for electronic publishers, the Second Circuit held that the National Geographic Society did not violate copyrights of contributing photographers when it produced a CD-ROM entitled *The Complete National Geographic*, containing every issue of the magazine from 1888 to 1996. Section 201(c) of the Copyright Act of 1976 protects the publisher of a "collective work," such as *National Geographic*, against claims of contributors to the collective work, such as photographers, so long as the subsequent publication is a "reproduc[tion]. . . of that particular collective work, any revi-

sion of that work, and any later collective work in the same series." The Court held that *The Complete National Geographic* was "a new version of the magazine" that was protected under Section 201 as a revision, even though new digital elements, mainly of an introductory nature, had been added to the CD-ROM. *Faulkner v. Mindscape, Inc.*, 2005 U.S. App. LEXIS 3642 (2d Cir. March 4, 2005).

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