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David L. Aronoff
Editor, IP and Trade Regulation Journal
213.229.5678; daronoff@thelenreid.com

ITC Can Provide Relief from Infringing Imports: An Overview of Section 337

Many U.S. companies are not aware that the U.S. International Trade Commission ("ITC") can provide relief from imported goods that infringe on a domestic producer's patent, trademark, or copyright. The Commission also can redress acts of unfair competition, misappropriation of trade secrets, passing off, false advertising, and violations of the antitrust laws.

The ITC derives its investigative and enforcement authority from the Tariff Act of 1930, as amended (19 U.S.C. §1337) ("Section 337"). This Section of the Act establishes five categories of violations. First, the ITC can address any unfair method of competition or any unfair act in the importation of articles, or in the sale of such articles, by an owner, importer, or consignee, which threatens or has the effect of 1) destroying or substantially injuring a U.S. industry, 2) preventing the establishment of such industry, or 3) restraining or monopolizing U.S. trade and commerce.

Second, the ITC can bar the import, sale for importation, or sale after importation of a patent infringing product. Third, Section 337 prohibits the importation, sale for importation, or sale after importation, of an article which infringes a valid U.S. trademark. Fourth, Section 337 precludes the importation, sale for importation, or sale after importation, by an owner, importer or consignee of a semiconductor chip product which infringes upon a registered mask work. Finally, Section 337 protects original designs from acts of infringement by manufacturers, sellers, importers, and resellers of imported products.

The second, third, and fourth violations can occur only if an industry relating to the infringing product exists in the U.S. or is in the process of being established. Section 337 defines an industry as "existing" in the U.S. if, with respect to the articles in question, there has been significant investment in plant and equipment, significant employment of labor or capital, or substantial investment evidenced by expenditures for engineering, research and development, or licensing.

Foreign companies may have standing to bring a complaint as a domestic producer if the foreign company can demonstrate sufficient domestic activity related to the intellectual property, such as manufacture and sale of the product in the U.S. market. Typically, mere sales of imported product in the United States would not be sufficient to provide standing to the foreign company.

Process

Section 337 authorizes the ITC to institute an investigation of alleged infringement or unfair trade practice upon receipt of a properly filed complaint. The Commission can also proceed on its own initiative, but rarely does so. The Office of Unfair Import Investigations reviews the complaint and makes a recommendation to the Commission regarding whether an investigation is warranted. The Commission usually determines whether to investigate within thirty days of the filing of a complaint. Notice of the decision to commence the investigation is published in the Federal Register. If the Commission decides to investigate, it will serve the complaint on the respondents to the investigation and on the embassy of any foreign respondent listed in the complaint. A decision not to investigate is rare.

Once an investigation is initiated, the ITC appoints an administrative law judge (ALJ) to preside over the investigation, hear the case, and issue an initial determination as to

whether Section 337 has been violated. Since the proceedings often involve proprietary corporate information, the ALJ typically will issue a protective order at the start of the investigation. The Commission also appoints an Investigative Attorney from the Office of Unfair Import Investigations, whose role in the case is to represent the public interest.

The Commission Rules (19 C.F.R. Part 210) are the procedural rules applicable to the investigations. They are similar to the Federal Rules of Civil Procedure [which govern proceedings in U.S. federal courts]. The ALJ presiding over the case may also set his or her own ground rules which will supplement the Commission Rules. The proceedings are also subject to the Administrative Procedure Act (5 U.S.C. § 551 *et seq.*). The parties have the right to a fair hearing, which typically includes an opportunity for cross examination, presentation of evidence, objections, and argument. Hearings are held at the ITC's offices in Washington, D.C.

It is important to note, particularly for patent infringement cases, that counterclaims are not heard by the ITC. Any counterclaim must be removed to federal court and will not delay or affect the ITC investigation. Thus, the ITC will not hear a counterclaim for declaratory relief that the infringed patent at issue, in fact, is invalid.

The ALJ's Initial Determination is certified to the Commission with the evidentiary record. The Commission can adopt, modify or reverse the Initial Determination. The Commission also can refuse to review the Initial Determination. If the Commission declines to review the Initial Determination, it becomes final. The Commission shall conclude its investigation "at the earliest practicable time," which typically means within fifteen months from the date of the Federal Register notice of investigation. Where the Commission finds a violation of Section 337 it may issue an exclusion order, which either precludes importation of all infringing products (general exclusion), or precludes importation of a named manufacturer's infringing product (limited exclusion). The Commission also may issue a cease and desist order to preclude certain actions, *e.g.,* resale in the United States of the offending product. In reviewing an

Chairman's Message

In this issue, we further demonstrate the breadth of Thelen Reid's intellectual property and trade regulation capabilities. The articles authored by lawyers located throughout our offices discuss a host of issues relevant to all industries, and highlight the most current case law, regulations and court opinions in the area of intellectual property and trade regulation.

Briefly, on IP issues, **David Aronoff** and **Torgny Nilsson** of our Los Angeles office discuss the Supreme Court's *Vornado* decision, which increases the incentive to file first in cases that might result in patent or copyright counterclaims. **Ezra Doner** of our New York office reports on an important copyright decision, *Gardner v. Nike,* which affirms that an exclusive licensee does not have the right to issue a sub-license without express authorization from the copyright owner.

Ken Nissly, **Bob Camors** and **Keith Slenkovich** of our Silicon Valley office highlight a recent criminal trade secret case, *People v. Hawkins,* decided by California's Court of Appeal. In addition, **Paul Winick** of our New York office reports on recent ICANN developments.

Our Fall 2002 issue also presents articles concerning areas of law within the trade regulation sphere. **Allison Davis** of our San Francisco office provides an in-depth overview of pre-merger notification requirements increasingly used by jurisdictions throughout the world. **Jerry Akman** and **Meg Utterback** of our Washington D.C. office provide an article that discusses issues concerning international trade and the relief that may be obtained under U.S. international trade laws.

With great enthusiasm I also would like to mention the recent strong growth in our intellectual property and trade regulation group. Since our last issue, five attorneys have joined our practice. At the partner level, **Lynn Perry**, a trademark and licensing attorney, and **Bob Krebs**, a patent litigator, joined our San Francisco and Silicon Valley offices, respectively. **Hal Bonner** of counsel, and two senior associates, **Bill Winters** and **Davis Gilmer**, have joined our Silicon Valley office to enhance our patent prosecution practice. In addition, in New York, we are fortunate to have **Shari Markowitz-Savitt** rejoin our ranks. Shari, a senior associate involved with siginficant trademark and copyright litigation experience, has already added to our strength in New York. We are fortunate to have each of these lawyers as part of our team.

Sincerely,

Richard S. Taffet

Chair, IP and Trade Regulation Practice Group

Initial Determination, or in issuing its final determination, the Commission is bound to consider the effect of the order on the public interest, such as public health and welfare, competitive conditions in the U.S. economy, the production of like or directly competitive products, and its impact upon U.S. consumers. Commission orders are effective within 60 days of issuance unless disapproved by the President. Appeals of such decisions are filed with the U.S. Court of Appeals for the Federal Circuit.

Cases may be resolved by agreement or consent order. It is not uncommon for an infringement investigation to result in a licensing agreement between the complainant and one or more of the respondents.

Section 337 also provides for preliminary injunctive relief in the form of a temporary exclusion order or a temporary cease and desist order. The ITC considers the same factors as a federal court reviewing a prayer for preliminary injunctive relief: 1) likelihood of success on the merits, 2) harm in the absence of relief, 3) harm to the respondent, and 4) the public interest. The Commission's decision to impose a temporary exclusion or cease and desist order is issued within 90 days of initiation of the investigation, or 150 days in complex cases.

Utilizing Section 337

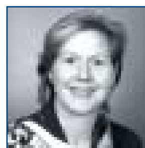
Section 337 offers several advantages for a domestic complainant over federal court intellectual property and unfair competition suits. The process as discussed above is generally quicker and cheaper for the complainant. Because Section 337 does not entitle the complainant to receive any monetary compensation for the infringement, the complainant may want damages for past infringements once the ITC has issued the exclusion order and/or cease and desist order. Section 337 may be used by the complainant to obtain valuable discovery, which can set the stage to recover these damages in the federal court. Section 337, accordingly, could decrease the costs associated with subsequent federal court litigation.

Section 337 can provide more immediate injunctive relief than a federal court and, more importantly, can offer equitable relief against foreign corporations who may not be subject to personal jurisdiction in U.S. district courts.

The standard for the ITC to issue relief is less than the burden of proof required in federal court. Also, Section 337 does not allow the ITC to hear counterclaims, which is a significant disadvantage for a foreign respondent. Finally, a Section 337 order remains in effect until the respondent can demonstrate a change in circumstance, new evidence, or any ground which would permit relief to the respondent from a judgment or order rendered under the Federal Rules of Civil Procedure.

The popularity of Section 337 has increased among domestic producers in recent years. Given the geographic scope of its remedy and the relative speed at which relief is rendered, Section 337 is still an underutilized tool of domestic producers and U.S. subsidiaries of foreign producers. ■

For more information, contact the authors:



Meg Utterback
202.508.4390
mutterback@thelenreid.com

Jerome P. Akman
202.508.4154
jakman@thelenreid.com

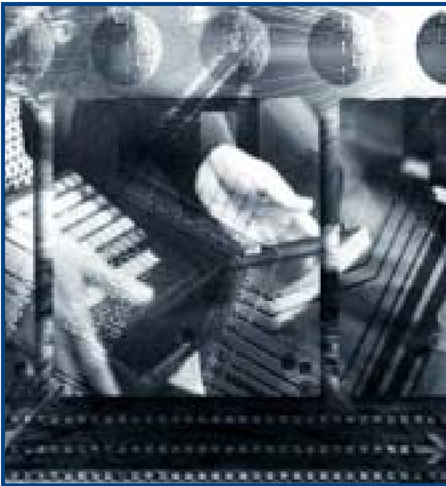
ICANN Votes Greater Protection for Domain Name Holders; Changes Composition of Board

The Board of Directors of the **Internet Corporation for Assigned Names and Numbers** (ICANN) met at the end of June 2002 in Bucharest, Romania. ICANN controls the assignment of domain names under a 1998 agreement with the U. S. government, which funded the initial development of the Internet and controls the server, located in Virginia, that serves as the Internet's master directory.

Of the measures enacted by the Board in the June meeting, the most important to Web site owners was a resolution to increase the holding period for reactivating domain names inadvertently allowed to expire by their owners – the post-expiration "safety net"– to thirty days from the current five days. The short safety net period has created an opening for opportunistic Web site developers to acquire domain names that have an established audience. Pornography sites have been particularly aggressive in grabbing domain names of churches, schools and other organizations that forget to renew their web site registrations.

The Board also voted unanimously to change the composition of its membership. Until now, five of the nineteen representatives on the ICANN Board have been individuals, each representing a different geographic region, who were elected largely because they were unaffiliated with any technical or economic interest group. At the June meeting the Board eliminated direct election of Board members. Under the new procedure, which was enacted unanimously, all ICANN Board members will either be ex officio members appointed by ICANN and its related supporting organizations, or will be appointed by a committee made up of representatives of various internet constituencies with government, business, technical and community involvement.

The new procedures give national domain name managers, those who operate the country code domains (such as ".fr" for France) more power by creating for them a



supporting organization. That supporting organization will have direct input into appointment of Board members, as well as technical matters. This action by ICANN was seen as an attempt by ICANN to attract the national managers, whose relationships with ICANN have been entirely informal and who have resisted ICANN's attempts to obtain authority over the national domain names. ICANN has sought contracts with the 240 national managing authorities, on terms that would give ICANN at least some control over technical aspects of their operation. Most national operators have rejected the offer on grounds of maintaining the sovereignty of their decision making. Only Japan, Australia, Burundi and Malawi have signed contracts with ICANN to date.

ICANN also announced that technical work to allow non-English character domain names has begun, and was expected to be completed within a year. After the technical work is completed ICANN will consider rules for creation and assignment of those names.

The next ICANN Board meeting is scheduled for October 27, 2002 in Shanghai, China. ■

For more information, contact the author:

Paul A. Winick
212.603.6756
pwinick@thelenreid.com

Civil and Criminal Penalties for Misappropriation of Intellectual Property Continue to Expand

The California Courts are continuing a trend during the last several years of criminalizing misappropriation of intellectual property, misconduct which in past years had generally given rise only to civil liability. In *People v. Hawkins,* 98 Cal.App.4th 1428 (June 2002), as modified at 2002 Cal.App. LEXIS 4386 (July 2002), the Sixth District Court of Appeal upheld the felony conviction of a software engineer for use of information he had improperly obtained from a former employer. In its decision, the *Hawkins* Court made several important rulings for civil and criminal practitioners who handle intellectual property cases.

The fact pattern of the *Hawkins* case is a familiar one for high technology companies. Hawkins was a former engineer for Sun Microsystems. He left Sun and joined a start-up, NPI, which was later acquired by Cisco Systems. While at Cisco, Hawkins conceived of the idea for a product which would compete with a product NPI/Cisco was selling. Hawkins left Cisco and started a new company to develop and sell his new product.

Cisco learned of Hawkins' new product at a trade show, and presented the circumstances of Hawkins' departure and new product to the local law enforcement officers. The authorities obtained and executed a search warrant of Hawkins' apartment, where they discovered Sun and NPI source code residing on Hawkins' home computers.

The District Attorney filed charges against Hawkins for trade secret theft (Penal Code § 499(c)), and for knowingly accessing and extracting data from a computer system without authorization (Penal Code § 502(c)(2)). At trial, the jury acquitted Hawkins of the trade secret theft charges, but convicted him of violating section 502(c)(2), finding he had knowingly accessed the Sun and NPI source code files without permission, and taken data therefrom. Hawkins was sentenced to six months in jail.

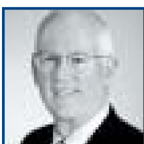
Hawkins appealed the jury's verdict, challenging Penal Code § 502(c)(2) on vagueness and *mens rea* grounds. The Court of Appeal rejected these challenges to the statute, as well as Hawkins' challenge to the admissibility of certain print-outs the authorities had run from Hawkins' computer. Specifically, the *Hawkins* Court held that print-outs of Unix access logs from Hawkins' home computer, which indicated that someone had accessed the source code files after Hawkins left NPI, were admissible over a hearsay objection. The Court reasoned that the Evidence Code does not contemplate that a computer can be a "declarant" under the hearsay rule. The Court therefore ruled that because the logs did not constitute hearsay, the only issue to be considered was whether or not the information was reliable. The Court found that testimony from the police department's technical advisor that the computer appeared to be operating normally, and that the computer clock seemed to be accurate, was sufficient to establish the reliability necessary for admission of the access logs into evidence. The Court also found it persuasive that Evidence Code § 1552 establishes a presumption that a print-out of a computer file is an accurate representation of the information contained therein.

The *Hawkins* decision has several features relevant to civil and criminal practitioners who deal with intellectual property matters. First, the decision reflects a continuing trend of law enforcement officials to act on trade secret and other forms of intellectual property theft, rather than leaving such matters to civil litigation. Second, the decision reflects the increasing willingness by courts to accept the admissibility of computer information as trustworthy and reliable evidence. Finally, the decision brings to the forefront an underutilized statutory tool in the form of Penal Code § 502(c)(2), which renders any act of unauthorized access and extraction of computer files to be

illegal, regardless of whether these materials constitute trade secrets.

While *Hawkins* is a criminal law case, the decision underscores the importance of Penal Code § 502 as a tool, not just for law enforcement authorities, but also for civil practitioners seeking to deal with potential trade secret theft. In addition to criminal penalties, Penal Code § 502(e)(2) may also be used as the basis for a civil tort action, allowing compensatory damages, injunctive and other equitable relief for violations. Although compensatory damages are only available to recover costs incurred to verify that the computer system or data was not altered, damaged, or deleted by the unauthorized access, or costs incurred to correct such damage, attorneys fees and punitive damages are available under the statute if certain requirements are met. Given that the *Hawkins* jury rejected the trade secret theft claim, but nevertheless found the elements of the less stringent illegal access statute (Penal Code § 502) to be satisfied, the *Hawkins* case suggests that, even in civil actions, it may be useful to allege both trade secret theft (Civil Code § 3294) and the illegal access provisions of Penal Code § 502. ■

For more information, contact the authors:



Robert E. Camors
408.282.1826
bobcamors@thelenreid.com

Kenneth L. Nissly
408.282.1802
kennissly@thelenreid.com

Keith L. Slenkovich
408.278.1821
kslenkovich@thelenreid.com

Gardner v. Nike: Copyright Licensee Cannot Issue Sublicense Without Owner's Permission

In *Gardner v. Nike, Inc.,*[1] the Ninth Circuit held that under the Copyright Act (17 USC §101 *et seq.*), an exclusive copyright licensee does not have the right to issue a sublicense without express authorization from the copyright owner.

This *Gardner* decision in essence revives the supposedly defunct doctrine of copyright indivisibility. We believe it is inconsistent with the language and intention of the Copyright Act. It is especially important that practitioners be aware of the Gardner decision because industry practices may have to be revised to conform to it.

In 1992, Nike and Sony entered into an exclusive written licensing agreement involving a Nike-created cartoon character called "MC Teach." The license was silent as to Sony's right to assign.[2] Sony later assigned its rights under the exclusive licensing agreement to Michael Gardner, who used the character in educational materials. Sony retained a royalty. Nike threatened to sue, claiming that the license was not assignable by Sony.

Anticipating suit by Sony, Gardner commenced a declaratory judgment action against Nike to establish its rights.[3] The district court found, and the Court of Appeals agreed, that the Copyright Act did not authorize Sony to assign its rights under the exclusive license without Nike's consent. Therefore, Gardner had no standing to sue.[4] Although couched in the doctrine of standing, the Court necessarily concluded that Gardner had no copyright rights.

Noting that this is a case of first impression under the current Act, the Ninth Circuit began its analysis with an examination of the prior Copyright Act (the "1909 Act"). Under the 1909 Act, a licensee of particular rights under copyright, unlike an assignee of all rights under copyright, had no right to resell or sublicense its rights absent express authorization from its transferor.[5] This distinction was based on the doctrine of indivisibility, under which a copyright owner possessed an indivisible "bundle of rights," which were incapable of assignment in part. Thus, under the 1909 Act, an assignment of some but not all rights under copyright was considered a mere license. This doctrine created many problems for copyright licensees, including the licensee's lack of standing to bring an infringement action and the exclusive licensee's inability to record his license.[6]

According to *Nimmer*,[7] the purpose of such indivisibility was to protect alleged infringers from the harassment of successive lawsuits.

This result was achieved because only one copyright owner had standing to bring an action for infringement of a particular work subject to copyright. The doctrine, however, became inconsistent with commercial practice, especially with the rapid proliferation of new media of copyright exploitation during the 20th Century.

The Ninth Circuit then looked to the current Copyright Act, which on the surface seems to do away with the doctrine of indivisibility as applied to *exclusive licenses.* The current Act defines "transfer of copyright ownership" as

> "an assignment, mortgage, exclusive license, or any other conveyance, alienation, or hypothecation of a copyright or of any of the exclusive rights comprised in a copyright."[8]

This definition includes both "assignment" and "exclusive license" as transfers under the Act. Furthermore, §201(d)(1) provides in pertinent part,

> "the ownership of a copyright may be transferred in whole or in part by any means of conveyance or by operation of law . . . ."

Gardner argued that Sony, as an exclusive licensee, was the "owner" of the "MC Teach" character under §101, and that §201(d)(1) allowed Sony to transfer its interest to Gardner.[9] The Ninth Circuit, however, reached a contrary decision as to transferability based on two determinations.

The first involves §201(d)(2) of the current Act, which provides that "the owner of any particular exclusive right is entitled, to the extent of that right, to all of the protection and remedies accorded to the copyright owner by this title." Prior to this decision, the widely held view of this provision was that it reinforced the equality of the rights of an exclusive licensee. By contrast, however, the Court held that this language limits these remedies to the immediate exclusive licensee and not to the licensee's successor.[10]

Second, the Court interpreted the current Act's silence on exclusive licensee transferability as evidence that Congress did not intend to change prior law on this issue.[11] The Court also noted policy reasons supporting a licensor's express consent to a license, among them, assuring that the licensor will be able to monitor the use of the copyright.[12]

On this second point, the Court's reasoning is similar to that in the context of "personal" contracts, that is, that the licensor, as contracting party, impliedly intended to put its copyright in the hands of its immediate transferee only. While there may be situations where that is what a copyright owner indeed intended, the reasoning tends to treat copyright rights, in the hands of a remote owner, as a creation of contract, rather than as a property right. Prior to *Gardner,* most commentators thought that the pertinent provisions of the current Act demonstrated a transition to copyright as property right.

The *Gardner* decision has a potential impact not only in the entertainment industry, in which it originated, but in all copyright industries. In the Ninth Circuit, at least, a licensee who wants to assign or sub-license a right under copyright will require his predecessor the express right to do so.

The *Gardner* decision now creates an area of substantial uncertainty within copyright practice and runs counter to copyright jurisprudence. Assume, for example, that an American film producer transfers its North American distribution rights to a distributor using a short form agreement written at a film market. The agreement gives the distributor all rights in North America for twenty-five years. Pre-*Gardner,* the distributor would have two viable options:

1) He could sublicense to HBO for pay TV.
2) He could give a security interest in his exclusive license to his bank.

Following *Gardner,* the film producer could object to the sublicense to HBO. The distributor would also be unable to give a lien on his rights to the bank because the collateral here, which would be an exclusive license minus an express right of assignment, would be vulnerable to a lawsuit. Further, if the distributor were to go bankrupt, he would not be able to give good title if the underlying transfers did not expressly provide for assignability. Such a result was surely not intended by the Copyright Act. ■

Endnotes

1. 279 F.3d 774, 781 (9th Cir. 2002).
2. *Id.* at 776.
3. *Id.*
4. *Id.* at 781.
5. *Id.* at 778.
6. *Id.*
7. 3 Melville B. Nimmer & David Nimmer, Nimmer on Copyright §10.01 (2001).
8. 17 U.S.C. § 101 (2002).
9. *Gardner,* 279 F.3d at 779.
10. *Id.*
11. *Id.*
12. *Id.* at 781.

For more information, contact the author:

Ezra J. Doner
212.603.2031
edoner@thelenreid.com

United States Supreme Court Spurs Rush to Courthouse

The United States Supreme Court has recently increased the incentive to be the first to file cases that might result in patent or copyright counterclaims. The Supreme Court did so by confirming recently in *Holmes v. Vornado,* 122 S.Ct. 1889 (2002), that a plaintiff's complaint, and not even a defendant's patent counterclaim, determines whether a case arises under federal law and whether the Federal Circuit has appellate jurisdiction over the case.

The path to the Supreme Court's decision began in late 1992 when The Holmes Group, Inc., a manufacturer of patented fans and heaters, sued one of its competitors, Duracraft Corp., claiming that Duracraft's spiral grill design infringed Holmes' trade dress. (*Holmes v. Vornado,* 122 S.Ct. at 1892 (2002).) Though the Tenth Circuit Court of Appeals held that the spiral grill design was not protected trade dress, Holmes seven years later lodged a complaint with the United States International Trade Commission against yet another competitor, Vornado Air Circulation Systems, Inc., claiming that Vornado's spiral grill design infringed Holmes' patent and the same trade dress that the Tenth Circuit Court of Appeals had found not to be protected. *(Ibid.)* Vornado responded by filing a complaint against Holmes in the United States District Court for the District of Kansas seeking: (1) a declaratory judgment that its products did not infringe Vornado's trade dress; and (2) an injunction restraining Vornado from accusing it in promotional materials of trade dress infringement. *(Ibid.)* Holmes then answered Vornado's complaint and asserted a compulsory counterclaim for patent infringement. *(Ibid.)*

The District Court granted Vornado's requested declaratory judgment and injunction, explaining that Holmes was collaterally estopped, because of the Duracraft case, from relitigating its trade dress rights in the spiral grill design. *(Ibid.)* The District Court stayed Holmes' counterclaim, stating that it would be dismissed if the District Court's declaratory judgment and injunction were affirmed on appeal. *(Ibid.)* After the Court of Appeals for the Federal Circuit vacated the District Court's judgment and remanded the case for reconsideration, the Supreme Court granted *certiorari* to consider whether the Federal Circuit had properly asserted jurisdiction over the case. *(Ibid.)*

The Supreme Court noted that the Federal Circuit has exclusive jurisdiction over an appeal from a United States District Court's final decision if the District Court's jurisdiction arose under federal patent law. (*Holmes v. Vornado,* 122 S.Ct. at 1892-93.) The Supreme Court also noted that whether a case arises under federal patent law must – under the well-pleaded complaint rule – be determined by what appears in the plaintiff's complaint. (*Holmes v. Vornado,* 122 S.Ct. at 1893.) Since the Supreme Court found that Vornado's complaint undisputedly did not assert any claim arising under federal patent law, the Federal Court erred in asserting jurisdiction over Holmes' appeal. *(Ibid.)*

In so finding, the Supreme Court rejected Holmes' argument that a defendant's counterclaim may, under the well-pleaded complaint rule, serve as the basis for a District Court's jurisdiction arising under federal law. *(Ibid.)* The Supreme Court noted that it had previously refused to require both the plaintiff's complaint and the defendant's answer to be reviewed in order to determine whether a case arises under federal law, and stated that "[i]t follows that a counterclaim – which appears as part of the defendant's answer, not as part of the plaintiff's complaint – cannot serve as the basis for 'arising under' jurisdiction." (*Holmes v. Vornado,* 122 S.Ct. at 1894.) The Supreme Court also noted that allowing a defendant's counterclaim to establish "arising under" jurisdiction would allow the defendant to defeat a plaintiff's choice of forum, "radically expand the class of removable cases," and "undermine the clarity and ease of administration of the well-pleaded-complaint doctrine, which serves as a 'quick rule of thumb' for resolving jurisdictional conflicts." *(Ibid.)* The Supreme Court thus declined "to transform the longstanding well-pleaded-complaint rule into the 'well-pleaded-complaint-*or-counterclaim* rule'" urged by Holmes. *(Ibid.)*

The Supreme Court also refused Holmes' invitation to promote "the uniformity of patent law" by interpreting the phrase "arising under" to confer jurisdiction on the Federal Circuit whenever a defendant asserts a patent law counterclaim. (*Holmes v. Vornado,* 122 S.Ct. at 1984-95.) The Supreme Court saw its task as determining what the words "arising under" must fairly be understood to mean, not as determining how to further Congress's goal of ensuring patent law uniformity. (*Holmes v. Vornado,* 122 S.Ct. at 1985.) The Supreme Court believed that by referring in 28 U.S.C. § 1295 to 28 U.S.C. § 1338's use of the words "arising under," "Congress referred to a well-established body of law that requires courts to consider whether a patent-law claim appears on the face of the plaintiff's well pleaded complaint." *(Ibid.)* The Supreme Court concluded that "[n]ot all cases involving a patent-law claim fall within the Federal Circuit's jurisdiction." *(Ibid.)* And because Vornado's complaint did not include any claim based on patent law, the Supreme Court vacated the Federal Circuit's judgment and remanded to be transferred to the Court of Appeals for the Tenth Circuit. *(Ibid.)*

In reaching its holding in *Holmes,* the Supreme Court effectively reversed several contrary decisions of the Federal Circuit and of at least two other regional Circuits. Before *Holmes,* the Federal Circuit had held that a defendant's counterclaim can confer appellate jurisdiction in the Federal Circuit. (*See, e.g., DSC Communications Corp. v. Pulse Communications, Inc.,* 170 F.3d 1354, 1358-59 (Fed. Cir. 1999); *Aerojet-General Corp. v. Machine Tool Works,* 895 F.2d 736, 742 (Fed. Cir. 1990).) And at least two regional circuits had agreed with this conclusion. (*See, e.g., U.S. Valves, Inc. v. Dray,* 190 F.3d 811, 813 n.6 (7th Cir. 1999); *Xeta, Inc. v. Atex, Inc.,* 825 F.2d 604, 608 (1st Cir. 1987).

But not only are the courts now apparently following *Holmes* in patent law cases (*see, e.g., Telcomm Tech. Servs., Inc. v. Siemens*

Rolm Communications, Inc., 295 F.3d 1249, 1251-52 (Fed. Cir. 2002)), but at least one court – *Green v. Hendrickson Publ., Inc.* 2002 Ind. LEXIS 541, *20 (Ind. 2002) – has extended *Holmes'* holding beyond the patent law area. Relying on *Holmes,* the *Green* court found that the federal courts do not have exclusive jurisdiction over a defendant's counterclaim for breach of a covenant not to reproduce a copyrighted writing. The *Green* court stated that *"Holmes* requires us to reject the federal authorities stating or implying that a state court may not entertain a counterclaim under patent or copyright law." (*Ibid,* at *20.) The *Green* court did not believe that the holding in *Holmes* was limited to the patent law area, finding that "[c]opyright and patent jurisdictions are identical at the district court level. Both are set forth in the same federal statute in the same terms." (*Ibid,* at *20-21.) The *Green* court thus reversed the state court's summary judgment in favor of the plaintiff on the defendants' copyright counterclaim and remanded the case to the state court for further proceedings. (*Ibid,* at *21.)

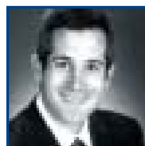
While the Federal Circuit previously appeared to have exclusive appellate jurisdiction over patent and copyright claims regardless of whether those claims were raised in a plaintiff's complaint or in a defendant's counterclaim, this is no longer the case. *Holmes* and its progeny have thus increased the incentive to be first to file any action that might result in a patent or copyright counterclaim. And after *Holmes,* a plaintiff can by artful pleading avoid federal jurisdiction over any patent and copyright counterclaims to the extent that those claims are compulsory.[1] Whichever party wins the race to the courthouse will decide the jurisdiction applicable to all claims, defenses, and compulsory counterclaims that might eventually be asserted in the case. ■

Endnotes

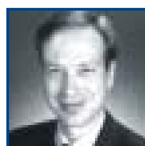
1. This obviously does not apply to permissive patent and copyright counterclaims as a defendant can plead those counterclaims in a separate complaint and thus obtain federal jurisdiction over those claims.

California Court Of Appeal Rejects "Inevitable Disclosure" Doctrine In Trade Secret Cases

For more information, contact the authors:



David L. Aronoff
213.229.5678
daronoff@thelenreid.com



Torgny R. Nilsson
213.576.8006
tnilsson@thelenreid.com

The California Court of Appeal has issued an important ruling for all companies dealing with trade secret technology or information. In *Schlage Lock Company v. J. Douglas White.,* 2002 Cal. App. LEXIS 4634 (September 12, 2002), the Court of Appeal rejected the "inevitable disclosure" doctrine in trade secret misappropriation claims, holding that the doctrine "is contrary to California law and policy because it creates an after-the-fact covenant not to compete restricting employee mobility."

The inevitable disclosure doctrine enables an employer to obtain an injunction prohibiting a former employee from taking employment with a competitor, where the former employee had access to plaintiff company's trade secrets, and is put in a position with the competitor where the employee would likely use or disclose such secrets. Under this doctrine, "a plaintiff may prove a claim of trade secret misappropriation by demonstrating that a defendant's new employment will inevitably lead him to rely on the plaintiff's trade secrets," even if there is no actual proof that the former employee has disclosed such trade secrets. *PepsiCo, Inc. v. Redmond* (7th Cir. 1995) 54 F.3d 1262, 1269. In deciding whether to allow a former employer to obtain an injunction, Courts applying the inevitable disclosure doctrine consider the degree of similarity between the employee's former and current positions, the degree of competition between the former and current employers, the current employer's efforts to safeguard the former employer's trade secrets, and the former employee's forthrightness, or lack thereof, before accepting his or her new job.

The inevitable disclosure doctrine has a storied history in California, because of the natural tension between the inevitable disclosure doctrine and California's rule against covenants not to compete within employment agreements. California Business & Professions Code § 16600 pro-

vides that "except as provided in this chapter, every contract by which anyone is restrained from engaging in a lawful profession, trade, or business of any kind is to that extent void." The California courts have interpreted this provision to prohibit covenants not to compete within employment contracts. Because the inevitable disclosure doctrine may allow an employer to prevent an employee from taking a position with a competitor without any proof that the former employee has, or will, disclose trade secrets to the competitor, there is a natural tension between section 16600 and the inevitable disclosure doctrine.

Despite this tension, in 1999 the California Court of Appeal issued a decision upholding the inevitable disclosure doctrine in California, in *Electro Optical Industries, Inc. v. White,* 76 Cal.App.4th 653 (1999). The following year, the California Supreme Court "depublished" the *Electro Optical* decision, which effectively erased the *Electro Optical* decision from the case books and prevented lawyers and the courts from relying on the decision in the future. *Electro Optical Industries, Inc. v. White,* 2000 Cal.LEXIS 3536. The result has been that, following depublication of the *Electro Optical* decision, there has been no California appellate court authority, one way or the other, as to whether a trial judge may follow the inevitable disclosure doctrine in granting an injunction against an employee's employment with a competitor. Although one recent federal district court speculated that California law does not allow the inevitable disclosure doctrine, *Globespan, Inc. v. O'Neill,* 151 F.Supp.2d 1229 (C.D. Cal. 2001), such "federal decisions do not, of course, establish the law of the State of California or bind its courts." *Schlage Lock, supra,* *31. The California trial courts have, therefore, been left to decide on a case-by-case basis whether to follow the inevitable disclosure doctrine.

In the *Schlage Lock* case, Schlage sought to obtain a preliminary injunction barring a former Schlage employee, White, from taking employment with a competitor, Kwikset Corporation. White had been Schlage's Vice-President of Sales, and was knowledgeable about all of Schlage's major sales accounts, accounts for which Kwikset was competing. Schlage made two primary arguments in support of the injunction: (1) that it had sufficient proof that White had disclosed Schlage's trade secrets to Kwikset (confidential information developed by Kwikset regarding Kwikset's customers), and (2) that regardless of whether there was sufficient proof that White had disclosed Schlage's trade secrets to Kwikset, the nature of White's new position with Kwikset (Vice-President of National Sales) would mean that White would inevitably utilize or disclose confidential Schlage information regarding Schlage's customers while at Kwikset.

With respect to proof of actual disclosure of Schlage's confidential customer information, the trial court found that Schlage did not have sufficient evidence that White was using or disclosing Schlage's trade secrets in his new position with Kwikset. The court therefore determined that the case came down to whether California follows the inevitable disclosure rule, since the court found that Schlage had presented sufficient proof to support a presumption that White would inevitably use or disclose Schlage's trade secrets in the course of his work with Kwikset.

The *Schlage Lock* court surveyed case law from across the United States, and noted that most jurisdictions had adopted some form of the inevitable disclosure doctrine. Nevertheless, the *Schlage Lock* court determined that because California's law and policy so strongly rejects restrictions on employment mobility, and because inevitable disclosure results in a de facto restriction on employment mobility without actual proof of trade secret misappropriation, the inevitable disclosure doctrine is not the law in California.

While the *Schlage Lock* decision represents an obstacle for California employers seeking to prevent the loss of trade secrets through employee movements to competing entities, employers still have important tools in the battle to avoid the loss of valuable trade secrets. Diligent implementation of an intellectual property protection program, with specific attention to how an employee's departure is handled, will go far toward preventing the loss of trade secrets when key employees leave the company. This also may enable an employer to develop sufficient direct or circumstantial proof of trade secret theft, allowing for injunctive or other forms of relief without the need for the inevitable disclosure doctrine. ■

For more information, contact the authors:

Keith Slenkovich
408.282.1821
kslenkovich@thelenreid.com

Richard A. Leasia
408.282.1808
rleasia@thelenreid.com

Thelen Reid Client Watch

Firm Represents Miroglio s.p.a. in Copyright Actions

Recently, we completed two copyright infringement matters involving proprietary textile design. A team of lawyers from our New York office, led by **Richard Taffet** and including **Barbara Jacobs** and **Deborah Ander**, successfully represented **Miroglio s.p.a.** to recover both monetary damages and injunctive relief.

The first case, *Miroglio s.p.a. v. The Mark Group's Boston Paper,* was filed in the U.S. District Court for the Southern District of New York. Miroglio alleged that Boston Paper sold infringing goods through its catalogs and via the Internet. Boston Paper's supplier, Surya, Inc., a California company, was also named in the suit. An early settlement conference with the Court led to a confidential settlement that met Miroglio's expectations and caused the infringing conduct to cease.

The second matter was successfully settled prior to filing suit. Miroglio alleged Conway Stores, a local New York retailer, sold goods incorporating infringing copies of another Miroglio copyrighted design. Miroglio continues to pursue Conway's suppliers, both of which are located in California.

Our client, Miroglio s.p.a., is a leading international producer and weaver of yarns, textiles and heat transfer paper. Miroglio is headquartered in Alba, Italy and operates retail apparel stores throughout Europe. ■

International Court of Arbitration Victory for Anheuser-Busch

In a significant decision issued June 10, 2002, the International Court of Arbitration awarded Thelen Reid client, **Anheuser-Busch**, a complete and major victory over its competitor, Interbrew. The case involved a challenge to Anheuser-Busch's right to control the image, look and trade dress of its Budweiser Beer under a long-term licensing agreement that Anheuser-Busch entered into with Labatt (an Interbrew subsidiary) to manufacture and sell Budweiser in Canada. Labatt claimed that under the license, Anheuser-Busch had forfeited control over the packaging, labeling and trade dress of Budweiser in Canada. Budweiser is now the largest selling beer in Canada.

After a full trial on the merits, the Tribunal rejected all of Labatt's contentions and affirmed Anheuser-Busch's right to control its product under the licensing agreement. The victory was made even more complete when the Tribunal went on to award Anheuser-Busch the full costs of the arbitration, including attorneys' fees of approximately $750,000.

The litigation was fiercely fought on both sides and was closely watched by the senior management of Anheuser-Busch and Interbrew, both of whom sent several in-house counsel to monitor the actual hearings. Interbrew was represented by a seven member team of lawyers from Sullivan & Cromwell. **Jonathan Siegfried** and **Robert Saville** led the Thelen Reid team for Anheuser-Busch. Prior to the trial, Mr. Siegfried and Mr. Saville were assisted by **Richard Taffet**, **Chris Connolly**, and legal assistant **Sandra Clarke**. **Jerry Aksen**, as always, provided keen insight into the ICC process. ■

ICF Completes Complex Purchase of Two Arthur D. Little Divisions

Thelen Reid has successfully represented **ICF Consulting Group, Inc.** in completion of the purchase of two Arthur D. Little, Inc. divisions at prices of less than four times projected EBITDA. Thelen Reid handled nearly all aspects of the acquisition, including a bankruptcy auction, two asset acquisition agreements, a transition services agreement, employment agreements with key employees, new office leases, new corporate documents and transaction contracts for overseas businesses in South America, a sale of a part of one of the purchased divisions to reduce cost and exposure, a *qui tam* suit and a government investigation into Arthur D. Little cost charges on certain government contracts, novation agreements with the federal government to permit ICF to perform Arthur D. Little contracts, a litigation to settle issues of employee raiding, and a name license agreement to protect bidders in the use of the Arthur D. Little name.

Carolyn Parlato led the corporate team, receiving assistance at various times from **Kosha Brightwell**, **Tim Cooley** and **Gabriela Labouriau**. **Becky Troutman** worked on license and intellectual property matters. **Larry Hirsh** and **Tom Lane** led the litigation effort assisted by **Ayanna Behin** and **Jeff Gans**. **Craig Freeman** assisted on bankruptcy issues. **Richard Swanson** served as client manager, assisted at the auction and provided overall strategic advice. ■

Four Partners in *Who's Who* Including IP/Trade Specialist

Four partners at Thelen Reid have been included in the 2002 edition of *The International Who's Who of Business Lawyers,* including **Veronica Colby Devitt**, a partner in the firm's Intellectual Property and Trade Regulation team. "Ronnie" is a San Francisco-based partner specializing in trademark law and intellectual property litigation. She has written, lectured and served as an expert on trademark law and practice before the **Trademark Trial and Appeal Board**, is past President of the **San Francisco Intellectual Property Law Association**, past Chair of the **State Bar of California Intellectual Property Section** and former Member of **Council of the American Bar Association's Intellectual Property Law Section**.

Other Thelen Reid partners included in 2002 edition are: **Gerald Aksen** in Commercial Litigation and alternative dispute resolution, **Richard M. Farmer** in Energy, Utility and Infrastructure, and **Robert L. Nelson** in Project Development and Finance. ■

E & J Gallo Winery v. Spider Webs Ltd.: Cybersquatter Gets Caught in its Own Net

The Fifth Circuit Court of Appeals recently in the case of *E. & J. Gallo Winery v. Spider Webs Ltd.,* 2002 U.S. App. LEXIS 5928 (5th Cir. 2002), affirmed summary judgment in favor of Gallo and against Spider Webs Ltd. granted by the United States District Court for the Southern District of Texas as a result of Spider Webs' cybersquatting on the "earnestandjuliogallo.com" domain name. The Fifth Circuit Court of Appeals affirmed summary judgment even though Spider Webs never used the "earnestandjuliogallo.com" name and never tried to sell it to Gallo.

The Court of Appeals noted that Spider Webs had registered more than 2000 domain names, some of which it sold on its web site and on eBay for bids beginning at $10,000. (*E. & J. Gallo Winery v. Spider Webs Ltd.* (hereinafter *"Gallo"*), 2002 U.S. App. LEXIS 5928 at Gallo, at *2-3 (5th Cir. 2002).) About 300 of these names – including "ernestandjuliogallo.com" – could be associated with existing businesses. *(Ibid.)* Though Spider Webs never contacted Gallo about the "ernestandjuliogallo.com" name, and never even offered it for sale, one of Spider Webs' owners admitted that the name was valuable because of the goodwill Gallo had developed and that Spider Webs had registered the name in the hope "that Gallo would contact us and we could assist them in some way." (*Gallo,* at *3.) Gallo ultimately discovered that Spider Webs had registered the "ernestandjuliogallo.com" name and, when Spider Webs refused to release it to Gallo, sued Spider Webs and its owners under the Anti-Cybersquatting Consumer Protection Act ("ACPA"), and under federal and Texas anti-dilution, trademark infringement, and unfair competition laws. (*Gallo,* at *4-5.)

The District Court granted partial summary judgment to Gallo on its claims under the ACPA and Texas anti-dilution statute, ordered Spider Webs to transfer the domain name to Gallo, and to pay Gallo $25,000 in statutory damages, and permanently enjoined Spider Webs from using the "ernestandjuliogallo.com" domain name and from registering any other domain names with the word "Gallo" or any combination of the words "Ernest" and "Julio." (*Gallo,* at *5-6.) Spider Webs appealed, arguing: (1) that it did not have the "bad faith intent to profit" necessary for liability under the ACPA; (2) that the District Court should not have awarded Gallo $25,000 in statutory damages under the ACPA because Gallo had not suffered any actual injury; and (3) that the District Court's permanent injunction was overly broad under Texas state law.

The Fifth Circuit Court of Appeals first rejected Spider Webs' argument that it did not act with the bad faith intent to profit required for liability under the ACPA. The Court of Appeals found that Spider Webs did not have any intellectual property rights or trademark in the "ernestandjuliogallo" name, that none of the defendants' names were included in the name, that Spider Webs had never used the name to offer any *bona fide* goods or services, and that Spider Webs had never used the name for any noncommercial or fair purpose, having only registered that name – and other names identical or similar to the names of well-known businesses and products – with the intention of someday selling it. (*Gallo,* at *11-15.) The Court of Appeals also found that Spider Webs had – by publishing during the lawsuit a web site at "ernestandjuliogallo.com" that included a picture of a wine bottle with the words "Whiney Winery" and discussed the suit, the risks of alcohol use, and alleged misrepresentations by corporations – intended to use the name to divert consumers from Gallo's online location, to harm Gallo's goodwill, and to tarnish its mark. (*Gallo,* at *3-4, 15.) The Court of Appeals also found that Spider Webs knew that Gallo's name was distinctive and famous and registered the "ernestandjuliogallo.com" name in the hope that Gallo would contact Spider Webs and allow Spider Webs to "assist" Gallo. (*Gallo,* at *16-17.) The Court of Appeals thus held that the District Court had properly granted summary judgment in favor of Gallo under the ACPA. (*Gallo,* at *17.)

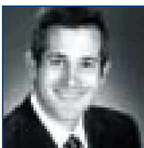
The Court of Appeals also rejected Spider Webs' argument that Gallo had not suffered any actual injury and was thus not entitled to $25,000 in damages under the ACPA. The Court of Appeals first found that Gallo had the option under the ACPA of recovering statutory damages rather than its actual damages and profits. (*Gallo,* at *18.) The Court of Appeals next found that, though Spider Webs had registered the "ernestandjuliogallo.com" name before the ACPA was enacted, it had used the name to host its "Whiney Winery" web site after the ACPA was enacted and was thus liable for damages under the ACPA. (*Gallo,* at *19.) Because the District Court had found that Spider Webs' actions put Gallo at risk of losing business and having its reputation tarnished, the District Court's award of

$25,000 in statutory damages was not unjust. (*Gallo,* at *20.)

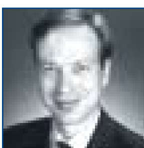
Because the Court of Appeals, for the same reasons discussed above, found that Spider Webs had violated the Texas anti-dilution laws, the Court of Appeals rejected Spider Webs' argument that the District Court's injunction was overly broad under Texas law in that it permanently enjoined Spider Webs from using the "ernestandjuliogallo.com" name, registering any name containing the word "Gallo," and registering any name containing the words "Ernest" and "Julio" in combination. (*Gallo,* at *24.) The Court of Appeals found that the District Court's injunction was appropriate because Spider Webs' actions were wrongful, created imminent harm to Gallo, created the existence of irreparable injury to Gallo, and because an injunction was needed to adequately protect Gallo's reputation. (*Gallo,* at *24-28.) The Court of Appeals did, however, note that Spider Webs could ask the District Court to modify its injunction if Spider Webs ever developed a specific and legitimate need for an Internet domain name containing the words "Gallo" or "Ernest" and "Julio." (*Gallo,* at *28.)

The *Gallo* decision allows businesses to obtain the rights to domain names that are identical or similar to their own names, or to the names of their products, without having to prove that the defendant used, or tried to sell, the name. This is a vast improvement over the prior state of the law and allows businesses to more easily than before protect their names, products, and goodwill. ■

For more information, contact the authors:



David L. Aronoff
213.229.5678
daronoff@thelenreid.com



Torgny R. Nilsson
213.576.8006
tnilsson@thelenreid.com

International Merger Control: A Proliferation of Potential Pitfalls

When the European Union ("EU") blocked the General Electric/Honeywell merger (after it was cleared by U.S. antitrust agencies), U.S. companies realized that Washington D.C. was only one hurdle in a whole new field of global antitrust regulations. The GE/Honeywell experience was a wake up call that countries other than the U.S. were stretching their antitrust regulatory muscle over global transactions.[1] Most U.S. business lawyers and in-house counsel are generally aware of premerger notification requirements under the Hart-Scott-Rodino Act.[2] Counsel must now become aware of the dramatic and significant changes in the antitrust landscape in other countries in the last ten years, including new premerger notification requirements in many jurisdictions.

The importance of this awareness is evident in the proliferation of these new premerger requirements and their potential for causing problems or delays in a transaction. In 1990, when the EU merger control regulation was born, barely a dozen countries had serious merger enforcement laws.[3] Five years later, the number jumped to nearly 30.[4] Currently, as shown in the accompanying Table, at least 76 jurisdictions have some form of merger control, and 37 others have antitrust laws affecting mergers and acquisitions without premerger filing requirements.

Thus, transactional lawyers must tread carefully when counseling multinational clients to make sure that they do not overlook possible premerger notification filings in unexpected jurisdictions. In-house lawyers need to understand how these regulations work and what they may mean to the timing of a transaction. What seemed like an afterthought ten years ago has now become an important item in the deal checklist to avoid it becoming a transactional quagmire.

This article provides a brief overview of how premerger requirements have grown tremendously throughout the world, and provides some guidance for complying with the various requirements. The article is not a substitute for a thorough look at any applicable jurisdiction's law by antitrust counsel. Each transaction should be considered on its merits in the relevant jurisdictions. This article barely skims the surface of the multitude of complex provisions that are set out and interpreted in entire treatises, web sites and other voluminous materials. It is highly recommended that in any multinational transaction antitrust counsel be involved as early as possible to map out the best way to guide the transaction through these regulations.[11]

History of Merger Control Laws

The Clayton Act[6] is the foundation for U.S. federal merger jurisdiction.[7] Congress added section 7A to the Clayton Act in 1976 to enact the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended ("HSR Act").[8] The HSR Act requires parties contemplating an acquisition of voting securities or assets that meets certain thresholds to file a premerger notification report form with the Federal Trade Commission ("FTC") and the Antitrust Division of the U.S. Department of Justice ("DOJ"), pay a minimum of $45,000 as a filing fee and observe a 30-day waiting period before consummating a transaction.[9] The current "size of the transaction" threshold is $50 million.[10] Congress passed the HSR Act in 1976 to allow U.S. antitrust agencies to review mergers prior to their consummation thereby making enforcement more effective. This was essentially the first of the "merger control" regulations.[11]

The EU counterpart did not come along until nearly 15 years later. Prior to that time, like the early Clayton Act, the European Court of Justice had ruled in 1973 that Article 82 (of the European Community Treaty) applied to abusive practices and concentration.[12] But, that antitrust authority did not provide for any premerger review. It wasn't until September 21, 1990 that the

Merger Control Jurisdictional Table[5]

Mandatory Merger Control Filings		Voluntary Filings	Jurisdictions with applicable antitrust laws
Albania	Moldova	Australia	Armenia
Algeria	Netherlands	Chile	Bahrain
Argentina	Pakistan *In some cases*	Costa Rica	Uruguay
Austria	Peru *In electricity sector*	Ivory Coast	Benin
Azerbaijan	Poland	Luxembourg	Brunei
Belarus	Portugal	New Zealand	Burkina Faso
Belgium	Puerto Rico *U.S. law applies*	Norway	Cameroon
Brazil	Romania	Panama	Chad
Bulgaria	Russia	United Kingdom	China (People's Republic)
Canada	Slovakia	Venezuela	Côte d'Ivoire
Columbia	Slovenia	Virgin Island, British	El Salvador
Croatia	South Africa		Gabon
Cyprus	South Korea		Georgia
Czech Republic	Spain		Guatemala
Denmark	Sweden		Guyana
Estonia	Switzerland		Haiti
European Union	Taiwan		Honduras
Finland	Thailand		Isle of Man
France	Tunisia		Jamaica
German	Turkey		Kuwait
Greece	Ukraine		Kyrgyzstan
Guam *U.S. law applies*	United States		Lebanon
Hungary	Uzbekistan		Malaysia
India *In transition*	Vietnam *If foreign investment*		Mali
Iceland	Virgin Island, U.S. *U.S. law*		Mauritania
Indonesia *In transition*	Yugoslavia		Mongolia *In transition*
Ireland	Zambia		Morocco
Israel			Nicaragua
Italy			Nigeria
Japan			Paraguay
Kazakhstan			Philippines
Kenya			Sri Lanka
Latvia			St. Vincent and the Grenadines
Liechtenstein			Tajikistan
Lithuania			Trinidad and Tobago
Macedonia			Turkmenistan
Malta			Zimbabwe
Mexico			
TOTALS:	65	11	37

European Commission ("EU Commission") was granted exclusive jurisdiction to investigate large-scale mergers and takeovers before their consummation under the EU's Merger Regulation ("ECMR").[13] The ECMR was substantially amended and updated effective March 1, 1998.[14] In its entire history, the EU Commission has only stopped 15 mergers, the most infamous being the GE/Honeywell merger in 2001.[15] However, recent trends indicate a likely more aggressive posture by the EU Commission in challenging merger transactions (and certainly in enforcing its premerger regulations).

The other countries that now require some type of premerger notification have passed laws mostly in the last ten years, with many of them passed in the last five.[16] The Mexican Federal Law of Economic Competition, for example, was enacted on December 24, 1992.[17] Both the Netherlands and Denmark passed merger control legislation that became effective January 1, 1998.[18] Jurisdictions that enacted merger notification laws in 1999 include Argentina, Indonesia, Macedonia, Slovenia, Thailand and Lithuania.[19] In addition, in the last five years, many countries have substantially amended their competition laws (such as the EU in 1998 and Taiwan in 1999).[20]

As global transactions increase in number, this expansion of merger control regulation has created new issues, potentially subjecting companies to multiple notification requirements and inconsistent and contradictory competitive analyses.[21] This has caused international business organizations and commentators to urge consistency in these regulations, to avoid duplication and contradictory enforcement actions.[22] Treaties allow various jurisdictions to share information and cooperate with each other in policing mergers.[23] While this may help avoid duplicative requests from a number of jurisdictions, it also provides more scrutiny to a transaction.

Practice Tips

The growth of premerger notification or merger control legislation has now complicated the procedural aspect of international transactions. Before any global company (that is, any company operating in more than one

country) proceeds with an acquisition or divestiture transaction, or a merger or takeover, it should look to each potentially affected jurisdiction to analyze whether regulations exist requiring a premerger filing or if other substantive antitrust laws may affect the transaction. It is also very important to be aware of the timing for making required filings in the relevant jurisdictions. For example, Argentina and the EU require a filing within seven days of signing an agreement, and Brazil requires a filing within 15 business days of signing any agreement (including a letter of intent).[24]

Generally, it is important at the outset to determine where filings could potentially be required and to coordinate with local counsel to assist in the initial analysis.[25] To make this determination, counsel should be prepared to answer a general set of questions. These include: (1) What are each party's revenues (called "turnover" in some jurisdictions) by business and by country? (2) What are the significant product or geographic market overlaps?; and (3) what are the locations and value of relevant assets?

The three jurisdictions that U.S. companies may touch upon most often besides the U.S. are Canada, Mexico and the European Union. A brief review of how the premerger laws in these jurisdictions operate compared to the U.S. demonstrates the need for familiarity with the diverse and complex nature of the regulations and the importance of working with antitrust counsel from the very beginning of the transaction.

Canadian Premerger Requirements. In Canada, parties to certain types of mergers and acquisitions must file either a Short-Form or Long-Form Pre-Notification and obtain an Advanced Ruling Certificate under the Canadian Competition Act.[26] In either case, the parties may not close the transaction until the applicable waiting periods have expired.[27] The Competition Bureau directed by the Commissioner of Competition is responsible for administering the Competition Act. Part IX of the Act provides the statutory framework for prenotification, which requires the parties to certain proposed transactions to notify the Commissioner prior to completing their proposed transaction. To be subject to the Canadian premerger notification, a transaction must meet both a "party-size" threshold and a "transaction-size" threshold. The Regulations set out the procedure for calculating the aggregate value of assets and gross revenues from sales for purposes of the party-size and transaction-size thresholds in sections 109 and 110 of the Act, respectively. For the "size of the party" threshold, the parties, together with all their "affiliates" (like the "ultimate parent" concept in HSR) must have assets or sales in or into Canada in excess of C$400 million in the most recent fiscal year.[28] For the "size of the transaction" threshold, the assets or company being sold must generate C$35 million of revenues in or into Canada.[29] All mergers, save for those subject to industry-specific statutes of concurrent or pre-emptive jurisdiction, that fit within five broad categories of transaction are subject to the premerger notification regime. These categories are: asset acquisitions, share acquisitions, acquisitions of an interest in an unincorporated combination, amalgamations, and the formation of unincorporated combinations that meet the thresholds discussed above.[30] Some exemptions exist for mergers with affiliates, acquisitions in the ordinary course of business or asset securitization transactions among others.[31] Information submitted in the notification process is confidential, subject to very limited exceptions related to law enforcement.[32] There are criminal sanctions for not filing, with fines up to C$50,000.[33]

Mexican Premerger Requirements The Mexican Federal Economic Competition Law is the regulation that implements Article 28 of the Mexican Constitution.[34] That Constitutional provision prohibits monopolies and other acts that would concentrate industries and inhibit trade, similar to the U.S. Sherman and Clayton Acts. The Competition Law mandates that acquisitions of a certain size that affect Mexican competition may require a premerger filing to the Federal Competition Commission ("FCC") prior to closing of a transaction. The FCC is a decentralized administrative agency of the Secretary of Commerce and Industrial Development. If a transaction is subject to the mandatory filing requirement, the parties cannot close a transaction until they receive FCC approval.[35] A transaction can meet the premerger notification threshold in a number of ways. First, the threshold is met where the value of the target exceeds the equivalent of multiples of (12 million times) the minimum wage in the Federal District of Mexico City (a benchmark common to all legal thresholds). This equals approximately $US50 million. Second, the Competition Law requires a filing where a party will hold 35 percent of the assets of a firm worth approximately $50 million or if the target has sales of $50 million or more or where joint sales of the parties of approximately $200 million are involved and the additional assets acquired exceed approximately $US20 million.[36] Foreign to foreign mergers which do not involve the acquisition of new Mexican assets situated in Mexico may be exempt from the Competition Act.[37] The notification includes information regarding shareholder structure, incorporation documents, and financial statements.[38] Once the filing is made the FCC can request further information within 20 days of the filing and the parties must respond within 15 calendar days after receiving the request.[39] Then, the FCC must make a ruling with 45 days of the completed response.[40] Like European filings, and unlike the U.S. filings, the parties file a joint notification to the Commission.[41] Like many jurisdictions, the information does not become part of the public record and is kept confidential. Sanctions for not filing include penalties up to the equivalent of $300,000.[42]

EU Merger Requirements. The European Commission Merger Regulation ("ECMR") covers "concentrations" that include mergers, acquisitions of control and "full-function" joint ventures that have a "Community dimension."[43] The parties must file their notification within a week of signing an agreement, an announcement of a public bid, or the acquisition of a controlling interest.[44] The transaction cannot close without EU Commission clearance.[45] The ECMR is different from the U.S., as the premerger notification thresholds (the "Community dimension") rely on a complex analysis of

"turnover" or revenues in the EU and in the member states. There are two possible thresholds to meet. First, if the entire worldwide turnover of the parties to the transaction exceeds 5 billion Euro and the Community-wide turnover of each party exceeds 250 million Euro, the parties may have to file.[46] If the transaction does not meet that first threshold, then if the entire worldwide turnover of the parties exceeds 2.5 billion Euro and the Community-wide turnover of each party exceeds 100 million Euro and in each of at least three Member States, the entire turnover of all parties exceeds 100 million Euro and that of each party exceeds 25 million Euro, the transaction is subject to the ECMR filing.[47] However, if each of the parties achieves more than two-thirds of its entire Community-wide turnover in one and the same Member State, then there is no EU filing, but most likely a filing with that Member State.[48] The EU establishes a one-stop shop for those merger transactions that are of concern to more than one Member State.[49] If the ECMR law applies, then it preempts application of the EU Member States' laws. If the ECMR does not apply, then the law of each potential EU state that may be involved needs to be considered. This analysis can be very time consuming and, thus, it should be started as soon as possible. It is recommended that counsel investigate the relevant Member States' laws simultaneously with the EU, should one or more have jurisdiction over the transaction. The EU Commission must make a decision within one month of the filing, unless extended by requests for further information.[50] The fine for failure to comply with the requirements to file can be up to 10% of the aggregate turnover of the parties to the transaction.[51] While there are no exemptions, certain transactions are not considered "concentrations" for the purposes of the ECMR, such as where credit or other financial institutions, or insurance companies hold securities with a view to reselling them (such as credit collateral) if sold within one year of the acquisition. Acquisitions associated with bankruptcies and foreclosures are also not concentrations.[51] Information submitted for the filing is confidential and not publicly available.[52]

Coordination is Critical

It is critical for either in-house or outside counsel to coordinate the different jurisdictions' analyses and requirements to avoid delays in the transaction and any potential fines. This coordination includes charting the timing of the filings (pre or post merger) and the waiting periods, and working with local counsel to get the filings submitted and cleared in a timely manner. ■

Endnotes

1. Commission Case COMP/M.2220 General Electric/Honeywell (July 3, 2001); see also http://europa.eu.int/rapid/start/cgi/guesten.ksh?p_action.gettxt=gt&doc=IP/01/939|0|RAPID&lg=EN. In a recent presentation, Gary Zanfagna, Associate General Counsel, Antitrust, at Honeywell International Inc., indicated that, for the GE/Honeywell transaction, the companies filed in over 20 jurisdictions. See G. Zanfagna, "Navigating The International Merger Control Waters: An In-House Counsel Perspective," ABA Section of Antitrust Law and Assn. Of the Bar of the City of New York Conference, "Merger Control Filings," New York, NY, June 13, 2002.

2. Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, 15 U.S.C. §18a. Regulations are at 16 C.F.R. §§800, *et seq.*

3. Council Regulation No. 4064/89/EEC; G. Zanfagna, "Navigating The International Merger Control Waters: An In-House Counsel Perspective," and N.W. Imus (Vinson & Elkins), "Navigating Non U.S. Merger Control Requirements, ABA Section of Antitrust Law and Assn. Of the Bar of the City of New York Conference, "Merger Control Filings," New York, NY, June 13, 2002; ABA Section of Antitrust Law, Competition Laws Outside the United States (2001), pp. 13-14; J.W. Rowley (McMillan Binch), "The Internationalisation Of Merger Review: the Need For Global Solutions," Merger Control, Law Business Research LTD (UK 2001), p. 3.

4. See footnote 3.

5. See ABA Section of Antitrust Law and Assn. of the Bar of the City of New York, "Merger Control Filings," New York, NY, June 13, 2002 and related materials; ABA Section of Antitrust Law, Competition Laws Outside the United States (2001); Merger Control, Law Business Research LTD (UK 2001); M. Goldhaber , "Navigating Brussels," FOCUS Europe, Winter 2001 p. 29; Tolley's Company Acquisitions Handbook, Tolley (UK) 2001; International Competition Network web page: www.internationalcompetitionnetwork.org

6. 15 U.S.C. §18.

7. *United States v. Philadelphia National Bank* (1963) 374 U.S. 321.

8. 15 U.S.C. §18a.

9. 15 U.S.C. §18a(b); 16 C.F.R. §§803.9, 803.10.

10. 15 U.S.C. §18a(2)(B).

11. See "Navigating The International Merger Control Waters: An In-House Counsel Perspective ABA Section of Antitrust Law and Assn. Of the Bar of the City of New York Conference, "Merger Control Filings", New York, NY, June 13, 2002; ABA Section of Antitrust Law, Competition Laws Outside the United States (2001); Merger Control 2002, Law Business Research LTD (UK 2001); M. Goldhaber, "Navigating Brussels," FOCUS Europe, Winter 2001 p. 29; Tolley's Company Acquisitions Handbook, Tolley (UK) 2001; International Competition Network web page : www.internationalcompetitionnetwork.org.

12. Articles 81 and 82 of the Treaty of the European Community set out the basic law of competition of the EU; see ABA Section of Antitrust Law and Assn. of the Bar of the City of New York, "Merger Control Filings," June 13, 2002 and related materials; Tolley's Company Acquisitions Handbook, Tolley (UK) 2001, pp 294-296.

13. Council Regulation No. 4064/89/EEC see also http://europa.eu.int/comm/competition/mergers/legislation/regulation/.

14. Council Regulation No. 1310/97/EC; see also http://europa.eu.int/comm/competition/mergers/legislation/regulation/consolidated/en.pdf.

15. Press Release from EU Commission, "The Commission prohibits GE's acquisition of Honeywell," July 3, 2001, IP/01/939; found at: http://europa.eu.int/rapid/start/cgi/guesten.ksh?p_action.gettxt=gt&doc=IP/01/939|0|RAPID&lg=EN

16. See, generally, ABA Section of Antitrust Law, Competition Laws Outside the United States (2001); Merger Control 2002, Law Business Research LTD (UK 2001) and the International Competition Network web page: www.internationalcompetitionnetwork.org

17. (Ley Federal de Competencia Economica) Federal Law of Economic Competition, Articles 16 and 20 (enacted December 24, 1992).

18. Dutch Competition Act of May 22, 1997, Statute Book 1997, 242, Article 95 of the Competition Act; see also www.nma-org.nl/english; (Denmark) Act No. 384 of June 10, 1997; see also, www.ks.dkl/intomr/index.htm; see, generally, ABA Section of Antitrust Law, Competition Laws Outside the United States (2001), pp. 50 and 58.

19. ABA Section of Antitrust Law, Competition Laws Outside the United States (2001), pp. 86 (Argentina), 22 (Indonesia), 75 (Lithuania); see also www.sigov.si/uvk/ang/2legal/1basis.html (Slovenia competition laws and premerger notification scheme [Article 12 of the Prevention of Restriction of Competition Act (Ur. l. RS 56/99)]); www.mon.upr.gov.mk/plan_2001-ang.htm (Macedonia's competition laws and website); www.apeccp.org.tw/doc/Thailand/Competition/thcom2.htm (Thailand Trade Competition Act); See ABA Section of Antitrust Law and Assn. of the Bar of the City of New York, "Merger Control Filings," New York, NY, June 13, 2002 and related materials.

20. Council Regulation (EC) No. 1310/97; see also http://europa.eu.int/comm/competition/mergers/legislation/regulation/consolidated/en.pdf; see also ; Tolley's Company Acquisitions Handbook, Tolley (UK) 2001, pp. 294-96.

21. See, *e.g.*, "Recommended Framework For Best Practices In International Merger Control Procedures" International Chamber of Commerce and Business & Industry Advisory Committee, October 4, 2001 at www.iccwbo.org; ABA Section of Antitrust Law, Competition Laws Outside the United States (2001), p. 120.

22. J.W. Rowley, "The Internationalisation Of Merger Review: the Need For Global Solutions," Merger Control, Law Business Research LTD (UK 2001) and footnote 22.

23. ABA Section of Antitrust Law, Competition Laws Outside the United States (2001), p.112-120.

24. See G. Zanfagna, "Navigating The International Merger Control Waters: An In-House Counsel Perspective," and N.W. Imus (Vinson & Elkins), "Navigating Non U.S. Merger Control Requirements, ABA Section of Antitrust Law and Assn. Of the Bar of the City of New York Conference, "Merger Control Filings," New York, NY, June 13, 2002;

25. Thelen Reid has a network of local counsel in most jurisdictions to assist with any premerger analysis or filing.

26. Federal Competition Act, R.S.C., ch. C-34, Article IX (1985)(Can.); Consolidated Regulations of Canada, Chapter 416.

27. Id.; see also Merger Control, Law Business Research LTD (UK 2001) p. 43.

28. Can. Federal Competition Act, §109.

29. Can. Federal Competition Act, §110.

30. Can. Federal Competition Act, §110(1)-(5).

31. Can. Federal Competition Act, §§111-113.

32. Can. Federal Competition Act, §29.

33. Can. Federal Competition Act, §65.

34. (Ley Federal de Competencia Economica) Federal Law of Economic Competition, Articles 16 and 20 (enacted December 24, 1992).

35. Mex. Federal Law of Economic Competition, Art. 20.

36. Mex. Federal Law of Economic Competition, Art. 20.

37. Mex. Federal Law of Economic Competition, Art. 20.

38. Mex. Federal Law of Economic Competition, Art. 21, §I.

39. Mex. Federal Law of Economic Competition, Art. 21, §II.

40. Mex. Federal Law of Economic Competition, Art. 21, §III.

41. Nearly every other jurisdiction besides the U.S. allows for joint premerger filings. The U.S. is concerned about parties sharing potentially competitive information and still requires separate filings from each of the parties.

42. Mex. Federal Law of Economic Competition, Art. 35.

43. Council Regulation No. 4064/89/EEC as amended by Council Regulation No. 1310/97/EC ("ECMR"), Art. 3 (definition of "concentration")

44. ECMR, Art. 4.

45. ECMR, Art. 7.

46. ECMR, Art. I.

47. ECMR, Art. I

48. ECMR, Art. I; see B. Baer, T. Frazer (Arnold & Porter), "Transatlantic Tension? Merger Clearances in the EU," Focus Europe, Winter 2001, p. 87-87; J. Davies and A. Ryan (Freshfields) "European Union," Merger Control, Law Business Research LTD (UK 2001) p. 70-71.

49. ECMR, Art 21(2).

50. ECMR, Art. 10 and 11.

51. ECMR, Art. 14.

52. ECMR, Art. 3.

53. It may, however, be available to each of the relevant Member States. See ECMR, Art. 17.

For more information, including preliminary analysis of the transaction and coordination of local counsel in each relevant jurisdiction, please contact the author:

Allison A. Davis
415.369.7331
aadavis@thelenreid.com