

# MANAGING DISPUTES

## LEGAL ISSUES IN THE UNITED STATES

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**All companies hope to avoid legal disputes, especially in overseas legal systems. Understanding the basics of US dispute resolution can help resolve fledgling disputes before they grow into full-scale US litigation. At the same time, when litigation cannot be avoided, a basic understanding of the US legal system can give Australian executives a leg up on their adversaries.**

### MEANS OF RESOLVING COMMERCIAL DISPUTES

#### Informal/early resolution before claims are filed

- › Begins when dispute first appears on the horizon.
- › Early involvement by counsel, whether in foreground or in background, can often resolve issue before it turns into a formal dispute.

#### Formal litigation

- › Typically a lawsuit filed with a court.
- › Can also be brought by, or be pending in, an administrative agency, such as the SEC, which can bring securities claims, or the ITC or U.S. Patent & Trademark Office, which can hear certain kinds of patent and trademark proceedings.
- › Requires retention of U.S. counsel.

- › Typically expensive; typically resolved short of trial by agreement of the parties, after some months or years of pre-trial proceedings

#### Arbitration

- › Private dispute resolution administered and decided by neutral third-party lawyers or retired judges, called arbitrators, paid for by the parties.
- › Intended to be a faster, cheaper alternative to formal litigation in a court; in practice, it may be neither.
- › Arbitration can be risky because there is little constraint on methods or outcomes. Arbitrators can bend legal principles to reach desired results without fear of oversight, absent narrow exceptions such as corruption or overreaching.

### THE 'AMERICAN RULE' FOR ATTORNEYS' FEES

An important difference between the US and Australian legal systems is that, unlike Commonwealth countries such as Australia, the US does not follow the 'English rule', under which prevailing parties can seek attorneys' fees from losing parties. In the US, a prevailing party can request attorneys' fees only in two circumstances:

- › the parties have agreed in advance, for example in a commercial contract they previously entered



Australian Government

Australian Trade and Investment Commission



- › a law specifically authorises fee awards for that particular kind of case. Notably, US law does just that for intellectual property (IP) disputes.

## ILLUSTRATIVE DISPUTES

### IP infringement

#### Patent infringement

Australian companies holding U.S. patents sometimes need to enforce them there. Remedies for proven infringement include lost profits, lost royalties, a court order prohibiting future infringement, and, in exceptional cases, attorneys' fees. Equally, Australian companies can find themselves on the receiving end of U.S. patent infringement suits. Patent litigation is a specialty practice area and is typically quite expensive, at least for cases that are contested. But many patent lawsuits can be disposed of relatively quickly and inexpensively, if an agreed settlement can be negotiated early on.

#### Copyright infringement

Copyrights protect original works of authorship, such as literary, artistic, musical, audio-visual, or theatrical works. Copyrights also protect computer source code. While copyrights are created the moment a qualifying work of authorship is made, copyright owners can enjoy significant benefits by registering their copyrights with the U.S. Copyright Office right away, before infringement occurs. Infringers of registered copyrights face steep statutory damages, and the prospect of paying the copyright owner's legal fees.

#### Trademark infringement

Trademarks protect brands and brand identifiers. Here again, registration of a trademark with the U.S. Patent & Trademark Office, while not a prerequisite to enforcement rights, offers advantages, including the right to request attorneys' fees.

#### Trade secret misappropriation

A trade secret is any commercial information that is maintained as secret and that is valuable because it is kept secret. Examples include customer lists and contact information, financial data such as product costs or pricing or sales volumes, technological know-how, secret formulas, even secret recipes. Any

information qualifies as a trade secret as long as it derives economic value from being kept secret and its secrecy is properly guarded. In 2016, the U.S. passed the first national trade secrets law, reflecting a growing consensus about the importance of trade secrets to U.S. commerce. Before then, protection of trade secrets was left to the laws of the individual states. Whether pursued under state or federal law, bad faith misappropriation of trade secrets can carry penalties of up to double damages and the payment of prevailing party's attorneys' fees

#### Breach of contract

Contracts are agreed exchanges, either of promises or of other things of value that are enforceable by a court. With limited exceptions, contracts do not need to be in writing to be enforceable. Conversely, a writing purporting to be a contract may, for various reasons be, unenforceable. Whether written or oral, contracts between U.S. and Australian companies can be enforced in the U.S. if they are negotiated with a party then resident in the U.S., are to be performed there, or provide for a U.S. forum for resolving disputes. They can provide for attorneys' fees to the prevailing party, can specify where litigation is to occur, and otherwise set the terms and conditions of resolving disputes. Australian companies entering contracts with U.S. counterparties should consult U.S. counsel about the contracts' implications under U.S. law.

#### Unfair competition

A wide range of legal claims can be classed under the heading "Unfair Competition," including false or misleading advertising, interference with contracts or economic relationships, fraud, libel and slander (including trade libel or slander, in which products or services are falsely maligned), antitrust violations, and others. Remedies vary, but typically include the actual commercial harm caused by the improper activities, and, potentially, a court order against future violations. The prevailing party is typically not allowed to seek its attorneys' fees.

## Employment law violations

Australian companies employing U.S. workers can face legal claims from the U.S. employees. These include workplace discrimination, wrongful termination, and failure to follow local wage and hour requirements, sexual harassment, and others. Australian companies who employ workers in the U.S. should consult early on with U.S. employment law counsel to make sure they understand applicable regulations and institute proper employment procedures.

## WHEN CAN US COURTS EXERCISE JURISDICTION OVER AUSTRALIAN COMPANIES?

### When your company is 'at home' in a US state

Whenever a company, even if incorporated and headquartered outside the US, establishes such thoroughgoing, regular, and continuous connections with a US state as to essentially render it 'at home' in the state, it will be subject to suit in the courts of that state. The basis of the lawsuit need not be connected to whatever the company's activities are there.

### If your company has a business connection to a US state that relates to the lawsuit

Even if not at home in a U.S. state, a foreign company can nonetheless be sued there if the nature of the lawsuit is connected to the company's business activities in the state. Thus if an Australian company intentionally advertises or sells products into a U.S. state, it will be subject to suits there that relate to those

sales. Examples include suits alleging that products or services infringe a patent or copyright; caused a personal injury; or generated commissions to a U.S. reseller that went unpaid. As long as the allegations of the suit directly bear on the activities in which the foreign company is engaging in that state, the company will be subject to suit there.

### Challenges to jurisdiction

Australian companies sued in U.S. courts can challenge the courts' jurisdiction over the company. The company could argue, for example, that it does not have sufficiently extensive activities to be "at home" in a state, or that it did not avail itself of business opportunities in the state that are connected to the lawsuit. Local litigation counsel can advise whether such challenges are possible.

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