



Alerts

Federal District Court in Nevada Tosses China-Based Auto Dealer's Legal Malpractice Suit Against Law Firm Based on Lack of Jurisdiction

March 18, 2021

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China Auto Logistics, Inc. v. DLA Piper, LLP, Case No. 2:20-cv-00646, USDC, Dist. Nevada, March 3, 2021

Brief Summary

A Nevada federal judge tossed a legal malpractice suit against a global firm, finding that the firm was not subject to general jurisdiction in the state because it lacked the necessary contacts. The suit, filed by China-based auto dealer, China Auto Logistics, Inc., (CALI), was dismissed without prejudice after it was found that the court did not have jurisdiction due to defendant's lack of offices, property, or employees in Nevada.

Case Summary

CALI filed a legal malpractice action against DLA Piper (defendant) in Clark County, Nevada following an internal investigation of CALI conducted by defendant. After learning that a shareholder derivative lawsuit was going to be filed against it and its Board of Directors, CALI brought the underlying complaint to its oversight committee. The committee, through Howard Barth, retained defendant to do an investigation into the underlying claims.

CALI, a Nevada corporation which imports luxury vehicles from the United States and other countries into China, cooperated with defendant in the investigation. However, during the course of the investigation, defendant collected electronic materials from CALI's offices in Tianjin, China and ordered CALI employees to turn over their personal electronic devices. Some CALI employees refused to do so and notified their employer. As a result, CALI grew concerned with defendant's methods during the investigation because only Chinese law enforcement agencies can seize electronic devices from Chinese citizens. In the malpractice action, CALI claimed that defendant's demand to turn over personal electronic devices in contravention to Chinese laws and customs caused a delay in the investigation and disrupted their business operations. Further, CALI employees filed criminal complaints with local police in Tianjin, which in turn prompted a police investigation at CALI's offices. Following that, CALI Board Members who were targeted by the investigation resigned. CALI argued that this series of events created internal chaos, which in

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turn caused CALI to miss a number of SEC and other regulatory filing deadlines.

In its motion to dismiss, defendant argued that the district court lacked general and specific personal jurisdiction over it. Defendant also argued that even if the court were to find jurisdiction, CALI failed to state a claim upon which relief could be granted because defendant and CALI never had an attorney-client relationship since the firm was hired by the audit committee and not CALI. Defendant further argued it was not the proximate cause of CALI's damages.

Defendant, which is not a resident of Nevada, claimed it had not purposefully directed its conduct into the state. CALI argued the court did in fact have jurisdiction over defendant, a law firm which had represented several clients in Nevada courts, employed 11 attorneys barred in the state, and had participated in business transactions exceeding billions of dollars for Nevada clients.

The court ruled that it could not exercise general personal jurisdiction over defendant because the firm was not "at home" in Nevada as it was not registered in the state and did not have a principal place of business in the state. CALI argued the court had specific personal jurisdiction over defendant because the firm was retained to investigate a Nevada resident relating to litigation that would likely be filed in Nevada. However, defendant's investigation took place in China, not Nevada. As a result, the court concluded it also lacked specific personal jurisdiction insofar as defendant was hired to conduct an out-of-state investigation for a Nevada resident. Additionally, the communications between defendant and CALI were not sufficient to establish that defendant had purposefully "directed its activities toward Nevada." CALI's claims were thus dismissed without prejudice.

Significance of Opinion

This case highlights the importance of a jurisdictional analysis at the outset of litigation. Although defendant had represented other clients in Nevada, had attorneys barred there, and had helped other companies in the state with business transactions, the court ultimately reviewed where defendant's offices, employees and property were located—together with their specific conduct relating to plaintiff's claims—to determine that the contacts were insufficient to establish jurisdiction.