PACIFIC RIM ADVISORY COUNCIL

April 2009 e-BULLETIN

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WILMERHALE to Host 45th International PRAC Conference - Boston, Massachusetts
April 25 - 28, 2009
Feature Session - Harvard Forum on Leadership Issues Facing Law Firm Leaders

PRAC Members Gathering @ INTA Sunday May 17

46th International PRAC Conference - Beijing, PRC
October 17 - 20, 2009
Hosted by King & Wood - PRE REGISTRATION NOW OPEN

Full Details for Conferences & Events http://www.prac.org/events.php

MEMBER DEALS MAKING NEWS

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► BRIGARD & CASTRO Advises Colinversiones SA in Kimberly Clark Deal

► FRASER MILNER CASGRAIN Team Scores Pension Rectification Win for Kraft Canada Inc.

► GIDE LOYRETTE NOUEL Advises Domaines Baron de Rothschild on Historic Chinese Wine Partnership for Chateau Lafite

► HOGAN & HARTSON Achieves Victory Before the United States Supreme Court in Battery Manufacturers Case

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► RODYK Acts for DOWA Holdings in Acquisition of All Shares in Modern Asia Environmental Holdings Inc.

► SANTAMARINA Y STETA Advises on Several Matters Related to Global Financial Crisis

► SKRINE Wins Landmark Islamic Finance Appeal

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PRAC TOOLS TO USE

- PRAC Contact Matrix ▌ PRAC Member Directory
- International Expert System (sample forms) ▌ Conferences & Events

FRASER MILNER CASGRAIN ANNOUNCES 16 NEW PARTNERS

Promotions reflect regional strength across Canada

Fraser Milner Casgrain LLP (FMC), one of Canada's leading business and litigation law firms, has announced the admission of 16 new partners in its offices. These new partners have all been promoted from within the firm and represent expanded depth in FMC's National Corporate | Commercial, Financial Services, Litigation & Dispute Resolution, Securities | Corporate Finance, Tax, Energy, Mergers & Acquisitions, Public-Private Partnership (P3), Construction | Infrastructure, Technology, Intellectual Property, Environmental, Aboriginal, Employment & Labour, and Real Estate Groups across Canada.

Admitted to the partnership are:

Montréal: Nicolas Courcy , Seon Kang , Philipp Park , Nicolas Roy , Jean-François Vézina
Toronto: Timothy Banks, Matthew Peters
Ottawa: Wendy Riel
Edmonton : Shauna Finlay , Marlon Rajakaruna , Shane Stevenson
Calgary : Toby Allan , Jordan McJannet , Robb McNaughton, Trevor Morawski
Vancouver: Wally Braul

"At FMC, we recognize the importance of encouraging talent from within to facilitate future success," says Michel Brunet, FMC's Chair and Chief Executive Officer. "Our 16 new partners deliver innovative insight and expertise to their respective practice groups, broadening the resources available to our clients across the country."

For additional information visit us at www.fmc-law.com

HOGAN & HARTSON NORTHERN VIRGINIA OFFICE RELOCATES TO TYSONS CORNER

Hogan & Hartson LLP announced the firm's relocation of its Northern Virginia office to Park Place II, a new 11-story, multifunctional space that is Leadership in Energy and Environmental Design (LEED)-certified. The firm will move to this new space on April 20, 2009. Park Place II is located in Tysons Corner, Virginia.

Hilton Hotels Corporation recently announced that it will move its global corporate headquarters to Park Place II and will occupy one third of the building's 323,000 square feet.

"Over the past 24 years, our Northern Virginia office, as part of the firm's global platform, has grown to meet our clients' diverse and complex challenges, and we have strengthened our local ties," said Emily Yinger, Managing Partner of the firm's Northern Virginia office. "We are looking forward to engaging more deeply with the Northern Virginia community by hosting local events in our new conference center."

The Northern Virginia office of Hogan & Hartson opened in 1985 and has since grown to nearly 80 lawyers and staff. The firm's Northern Virginia lawyers are widely recognized for their experience in a wide range of practices, including mergers and acquisitions; corporate and securities; technology and intellectual property; commercial litigation; labor and employment; real estate and financing transactions; and government contracts and IT services.

Hogan & Hartson is consistently ranked among the top global law firms in industry surveys and major publications. Eight lawyers in the Northern Virginia office have been recognized by Chambers USA 2008 as leaders in their fields.

For additional information visit www.hhlaw.com

LOVELLS
ELECTS 19 NEW PARTNERS

Lovells has elected 19 new partners with effect from 1 May 2009. This will bring the total for the firm at 1 May 2009 to 365 partners across 27 offices in Asia, Europe, the Middle East and the US.

Areas of specialisation reflect the broad spread of Lovells' practice: Two in Employment; Two in Intellectual Property, Media & Technology (IPMT) ; One in Pensions; One in Real Estate; Six in Corporate; One in Competition; One in Capital Markets; One in Project Finance; Three in Dispute Resolution; One in Insurance and Reinsurance

The jurisdictional spread reflects the international nature of Lovells' practice, covering 11 offices across each of the firm's four regions: 10 in Continental Europe ; Six in London; One in Asia; Two in the US . Full details are in the notes to editors.

Speaking today, John Young, senior partner, said:

"These appointments reflect a broad spectrum of practice areas and jurisdictions, and are testament to Lovells' investment in its associates within areas of strategic importance for the long term development of the firm. All of our new partners have shown strong performances in challenging markets, and these deserved promotions will place our legal talent where it is needed for the benefit of our clients. On behalf of the entire firm, I would like to congratulate our new partners."

Notes for editor

Previous years' election to partnership
2008 - 18 ; 2007 - 31; 2006 - 18 ; 2005 - 12 ; 2004 - 15; 2003 - 17 ; 2002 - 19; 2001 - 24

New partners in alphabetical order:
Ludovic Babin, Infrastructure and Project Finance, Paris
John Condliffe, Real Estate, London
Andreas Ege, Employment, Munich
Giovanni Ghirardi, IPMT, Milan
Ben Higson, Corporate – EPUI, London
Kit Johnson, Capital Markets, London
Sean Keely, Insurance and Reinsurance, New York
Louise Lamb, Dispute Resolution – Commercial and Retail Banking, London
Graciela Llaneza, Corporate – Private Equity, Madrid
Kieron O'Callaghan, Dispute Resolution – International Arbitration, London
Hillel Parness, IPMT, New York
Michael Rose, Corporate, Munich
Matthes Schröder, Employment, Hamburg
Marc Schweda, Competition, Hamburg
Michael Sinhart, Corporate Commercial, Frankfurt
Pavel Skopový, Corporate, Prague
Damon So, Dispute Resolution – Projects, Engineering and Construction, Hong Kong
Claire Southern, Pensions, London
Jens Uhlendorf, Corporate, Düsseldorf

For additional information visit www.lovells.com

LUCE FORWARD ADDS TO BUSINESS/COMPLEX LITIGATION GROUP

Attorney Vicky Pham Joins Luce Forward's Los Angeles Office

Attorney Vicky Pham has joined Luce, Forward, Hamilton & Scripps LLP's Los Angeles office as an associate in the firm's Business / Complex Litigation practice group. As part of the firm's Business / Complex Litigation practice group, Pham will work with a number of other attorneys in the firm to focus on protecting and preserving clients' interests through communication and client involvement. The practice group is led by Partner Callie A. Bjurstrom, a highly regarded leader in the field.

"The continued growth of our robust business litigation practice aligns with our strategic growth throughout California, which currently stands at approximately 185 attorneys strong throughout the State," said Kurt L. Kicklighter, Luce Forward's Managing Partner. "Vicky's experience in representing clients in both Federal and State Court will be a valuable addition to the firm, and we are pleased to have her join our team of seasoned and respected business lawyers who are highly capable in providing expert business litigation counsel to our individual, public entity, and corporate clients on both domestic and international forums."

Pham brings more than 8 years of litigation experience, including representing clients in cases involving business disputes, professional malpractice, intellectual property, real estate and collection matters.

"Luce Forward is a firm with a rich history and well-deserved reputation for providing superior legal services," said Pham. "The attorneys at the firm have solid impressive backgrounds, and I look forward to bringing my skills, which fit well with the firm's long-standing record of providing creative and efficient business litigation services."

Prior to joining Luce Forward, Pham was an associate at Moldo Davidson Fraioli Seror & Sestanovich LLP in Los Angeles. She is a former board member and newsletter article editor for the Asian Pacific American Bar Association.

Pham earned a Juris Doctor degree from Loyola Law School, Los Angeles, and a degree in Biological Sciences with a Minor in Psychology from the University of California, Irvine.

For additional information visit www.luce.com

MORGAN LEWIS PARTNERS RE-ELECT FRANCIS MILONE CHAIR OF FIRM

PHILADELPHIA, PA, April 9, 2009: Morgan Lewis today announced that the firm's partners have re-elected Francis M. Milone, chair of the firm, for another five-year term, commencing on October 1, 2009. Mr. Milone has been chair of the firm since 1999, a period of strategic growth for Morgan Lewis. Under his leadership, the firm has significantly expanded its national and global presence and redoubled its commitment to client service, pro bono, and diversity—three hallmarks of its history and culture.

"At a time of unprecedented change in the world economy, I am honored to have received this vote of confidence from my partners," said Mr. Milone. "It is a pleasure to work with a deeply talented group of lawyers and staff whose commitment to excellence and ability to adapt to change enables us to consistently provide outstanding client service."

Over the past decade, Morgan Lewis has grown to more than 1,400 attorneys. With historic depth on the both the East and West Coasts, a growing prominence in Texas and the Central U.S., and a continued commitment to Europe and Asia, the firm has expanded to meet the complex demands of clients with global needs. The firm continues to strategically add partners whose experience will benefit clients who depend on its counsel as they adapt to evolving regulations and new business opportunities. In addition, the firm remains committed to investing in the types of programs that exemplify its culture. For instance, as a result of the chair's personal challenge to each attorney, the firm's total pro bono hours have more than tripled since 2005 and virtually every lawyer in the firm is substantively engaged with a pro bono matter.

"The partners agreed Fran has the vision, respect, stature, experience, and knowledge to lead the firm for the next five years," said the Nominating Committee in a memo to staff yesterday. "We are confident in Fran's leadership and ability to make strategic decisions that benefit our clients and the firm."

Mr. Milone joined the firm in 1977 as an associate and was elected to the partnership in 1981. He is a nationally known labor and employment lawyer with experience handling jury and nonjury trials. He served as manager of the Labor and Employment Practice from 1995 to 1997, served on the firm's Governing Board, and served as the firm's Managing Partner from 1997 until his election as chair in 1999.

For additional information visit us at www.morganlewis.com

SANTAMARINA Y STETA OPENS NEW OFFICE IN MEXICO'S NORTHWEST

With over 60 years of successful legal experience Santamarina y Steta opens its third office in an effort to participate in the development of Mexico's North-Western region.

Having actively participated in many significant transactions in the peninsula of Baja California and the State of Jalisco during the last years, the opening of this new office is a natural step to getting closer with our clients in this region.

The tourism sector is just one example in which Santamarina y Steta has played an important role in the transactions related to the development of tourist, residential, industrial and mixed use real estate projects in the North-Western region.

The geographic location of our new office gives us the unique opportunity to serve more efficiently our existing and potential clients throughout the peninsula, as well as the States of Sonora, Sinaloa, Nayarit and Jalisco, all with an extraordinary potential for growth.

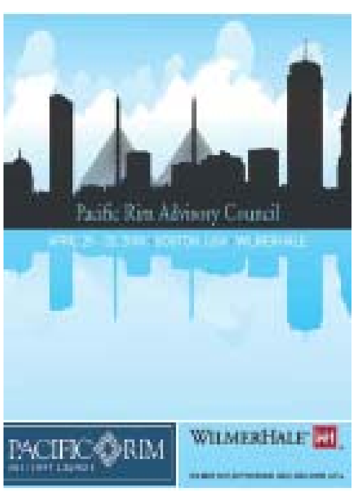
Integrated in human resources and materials with our offices in Mexico City and Monterrey, the North-Eastern office, with its head-quarters in Tijuana, reinforces our presence in the country and ratifies our commitment with our clients.

Aaron Levet V. who has been member of Santamarina y Steta for 28 years, will be the managing partner of the new office. His areas of expertise include mergers and acquisitions, financing and real estate with an emphasis in tourist, industrial, and residential developments.

Office Details:
Avenida Paseo de los Héroes, número 10289, Despacho 303, Zona Río
Tijuana, Baja California, C.P. 22320
Phone: (664) 633-7070, Fax: (664) 634-2978
E-mail: alevet@s-s.com.mx

For additional information visit www.s-s.com.mx

PACIFIC RIM ADVISORY COUNCIL



45th International PRAC Conference

April 25 - 28, 2009

Hosted by Wilmer Cutler Pickering Hale and Dorr LLP

Open to all PRAC Member Firms

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Feature Session: Harvard Forum on Leadership Issues Facing Law Firm Leaders

SIMPSON GRIERSON
PARTNER APPOINTED TO NEW ZEALAND GOVERNMENT OVERSEAS INVESTMENT ADVISORY GROUP

3 April: Simpson Grierson is pleased to announce partner Don Holborow's appointment to the Technical Reference Group for the Government's review of the Overseas Investment Act.

The purpose of the review, announced by Finance Minister Bill English on March 17, is to make foreign investment in New Zealand simpler and more attractive, while protecting sensitive land, assets and resources.

"Overseas investment can play an important role in economic recovery and job creation" said Mr. English. "However, the current overseas investment legislation is cumbersome and the rules are often difficult to interpret."

Don Holborow and the other members of the Technical Reference Group will assist with the review of New Zealand's overseas investment rules. Don has a keen awareness of some of the problems with the current regime, having assisted a number of overseas and New Zealand companies grapple with the requirements.

"I am delighted to be appointed to the Technical Reference Group and am confident we can remove some of the complexity and uncertainty that currently exists for overseas investors," he said.

For additional information visit www.simpsongrierson.com

TOZZINI FREIRE
JOSÉ LUIS DE SALLES FREIRE ELECTED PRESIDENT OF CESA

José Luis de Salles Freire

José Luis de Salles Freire, founding partner of TozziniFreire Advogados, has been elected President of the Association of Brazilian Law Firms (CESA) for the three-year term of 2009-2012.

The election ceremony, which was held on March 30th at the hotel Renaissance in São Paulo, included the President of the International Bar Association (IBA), Mr. Fernando Pelaez-Pier, and its Secretary-General, Mr. Michael Reynolds.

José Luis is the fifth president of CESA, a non-profit private association comprised of law firms and the only law firm entity in the world focused on the sector's studies. He held the seat of vice-president in the previous management term

Established in 1983, CESA currently has more than 800 member firms and maintains close relationship with various national and international entities, such as Brazilian Bar Association (OAB), São Paulo Lawyer's Association (AASP), São Paulo Lawyer's Institute (IASP), International Bar Association (IBA), American Bar Association (ABA), Association Internacionale Des Jeunes Avocats (AIJA) and International Law Association (ILA).

For additional information visit www.tozzinifreire.com.br

WILMER CUTLER PICKERING HALE AND DORR LLP ANNOUNCES NEWEST SCHOLAR-IN-RESIDENCE

April 1, 2008

The International Arbitration Group at Wilmer Cutler Pickering Hale and Dorr LLP is pleased to announce the arrival of distinguished academic, Dr. Sergey Ripinskiy, as Scholar-in-Residence in our London office. The firm's Scholar-in-Residence Program brings talented professors, lecturers and other academics from all jurisdictions to the firm's London office to collaborate with our international arbitration team on both professional matters and academic projects and to contribute generally to the intellectual life of the office.

Gary Born, head of the International Arbitration Group, said: "Following a very successful Scholar-in-Residence program in 2008 with visits from Prof. John H. Jackson, Dr. Andrew Mitchell, and Dr. Galina Zukova, we are delighted to welcome Dr. Sergey Ripinskiy as our newest Scholar-in-Residence. Dr. Ripinskiy is the first of several scholars who will join us in 2009, and his interest in international investment arbitration mirrors the firm's busy practice in this field."

Dr. Ripinskiy is a Research Fellow in International Law at the British Institute of International and Comparative Law (BIICL) in London where he is involved in running the Institute's Investment Treaty Forum. He has recently completed a two-year research project on Damages in International Investment Law and has co-authored a book on the subject. Dr. Ripinskiy earned a PhD in Business Law, Civil Law and International Law at St. Petersburg State University (Russia) with a dissertation on "State Liability for Damages Caused to Businesses by Unlawful Acts of State Authorities." He has an LLM in European and International Law from Maastricht University (The Netherlands) specializing in Globalization and Economic Regulation. He has also completed a course in public international law at The Hague Academy of International Law.

Widely published, Dr. Ripinksiy's recent works include *Damages in International Investment Law* (with Kevin Williams) (BIICL, 2008); *NGO Involvement in International Organizations: A Legal Analysis* (with P. Van den Bossche) (BIICL, 2007); *WTO Law and Process: Proceedings of the 2005 and 2006 Annual WTO Conferences* (editor, with F. Ortino) (BIICL, London, 2007); and *State Liability for Damages Caused to Businesses by Authorities* (St. Petersburg, 2002) (in Russian).

Scholars-in-Residence at WilmerHale are provided with an office, use of library and other research facilities, and secretarial and other support services, as well as an honorarium. Specific terms and conditions, including with regard to the length of residence and weekly time commitments, are determined on a case-by-case basis in light of program participants' experience and needs, and other academic and professional engagements. Past participants have been in residence for periods ranging from one to 18 months, with time commitments ranging from a few hours per week to full-time. The firm welcomes indications of interest in its Scholar-in-Residence program from all full-time legal academics, particularly in the fields of international arbitration and litigation, private international law, public international law and comparative law. Interested academics are invited to send their resume/CV to john.trenor@wilmerhale.com.

Members of WilmerHale's International Arbitration Group have a strong history of academic involvement. During the 2008 academic year alone, members of the Group taught international arbitration and other courses at University of Paris Panthéon-Sorbonne, Georgetown Center for Transnational Legal Studies, Stanford University, University of Zurich, St. Gallen, Duke University, and a number of institutions in London. Lawyers in the Group also publish frequently. Two of our London partners have recently published significant books in the field. Gary Born is the author of *International Commercial Arbitration*, a 3500-page comprehensive international treatise (Kluwer Law International), and Franz Schwarz has written a book on Austrian arbitration law and the Vienna rules entitled *The Vienna Rules – A Commentary on International Commercial Arbitration in Austria* (Kluwer Law International).

For additional information visit www.wilmerhale.com

BAKER BOTTS

FEDERAL DISTRICT JUDGE AWARDS ASARCO DAMAGES ESTIMATED AT MORE THAN $6 BILLION

HOUSTON, April 3, 2009 -- On April 1, U.S. District Judge Andrew Hanen of Brownsville, Texas published an opinion awarding ASARCO LLC damages against Americas Mining Corporation (AMC) currently valued at about $6.04 billion.

Baker Botts represented ASARCO in the four-week bench trial in May and June 2008, and Judge Hanen issued an opinion regarding AMC's liability on August 30, 2008. The judge held that AMC perpetrated a fraudulent transfer when it acquired ASARCO's controlling interest in Southern Copper Corporation (SCC) on March 31, 2003. Judge Hanen also concluded that AMC aided and abetted ASARCO's former directors to breach fiduciary duties owed to ASARCO and its creditors, and conspired with ASARCO's former directors to breach those duties and to commit the fraudulent transfer.

In his April 1 opinion on damages, Judge Hanen ordered AMC to return to ASARCO the shares of SCC owned by ASARCO on March 30, 2003. Using SCC's closing stock price on April 1, ASARCO estimates those shares to be worth approximately $4.68 billion.

Judge Hanen also ordered AMC to pay ASARCO money damages of approximately $1.35 billion. The monetary award is comprised of dividends AMC received on the SPCC shares of $1.94 billion and prejudgment interest on those dividends of $329 million, less the $747 million that AMC paid for the SPCC shares, together with interest on that payment of $164 million.

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About Baker Botts L.L.P.

Baker Botts L.L.P., dating from 1840, is a leading international law firm with offices in Austin, Beijing, Dallas, Dubai, Hong Kong, Houston, London, Moscow, New York, Palo Alto (California), Riyadh and Washington. With approximately 800 lawyers, Baker Botts provides a full range of legal services to international, national and regional clients.

For more information, please visit www.bakerbotts.com

BRIGARD & URRUTIA

ADVISES COLINVERSIONES SA IN KIMBERLY CLARK DEAL

Earlier this year Brigard & Urrutia advised Colinversiones S.A. in the sale of 31% of Colombiana Kimberly Colpapel and 1.6% per cent of Papeles del Cauca for US$289 million, enabling Kimberly-Clark to take on full ownership.

For more information visit www.bu.com.co

GIDE LOYRETTE NOUEL

ADVISES DOMAINES BARON DE ROTHSCHILD ON HISTORIC CHINESE WINE PARTNERSHIP FOR CHATEAU LAFITE

Gide Loyrette Nouel (GLN) partner Guillaume Rougier-Brierre and senior associates Guillaume Jeannet and Jiang Chuan have advised Domaines Baron de Rothschild (DBR), one of France's most famous vineyards, on its investment in China's promising wine industry.

The GLN team assisted DBR, Chateau Lafite's parent company, on the establishment of a joint venture with China International Trust and Investment Company (CITIC). The partnership will develop 25 hectares of vineyards in Penglai Peninsula in Shandong Province, an area regarded as one of the most promising for the industry in terms of both its climatic and geological conditions.

The joint venture comes amid growing consumption of wine in China which is expected to reach 1.1 billion bottles of wine a year by 2011, double the figure of 2007, according to industry sources.

GLN acted as international counsel in all legal aspects of the joint venture.

For additional information visit www.gide.com

FRASER MILNER CASGRAIN

TEAM SCORES PENSION RECTIFICATION WIN FOR KRAFT CANADA, INC.

On February 27, 2009, the Ontario Superior Court of Justice released its decision in *Kraft Canada Inc. v. Karen Pitsadiotis*, the first decision in Canada which has applied the doctrine of rectification to correct an error in the text of a pension plan. In addition to the importance of the decision as the first where rectification has been applied to relieve against a mistaken plan text, the decision is also an important judicial consideration of the scope of the notice requirements for amendments under the Ontario *Pension Benefits Act*.

With the reforms to Ontario pension benefits legislation in 1987, Kraft's predecessor, Nabisco Brands Ltd., introduced a two year waiting period before employees would become eligible to join the pension plan. Appropriate amendments were made to the pension plan text in 1989 to reflect the change. Prior to 1989, employees were eligible to join the plan immediately upon hire. The pension benefits of all plan members, whether they were hired before or after 1989, was calculated based on the member's years of service while a member of the plan with the result that those members who joined the plan following the amendments in 1989 did not receive pension credit for the two year waiting period. The existing plan members were unaffected by the change.

Effective January 1, 1992, further amendments were made to the plan. These amendments were not intended to alter the changes made in 1989, which introduced the waiting period, or the manner in which pension benefit entitlements were calculated based on years of service while a member of the plan. However, in the course of revising the plan text to incorporate the unrelated amendments, the words "*during which he participates in the Plan*" were mistakenly deleted from the plan provisions which governed how pension benefits entitlement were to be determined, such that the plan could be read in a manner which gave credit for service for the waiting period.

Following the 1992 amendments, the plan continued to be administered on the same basis as it had since 1989, to give credit for the purposes of pension benefits entitlement for only those years during which a member participated in the plan. This was also continuously communicated to employees and plan members.

The mistake went unnoticed for many years. In 2003, one of the unions representing certain members of the plan requested that the Superintendent of Financial Services make an order requiring credit for service to be given for the two year waiting period. Kraft brought an application for rectification of the mistakenly drafted text. The application was opposed by a representative respondent appointed by the court to represent certain members of the same union that had applied to the Superintendent.

Rectification

Rectification is an equitable remedy that operates to relieve against the consequences of a mistake in a document in circumstances where the document, as written, does not truly reflect the intentions of the party or parties. This remedy is usually applied to relieve against a mistake in a bilateral written contract. In this case, however, the applicable provision in the pension plan had not been the subject of negotiation with plan members or their representatives.

The Court determined that the remedy of rectification is available for a pension plan, which is more akin to a unilateral instrument than a bilateral agreement, resulting from a negotiation between separate parties. In the case of a mistake in a unilateral instrument, the Court held that only the intention of the maker of the document is in issue, and concluded that the prerequisites for rectification established by the decision of the Supreme Court of Canada in *Performance Industries Ltd. v. Sylvan Lake Golf & Tennis Club Ltd.*, [2002] 1 S.C.R. 678 do not apply.

The Court noted the following factors as indicative of the fact that the pension plan was a unilateral document:

The plan provisions at issue were not negotiated terms

The plan was not incorporated by reference into the collective agreement with the union

Cont'd next page▶

FRASER MILNER CASGRAIN CONT'D

- The company reserved the right in the plan text to amend or discontinue the plan, in whole or in part, subject to statutory requirements
- The plan expressly provided that neither its terms nor the benefits provided by it constitute a contract between the company and any employee, or shall be deemed to be consideration for employment

In addition to considering the intention of the employer at the time the plan text was drafted, in arriving at its decision, the Court also noted the consistent administration of the plan in accordance with that intention. The Court concluded that it would create an injustice to deny rectification and require the employer to fund additional benefits that were never intended and that plan members could not reasonably expected to have received.

Notice Under the Act

The representative respondent also opposed the application on the basis that notice of the 1989 changes introducing the two year 1992 waiting period had not been given to all existing and former plan members at the time of the amendment.

The Court concluded that the notice provisions under the *Act* relied upon were not triggered by the 1989 amendment. Specifically, the Court found that there was no obligation to give notice to existing and former plan members of the 1989 changes under then section 26(1) (now section 27(1)) of the *Act*, as there was no change with the amendment that "*would result in a reduction of pension benefits accruing subsequent to the effective date…or that would otherwise adversely affect the rights or obligations of a member or former member or any other person entitled to payment from the pension fund*", as the pension benefit of existing and former members of the plan continued to be calculated in the same manner as it had prior to the amendment.

The Court also found that no notice was required to be given following the registration of the amendment as contemplated by section 26(3) of the *Act* (now section 27(3)), as notice of an adverse amendment need only be given to those who are affected by the amendment made. As it was only individuals who were hired after 1989 who were affected by the amendments, the Court found that it was not necessary for the administrator to give notice to those hired prior to the date of the change.

Although not advanced as an argument by the representative respondent, the Court also commented on the notice requirements under the *Act* applicable to unions (section 27(5)), noting that advance notice of a plan amendment to a trade union need only be given in circumstances where "the proposed amendment affects members or former members represented by a trade union that is a party to a collective agreement *filed* with the Superintendent of Pensions as a document that *creates or supports a pension plan*". As no such filing was made, and it could not be said that the collective agreement created or supported the pension plan, the Court concluded that notice was not required to be given under that section.

Kraft Canada Inc. was represented by Fraser Milner Casgrain LLP by a team consisting of Peter J. Cavanagh, Kate Broer, Reena Goyal and Mary Picard. If you have any further questions, please contact a member of our Litigation & Dispute Resolution or Pensions Groups.

For additional information visit www.fmc-law.com

HOGAN & HARTSON

ACHIEVES VICTORY BEFORE UNITED STATES SUPREME COURT IN BATTERY MANUFACTURERS CASE

WASHINGTON, D.C., March 23, 2009 – Hogan & Hartson LLP achieved a major victory before the United States Supreme Court on behalf of several Chinese battery manufacturers.

The U.S. Supreme Court announced today that it would not hear the petition of Energizer Holdings, Inc. and Eveready Battery Company to review a decision of the United States Court of Appeals for the Federal Circuit that invalidated Energizer's patent on zero-mercury-added alkaline batteries — batteries which are commonly used in household appliances such as flashlights and toys.

In April 2003, Energizer filed a complaint with the United States International Trade Commission (ITC) charging foreign battery manufacturers with infringing its patent. Energizer sought an order barring the importation of these batteries into the U.S. The Commission twice decided in favor of the firm's clients to terminate its Investigation No. 337-TA-493, In the Matter of Certain Zero-Mercury-Added Alkaline Batteries, Parts Thereof, and Products Containing Same, with a finding that the patent asserted by Energizer against the foreign battery manufacturers, including nine China battery companies, was invalid. Additionally, the Federal Circuit twice reviewed the Commission's determinations and twice rejected Energizer's pleas that it adopt a construction of the patent claims that would save the patent from invalidity. The Federal Circuit concluded in April 2008 that the Commission correctly had found Energizer's U.S. Patent No. 5,464,709 invalid for failure to meet the written description requirement of 35 U.S.C. § 112 ¶ 1. The Supreme Court's decision not to review the Federal Circuit's ruling marks the fifth and final effort by Energizer to resurrect the claim.

The decision leaves intact the Federal Circuit finding that there is a "fundamental disconnect" between the invention described and taught in the patent specification and what Energizer actually claimed in the patent. Hogan & Hartson argued that the ruling was therefore a result of Energizer's own defective claim language. The decision also undermines Energizer's claim that it solved the environmental problem of preventing battery leakage without the addition of mercury. Finally, the decision allows Chinese battery makers to continue importing into the U.S. zero-mercury-added alkaline batteries, which cause less environmental damage than batteries with mercury added.

Energizer previously had sued battery industry competitors Duracell, Rayovac, and Matsushita in separate federal court actions charging them with infringing the '709 patent. Each of the lawsuits was settled.

Hogan & Hartson represented nine Chinese battery companies named as respondents in the complaint: Fujian Nanping Nanfu Battery Co., Ltd.; Golden Power Industries, Ltd.; Zhongyin (Ningbo) Battery Co., Ltd.; Ningbo Baowang Battery Co., Ltd.; Guangzhou Tiger Head Battery Group Co., Ltd.; Sichuan Changhong Electric Co., Ltd.; Zhejiang 3-Turn Battery Co., Ltd.; Hi-Watt Battery Industry Co., Ltd.; and Guangdong Chaoan Zhenglong Enterprise Co., Ltd. China is the largest supplier of non-rechargeable or primary batteries, providing more than 33 percent of the global battery output. Its battery industry is worth more than USD $4 billion.

The matter was handled by Washington, D.C. partners Steven Hollman, Cate Stetson, and Susan Cook, Los Angeles partner Wei-Ning Yang, Beijing partners Roy Zou and Jun Wei, and associates Robert Wolinsky, Dana Boehm, Jessica Ellsworth, Rebecca Mandel, and Elizabeth King.

For additional information visit us at www.hhlaw.com

KING & WOOD

ASSISTS MOFCOM IN WINNING LANDMARK IPR PROTECTION DISPUTE

On March 20, 2009, the WTO Disputes Settlement Body adopted a panel report entitled: "China - Measures Affecting the Protection and Enforcement of Intellectual Property Rights".

The report rejected the majority claims raised by the United States Trade Representative challenging various aspects of China's IPR enforcement system. The PRC Ministry of Commerce also agreed that the panel's rulings exemplify a "broad affirmation of China's efforts to protect IPR."

King & Wood, who advised the Chinese government in this dispute, demonstrated a comprehensive understanding of the Chinese legal system and WTO rules by accurately articulating China's enforcement mechanisms against IPR infringement to all parties. King & Wood's meticulous and complete analysis ensured the Chinese authorities a solid victory in this high-stakes international dispute.

King & Wood has been at the forefront of PRC firms litigating WTO dispute cases. It has represented the Chinese government in nearly half of all WTO disputes in which China was either a plaintiff or respondent, and in more than a dozen cases where the PRC was a third party.

For additional information visit www.kingandwood.com

SKRINE

WINS LANDMARK ISLAMIC FINANCE APPEAL

SKRINE won a landmark appeal in Islamic Finance when it successfully argued in the Malaysian Court of Appeal that *Bai Bithaman Ajil* (BBA) contracts are valid and binding contracts as a mode of Islamic finance, thus over-turning a High Court decision which had caused considerable anxiety among Islamic financial institutions in Malaysia.

For more information visit www.skrine.com

NAUTADUTILH

ADVISES SNS BANK IN €2 BILLION STATE GUARANTEED BOND ISSUE

On 30 January 2009, SNS Bank successfully completed a 2 billion Euros bond issue guaranteed by the Dutch State under the Credit Guarantee Scheme that was established by the Dutch Ministry of Finance in October 2008 for the benefit of the financial sector.

Under the Credit Guarantee Scheme banks may under certain conditions apply for a state guarantee for bonds to be issued. The bonds issued by SNS Bank have a maturity of 3 years and a 2.875 per cent. interest rate. The issue was well over-subscribed up to an amount of 2.9 billion Euros. The bonds were placed with a large number of national and international investors.

SNS Bank was advised by the NautaDutilh team of Jan Paul Franx, Ger Cartigny, Anna Zwalve and Jochem Polderman.

For additional information visit www.nautadutilh.com

RODYK

ACTS FOR DOWA HOLDINGS IN ACQUISITION OF ALL SHARES IN MODERN ASIA ENVIRONMENTAL HOLDINGS, INC.

Rodyk was Singapore counsel for a Japanese-listed company, Dowa Holdings Co., Ltd ("Company"), in its subsidiary's acquisition of all the shares of Modern Asia Environmental Holdings Inc ("MAEH"). MAEH operates four waste management and disposal facilities in three countries in Southeast Asia (Singapore, Indonesia and Thailand).

The acquisition of MAEH allows the Company to replicate its successful Japanese business model in Southeast Asia and become a one-stop facility providing comprehensive services for waste management, soil remediation and recycling in Japan, China and Southeast Asia. The transaction was completed on 5 February 2009 with a confidential consideration price.

Rodyk Partner S. Sivanesan led this transaction supported by associate Sunil Rai and foreign lawyer Rajesh Venugopalan.

For additional information visit www.rodyk.com

LOVELLS

ADVISED ON THE LISTING OF CHINESE LIQUOR DISTRIBUTORSILVER BASE GROUP HOLDINGS LIMITED

Lovells has advised on the listing of Chinese liquor distributor Silver Base Group Holdings Limited ("Silver Base"), raising US$133 million (HK$1.03 billion), the joint-largest IPO in Hong Kong in 2009

Silver Base is one of the largest distributors of Wuliangye Liquor Series, a famous and traditional Chinese baijiu liquor. Silver Base has been distributing Wuliangye products in the international market since 1997. It started mainland distribution in 2006. Silver Base is also a distributor of Dimple Scotch Whisky and a number of PRC cigarette brands.

The offering comprised a Hong Kong Public Offering and International Offering of a total of 300 million shares, representing 25% of the share capital, and raised gross proceeds of US$133 million. Full exercise of the over-allotment will bring the total deal size to US$153 million.

The Hong Kong Public Offering was 43 times over-subscribed allowing the deal to be priced at the top of the range. The capital raised will be used for business development, inventory accumulation and as general working capital.

The Lovells team advising Silver Base was led by Corporate partner Terence Lau, supported by consultant Thomas Tarala, senior associate Cindy Kao and associates Phoebe Sun and Daniel Fogarty.

UBS and BOCI Asia Limited are the joint bookrunners and joint lead managers of the listing. Commenting on the deal, Terence said:

"We are delighted to have been able to work with Silver Base on its successful listing in the Hong Kong Stock Exchange. Given the current market situation, the listing is an important achievement for us, which proved that our expertise and professionalism can help clients successfully achieve their listing goals even under unfavourable economic situation. "

Notes for editor

About Lovells

With over 3,000 people operating from 27 offices in Asia, Europe, the Middle East and the United States, Lovells is one of the world's leading international law firms. We advise many of the world's largest corporations, financial institutions and governmental organisations. We regularly act on complex, multi jurisdictional transactions as well as some of the most high-profile commercial disputes. Lovells (the "firm") is an international legal practice comprising Lovells LLP and its affiliated businesses. Lovells LLP is a limited liability partnership registered in England and Wales with registered number OC323639. Registered office and principal place of business: Atlantic House, Holborn Viaduct, London EC1A 2FG.

The word "partner" is used to refer to a member of Lovells LLP, or an employee or consultant with equivalent standing and qualifications, and to a partner, member, employee or consultant in any of its affiliated businesses who has equivalent standing.

For additional information visit www.lovells.com

SANTAMARINA Y STETA

ADVISES ON SEVERAL MATTERS RELATED TO THE GLOBAL FINANCIAL CRISIS

Above 80% of the total of Mexican exports go to the US, and many suppliers of the US construction and automotive industries are based in Mexico. Therefore Mexico could not escape the global financial crisis originated in the US; particularly since September 2008. Besides, the weakening of the US dollar against the Mexican peso over the past years, prior to September 2008, caused many companies to make heavy bets against the US currency either by incurring in dollar denominated debt or by entering into complex toxic derivatives, or both.

Santamarina y Steta is heavily involved in representing some of the most high-profile insolvency proceedings and restructurings currently underway in Mexico. The firm represents a publicly-listed paper products manufacturer, *Corporación Durango, S.A.B. de C.V.* (Durango), in an insolvency proceeding, and was retained by the supermarket and retail chain holding company, *Controladora Comercial Mexicana, S.A.B. de C.V.* (CCM), after this company failed in its attempts to obtain bankruptcy court protection. CCM has received sizeable claims under derivatives contracts and is now pursuing an out-of-court restructuring.

The firm also represents a publicly listed conglomerate engaged in the production of auto parts and construction materials in the negotiation of an out-of-court restructuring. As part of the negotiations the company and its creditors have agreed to restructure bond issuances, grant additional collateral, etc. while preparing the defense against potential claims from certain creditors. Lawyers in several practice areas within the firm have been involved in the process.

Every one of the mentioned companies has operations on both sides of the border, Mexico and the US, and cross-border restructurings raise complicated issues involving the laws of the both countries. So, the firm has been active in the analysis of the laws and practices of the two jurisdictions to formulate a thorough strategy teaming up with foreign counsel.

Durango has subsidiaries in the US which filed for protection from its creditors under Chapter 11 of the US Bankruptcy Code, and Durango itself filed a parallel proceeding under Chapter 15 of such Code for the Mexican insolvency proceeding to be recognized by a US court and protect its assets in the US from foreclosure or attachment.

The Commercial Bankruptcy Law (*Ley de Concursos Mercantiles or LCM*) of Mexico allows both creditors and debtors to commence voluntary and involuntary reorganization proceedings. Such a filing grants the debtor the benefit of the automatic stay which prevents law suits from continuing and creditors from attaching or foreclosing liens on key assets, while the troubled company seeks to reorganize under the supervision of the court. In accordance with a relatively recent amendment, the LCM authorizes the filing of a “pre-packaged” insolvency proceeding which may prove to be a solution for troubled but otherwise healthy companies to come out of the crisis. These alternative and out-of-court restructurings may be the way to avoid the complexity of court proceedings and to save much needed jobs and investments.

Santamarina y Steta has also been actively representing a major public corporation that manufactures, distributes and commercializes automotive vehicles, as well as a corporation engaged in rendering services related to automobile, commercial and real estate financing, insurances, banking and real-estate services, in the procedures and filings carried out in Mexico with respect to the loans extended by the US Department of the Treasury.

For more information visit www.s-s.com.mx

TOZZINI FREIRE

ADVISES SOLVAY INDUPA IN BRAZILIAN DEPOSITORY RECEIPTS

Registration of Solvay Indupa Sociedad Anónima Industrial y Comercial (“Solvay Indupa”) as issuer of Brazilian Depositary Receipts (the “BDRs”) and the registration of the BDRs Program Level II with the CVM and BM&F BOVESPA with the purpose of trading such BDRs at BM&F BOVESPA.

Solvay Indupa is a company from the Solvay Group, an international group with headquarters in Brussels and is one of the most important petrochemical companies in the Mercosur. Its main products are PVC resins and Caustic Soda. Solvay Indupa has its main offices in Buenos Aires, Argentina and two industrial sites: one in Bahía Blanca (Argentina) and the other in Santo André (Brazil).

The intent of Solvay Indupa is to be registered as an issuer of BDRs with the CVM and BM&F BOVESPA and to become a bi-national company with registration in the two most important countries in South America: Argentina and Brazil.

The registration of Solvay Indupa as an issuer of BDRs in the Program Level II is the first of its kind in Brazil.

Advising the Issuer, the TozziniFreire team included Partners Antonio Felix de Araujo Cintra; Ana Carolina de Salles Freire; and Associates Janaina Maluf Pichinin Pavan; Lin Ye Lin; Crisleine Barboza Yamaji; and Thales Tormin Saito.

For additional information visit www.tozzinifreire.com.br

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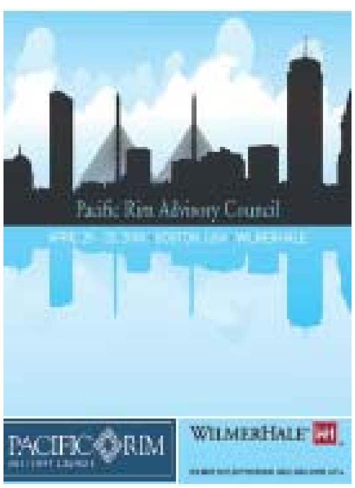

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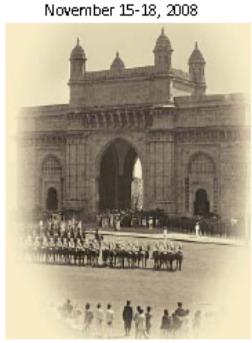

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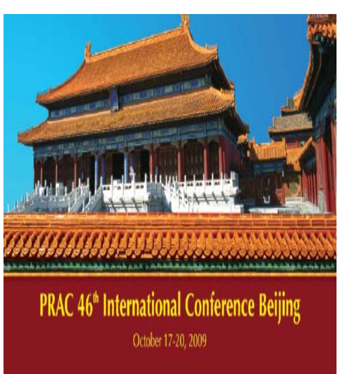

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08 April 2009

Shareholders get to inspect Directors and Officers' liability insurance policies

print

A court has ordered a company to allow a shareholder to inspect its D&O policies. Inspection was to help the shareholder decide whether it was worthwhile suing the company's directors. This does not mean that all D&O policies are now available for inspection by all shareholders, but it does represent a significant intrusion into the confidentiality of D&O arrangements.

Background

A shareholder of Style Ltd wanted to inspect the company's records, under section 247A of the Corporations Act. The shareholder wanted to determine whether Style's directors had breached their duties to the company and, if so, whether the shareholder should apply to begin a derivative action against the directors.

The Court concluded that in seeking access for this purpose the shareholder was acting "in good faith" and "for a proper purpose" (as required by section 247A).

As is usual in this type of case, inspection of a wide range of documents was sought. However, there was one unusual group of documents that the shareholder wanted to see: the company's D&O insurance policies.

The Court noted that this appeared to be the first time that such an application had been made.

D&O liability policies

The shareholder pointed out that it is quite common for liquidators of a failed company to be given access to D&O policies and to quiz insurers about those policies. (These orders are made to allow the liquidator to determine whether a law suit against the company's directors would be financially rewarding.)

The contrary view was that was a totally different situation, for two reasons:

- liquidators are not ordinary private litigants - they hold offices and exercise powers created by the Corporations Act;
- the "real" purpose of section 247A is simply to allow shareholders to determine whether directors have a case to answer, not to allow them to work out how much money a successful suit against them could bring in.

The Court agreed that the analogy with liquidators was not perfect. It pointed out that liquidators often seek information about D&O policies because they don't know if the company even has such policies. By contrast, in this case, the company's annual reports had indicated that the company had D&O policies.

Nevertheless, all that the annual reports indicated was that there had been policies during the relevant (and now past) financial year. The shareholder had no idea what the policies covered and whether they were still current.

Accordingly, the Court thought that it was appropriate to allow the shareholder to inspect any D&O policies currently held by the company. The information in those policies would be relevant to any decision on whether to begin derivative proceedings against the directors.

Comment

This is the first reported instance in which such an inspection order has been made.

It clearly does not open the floodgates to all shareholders. Nevertheless, at a time when litigation against directors (particularly class-actions) is steadily increasing, we would expect that this type of inspection order will become more common.

An obvious immediate concern for both companies and their insurers will be confidentiality. The Corporations Act itself imposes criminal liability on anyone who discloses (to a third party) information obtained from a court-ordered inspection of company records. This means that competitive confidentiality should not be at risk when this type of order is made.

Nevertheless, there is a second, separate confidentiality issue: many older D&O policies contain confidentiality clauses which bind both the company and its directors. If a court orders that a shareholder should be given access to those policies, those confidentiality provisions would be overridden to the extent necessary to comply with the order.

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print

March 2009

Antitrust Litigation in China

By Susan Ning*

The *PRC Anti-monopoly Law* ("**AML**") took effect on August 1, 2008. Several civil or administrative litigation cases followed, including China Netcom's discriminatory pricing case and the General Administration of Quality Supervision, Inspection and Quarantine (**AQSIQ**), an abuse of administrative power and administrative monopoly case.

Since the relevant implementation regulations for litigation have not been issued, many important issues relating to antitrust litigation are still unclear. The issues include the scope of the right to file the private antitrust litigation, which Courts have jurisdiction and the burden of proof. Of course many leading multi-national companies in various industries are interested in these questions. This article explores these issues and gives our views concerning likely future action.

I. Civil Litigation

Civil or administrative litigation should be conducted under the procedures provided in the *Civil Procedure Law* or in the *Administrative Procedure Law*.

A. Jurisdiction

Article 50 of the AML provides that "Operators who implement monopolistic conduct and cause loss to others shall bear civil liability according to law." The PRC Supreme People's Court ("**SPC**") has issued a *Notice on Study and Adjudication of AML Disputes* ("**SPC Notice**"), published by the SPC on July 28, 2008. According to the SPC Notice, the Intellectual Property Tribunal will have jurisdiction over AML cases. In China, not every level of local court has IP Tribunals. Although some sophisticated and experienced first-level local courts have jurisdiction over IP cases, IP Tribunals usually reside within intermediate courts.

Under the *Civil Procedure Law*, an intermediate court, higher court, or the Supreme People's Court, may hear a case in the first instance if the case has a potentially significant impact in the areas of their respective jurisdiction.[1] The SPC Notice recognized that antitrust cases are highly complex, involving both economic and legal issues, and that outcomes of antitrust cases will have significant influence both on the enterprises concerned and the industry as a whole. This indicates that the antitrust cases are likely to be heard by an intermediate court (not a trial court) in the first instance.

B. Who Can Be the Plaintiff?

The SPC Notice makes clear that a civil proceeding brought up against monopolistic conducts is acceptable if it fulfills the criteria set out in Article 108 of the *Civil Procedure Law*, which are:

a) the plaintiff should have direct interest in the case;
b) the defendant is specific;
c) there is a concrete claim, a factual basis and a cause for the action; and
d) the action falls within the scope of acceptance for civil lawsuits of the people's courts and within the specific jurisdiction of the people's court where it is filed.

[1] See Articles 19, 20, and 21 of the *Civil Procedure Law*.

Consumers are usually direct purchasers and have standing to file antitrust lawsuits, because they have direct interest in the outcome of their cases. However, if consumers are indirect purchasers, they may not have standing to file an antitrust lawsuit under Article 50 of the AML. For instance, if price fixing occurs among manufacturers, wholesalers can bring lawsuit against the manufactures. But others in the chain of production, such as ultimate consumers, may not have standing to file a lawsuit, because they do not have direct interest in the case even if they suffer indirect losses from the illegal conduct.

Competitors who suffer losses from monopolistic conduct by an operator (for example in an abuse of dominance case) have direct interest in the case and are likely to have standing to file antitrust lawsuit in the People's Court.

C. Burden of Proof

There is no equivalent of the discovery proceedings in China, which is available in common-law jurisdictions. The general rule on presentation of evidence is that the party asserting the allegation bears the burden of proof. Article 64 of the *Civil Procedure Law* provides," a party shall have the responsibility to provide evidence in support of its own propositions. With respect to the evidence that the party and its agent *ad litem* are unable to obtain themselves because of objective reasons or that the people's court considers necessary for the trial of the case, the people's court shall investigate and collect it on its own initiative." Therefore, in general, the plaintiff in an antitrust case needs to collect sufficient evidence to discharge that burden.

D. Remedies

The forms of civil liabilities are provided in Article 134 of the *General Principles of Civil Law*: "cessation of infringement; elimination of obstruction; elimination of danger; return of property; restoration of original conditions; repair, reconstruction, or replacement; payment of compensation; payment of penalty, elimination of adverse effects and restoration of reputation; apology". The People's Court may also "issue admonitions, order repentance, or confiscate property used for illegal activities or assets obtained illegally, and may also impose fines or detention in accordance with law".

Payment of compensation is probably the most important form of remedy in the AML cases. Without clear authorization under the AML, it is still unclear whether the court can issue the injunction.

E. Assessing the Amount of Compensation

How to calculate amount of compensation will be a significant challenge for the people's courts of China. Article 20 of the *Anti-Unfair Competition Law,* which provides: when an operator violates a provision of this law, causes damages to infringed operators, the operator shall be liable for compensating the damages. If it is difficult to measure the amount of the losses suffered by the infringed operator, the amount of the compensation shall equal the profit made by the infringer during the course of infringement. The operator shall also compensate the infringed operator who has paid the cost to investigate the activities of unfair competition made by the operator their reasonable costs." This rule could be adopted in calculate the damage in the antitrust case. That is, usually, the compensation amount can be calculated based on the losses of the complainant or the illegal gain of the defendant. When the complainant finds it difficult to prove certain losses suffered from the monopolistic conduct, the court may base on the amount of illegal gain received by the defendant.

F. Relation between Administrative Investigation and the Civil Litigation

Administrative investigation is not a procedure required for a civil lawsuit. If certain findings are made by the Anti-monopoly Enforcement Agency ("**AMEA**"), such findings are not binding for the People's Court of China. If both an administrative investigation and a civil lawsuit have commenced, the People's Court will not stay the court proceeding to wait for the outcome of an administrative investigation.

G. Abuse of IP

Article 55 of the AML provides: "This law shall not apply to the conduct of operators in exercising their intellectual property rights consistent with the laws and relevant administrative regulations on intellectual property rights. However, this Law shall apply to the conduct of operators to eliminate or restrict market competition by abusing their intellectual property rights."

The first half of Article 55 sets out an exemption from the application of the AML, which means owners of IP rights will not be subject to scrutiny under the AML for merely exercising their rights consistent with the laws and relevant administrative regulations on IP rights. The second half of Article 55 sets out a standard: if operators engage in conduct which seeks to eliminate or restrict market competition by abusing their IP rights, the AML shall apply.

The exemption under Article 55 is not unconditional. Only conducts consisting in exercising IP rights in accordance with the laws and relevant administrative regulations on IP rights will be exempted from the application of the AML.

In an antitrust litigation, the complaint may focus on the monopolistic conduct and see whether it violates specific provisions of the AML. When the defendant has recourse to Article 55 as a defense, the complainant must prove the defense is not available relying on the second half of Article 55 on the basis the conduct constitutes IP abuse.

II. Administrative Litigation

According to Article 39 of the AML, the AMEA has extensive investigatory powers by carrying out on-site investigations; interviewing individuals; requesting for and duplicating documents, agreements, account books, business correspondences and electronic data; seizing and detaining relevant evidence; and inquiring about the bank accounts of operators under investigation.

In addition, the AMEA is authorized by the AML to impose penalties for particular measures. Such administrative penalties include: an order to stop the violations; confiscation of the illegal gains and imposition of a fine between 1% to 10% of the sales revenue in the previous year; or a fine of less than RMB 500,000.

According to Article 53 of the AML where interested parties are dissatisfied with decisions made by the AMEA, they may lodge administrative lawsuits to challenge the decision.

In an administrative litigation related to the Antimonopoly Law enforcement, for decisions other than merger control reviews, private parties can bring damages claims themselves directly in court against the AMEA without applying a prior administrative reconsideration, i.e. the parties may choose either to apply for administrative reconsideration or immediately file an administrative lawsuit with the courts. However, for decisions related to merger control review, a prior administrative reconsideration is required.

A. Jurisdiction

According to Article 3 of the *Administrative Procedure Law,* administrative suits are to be handled by the Administrative Tribunal in the People's Court. Similar to a civil litigation, an intermediate court, high court, or the Supreme People's Court, may hear a case in the first instance if the case has a potentially significant impact in the areas of their respective jurisdiction.[2]

[2] See Articles 14, 15 and 16 of the *Administrative Procedure Law*.

B. Who Can be Sued?

The AML stipulates in general that there are three levels of government agencies which are responsible for the enforcement of the AML: (1) the State Council is responsible for the establishment of an Anti-monopoly Commission ("**AMC**"); (2) at the ministerial level, the State Council is required to designate the AMEA; (3) at the local level, the AMEA may empower corresponding agencies in the government at the provincial level to be responsible for enforcement of the AML.

The function of the AMC is to coordinate anti-monopoly related work at a national level, and research, make, and publish anti-monopoly related policies and regulations. The Ministry of Commerce ("**MOFCOM**"), the National Development and Reform Commission ("**NDRC**"), and the State Administration for Industry and Commerce ("**SAIC**"), and their respective counterparts at the provincial level are responsible for enforcement of the AML. Given that the ministerial level and local level institutions are those who will enforce the AML in daily practice, and they will take specific administrative action in matters, they are potentially defendants in AML-related administrative lawsuits. The AMC as an inter-governmental institution cannot be sued as a defendant under the AML.

C. What Acts Can Give Rise to Litigation?

The *Administrative Procedure Law* allows parties to bring suit when their legitimate rights and interests are infringed by a specific administrative act of an administrative organ or its personnel. Therefore, specific administrative acts related to AML including administrative licensing, penalties, decisions, approvals, and enforcement can be cause of actions for AML-related administrative lawsuits.

D. Burden of Proof

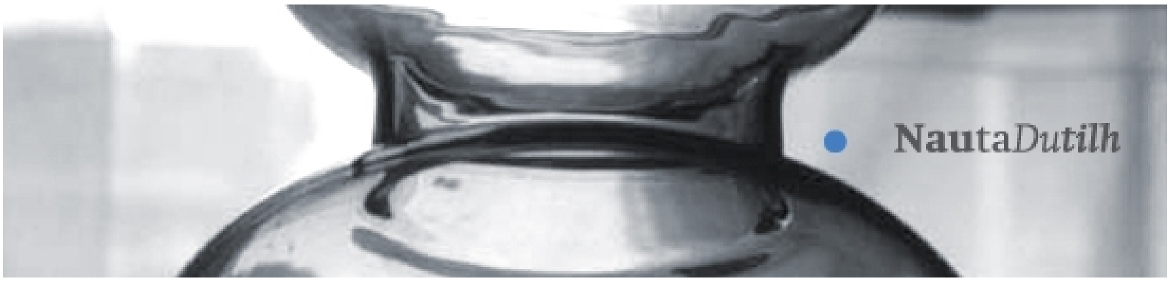
Defendants bear the burden to prove that their specific administrative acts are in compliance with applicable laws. Article 32 of the *Administrative Procedure Law* provides, "the defendant shall have the burden of proof in relation to the specific administrative action he or she has undertaken and shall provide the evidence and regulatory documents in accordance with which the act has been undertaken."

Conclusion

The long-awaited AML has left quite a number of implementation questions unanswered. The early cases expected to be decided under the AML soon should provide more guidance on these unanswered questions.

* Susan Ning is a partner of King & Wood's International Trade Group in Beijing.

Newsflash
Taxation



Clarification of the Luxembourg Tax Treatment of Intellectual Property Income **23 March 2009**

This newsletter is sent from our Luxembourg office

On 21 December 2007, the Luxembourg government introduced beneficial tax treatment for income deriving from intellectual property (IP) rights (the "IP regime"). Pursuant to the IP regime, 80% of net income and capital gains derived from software copyrights, patents, trademarks, designs, models and domain names is exempt from corporate income tax. Furthermore, under the IP regime, a taxpayer who develops a patent and uses it for its own activities is entitled to a notional deduction of 80% of the net remuneration that a third party would have paid on an arm's-length basis to use the patent. Qualifying IP assets are also exempt from the net wealth tax.

A much-awaited circular was finally issued by the Luxembourg tax authorities on 5 March 2009, laying down certain guidelines with respect to the IP regime and clarifying certain points. These points can be summarised as follows.

Nature of the IP rights
The circular provides explanations and illustrations for each category of qualifying IP rights. In general, the tax authorities have taken a broad view on the scope of the qualifying IP rights. In other words, IP rights will benefit from the regime as long as protection is granted. For instance, with respect to patents, it has been specified that supplementary protection certificates (SPCs) may also benefit from the IP regime.

Ownership of the IP rights
The circular confirms that the owner of a qualifying IP asset needn't necessarily be the creator, inventor or initial applicant in order to claim the benefit of the 80% exemption under the IP regime. This is, however, not true for the 80% notional deduction, which is only available to the creator of the patent.

Also, in accordance with the substance-over-form principle of Luxembourg tax law, the circular specifies that if the economic owner and the legal owner of qualifying IP assets are not the same person, only the economic owner can claim the benefit of the IP regime.

Royalties
The IP regime only applies to income that qualifies as royalties within the meaning of Article 12 §2 of the OECD Model Tax Convention. For example, the circular mentions that qualifying income includes damages for the infringement of IP rights within the meaning of the OECD Model Tax Convention. The circular stipulates however that if an IP license agreement also includes the supply of other services or covers rights that are ineligible for the IP regime, the income should be prorated and only the qualifying portion can benefit from the favourable rules.

Qualifying acquisitions
In order to benefit from the IP regime, the IP rights must have been created or acquired after 31 December 2007.

The circular stipulates that if the IP rights are acquired via tax-neutral transactions (e.g. roll-over relief upon the transfer of IP assets in a branch of activity or pursuant to a merger), the initial acquisition date of the IP assets by the transferring entity will be considered the acquirer's acquisition date as well.

Furthermore, the circular indicates that in the event of the migration of a non-resident entity to Luxembourg, the conversion of a tax-exempt entity into an ordinary fully taxable entity or the transfer of assets from a non-resident entity to a Luxembourg permanent establishment, the initial acquisition date of the IP assets shall continue to be used to determine when the assets were acquired. Even if, in these cases, a revaluation of the assets is required from a tax perspective, any such revaluation would not be relevant to determine the acquisition date of the assets.

Related companies
In order to benefit from the IP regime, the IP rights must not have been acquired from a related party. A "related party" is defined in the law as (i) a company that holds a direct stake of at least 10% in the company acquiring the IP rights, (ii) a company in which the acquiring company has a stake of at least 10%, or (iii) a company at least 10% of whose share capital is directly held by a third company which in turn holds at least 10% of the company claiming the benefit of the IP regime.

In this respect, the circular specifies that a qualifying IP asset acquired by a company owned by an individual (or partnership) shareholder can qualify for the regime regardless of the size of that shareholder's stake in the company. In addition, according to the circular, the determination of whether two parties are related should be made at the time the intangible asset (IP right) is transferred.

Foreign withholding taxes
The circular confirms that foreign withholding taxes may be credited or deducted, subject to certain limitations.

Valuation of IP rights
Taxpayers can use all generally accepted valuation methods to value their IP rights. In transactions between related parties, valuation should be based on the arm's-length principle. In addition, the circular allows a simplified valuation method to be used for small and medium-sized companies.

Contact

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Surprise! You're an ISP

The liability of Internet service providers (**ISPs**) for the infringing acts of their users has long been a grey area. Overseas, 'safe harbour' legislation has been passed to provide clarity to this situation by excluding ISPs from liability for copyright infringement provided certain procedures are followed.

Sections 92A to E of the Copyright Act, inserted by the Copyright (New Technologies) Amendment Act, were intended to provide similar clarity for New Zealand ISPs. Rather, as we have seen with the media furore surrounding section 92A, the new laws have only created greater uncertainty.

One largely overlooked aspect of the new laws is that almost every business falls within the definition of an ISP as set out in the Act. This will have important risk management and employment ramifications for businesses which should be addressed as soon as possible.

Why Businesses Should Take Note

As defined under the Act, almost every business could be considered an ISP. The Act defines an ISP as someone who does either or both of the following:

- Offers the transmission, routing, or providing of connections for digital online communications, between or among points specified by a user, of material of the user's choosing; and/or
- Hosts material on websites or other electronic retrieval systems that can be accessed by a user.

As a result, almost every business could fall within the definition of an ISP, by virtue of their 'hosting' of material on 'electronic retrieval systems' accessible to users (employees).

The New Laws

Section 92A

In recent weeks it has been difficult to open a newspaper without being confronted by an assault against the controversial section 92A of the Copyright Act. The Creative Freedom foundation has launched a campaign against the new law, which it labels as one of 'guilt upon accusation', and even British comedian Stephen Fry has joined a protest group against it.

Section 92A requires ISPs to adopt and reasonably implement a policy under which they will, in appropriate circumstances, terminate the accounts of those who repeatedly use their Internet accounts to infringe copyright. The Act does not elaborate on what the 'reasonable implementation' of such a policy might entail, or under which circumstances the termination of a user's account is 'appropriate'. A 'repeat infringer' is circularly defined as a person who repeatedly infringes copyright in a work by using one or more of the Internet services of the ISP.

This broad wording was intended to allow those that fall within the term ISP the flexibility to tailor the final form of the policy required by section 92A to their own particular situation. In many cases, pre-existing ISP terms and policies may have been sufficient.

While there may have been merit in this thinking when the section was drafted, the lack of subsequent guidance regarding the practical implementation of the new law has resulted in exactly what the Act intended to avoid – a feeling of uncertainty for ISPs. On 23 March, just four days before the section was due to come into force, the government announced that section 92A was to be placed under review, meaning that the final wording of this section, too, is uncertain.

Sections 92B-E

A number of other sections elaborate on the position of ISPs and the circumstances in which they will be considered liable:

- In practical terms, section 92B provides that an ISP does not infringe copyright in a work merely because a person uses the ISP's services to infringe copyright – something more is required.

- Section 92C provides that an ISP is not liable for storing infringing material provided by a user of its service unless the ISP knew or had reason to believe that the material infringes copyright in the work and does not, as soon as possible after becoming aware of the infringing material, delete the material or prevent access to it. The Act envisages that an ISP will be put 'on notice' by the issuing of a take-down notice (detailed in section 92D and in the related regulations). The ISP will also be liable if the user was acting on behalf of, or at the direction of the ISP when it downloaded the infringing material.

- Section 92E contains separate provisions relating to ISP liability for caching material.

These sections collectively provide so-called 'safe harbour' provisions, bringing New Zealand's ISP liability limitations broadly in line with its major trading partners such as the United States.

Businesses are therefore required to adopt and put in place effective policies for dealing with users (employees) that use the Internet to deal with material that infringes copyright. With the exception of section 92A, the provisions set out above are now in force. It is therefore imperative that businesses ensure they are compliant with the new law *now*, as non-compliance with the new laws could expose businesses to liability for the infringing acts of their employees.

Comment

It is well known that employees have a habit of using work computers for infringing acts – whether copying material from the Internet, swapping files or pictures, or downloading music. In order to avoid liability for the acts of their employees, employers will need to comply with these ISP requirements.

In order to avoid liability we are strongly recommending to our clients that they take steps to bring their internal procedures in line with the new amendments. Often this will require only relatively minor adjustments to current policies and procedures.

Because of the employer's deep pockets and high profile status, rights-holders are more likely to take action against an infringer's employer than against the infringer personally. Don't let your business be made an example of.

Key Contacts

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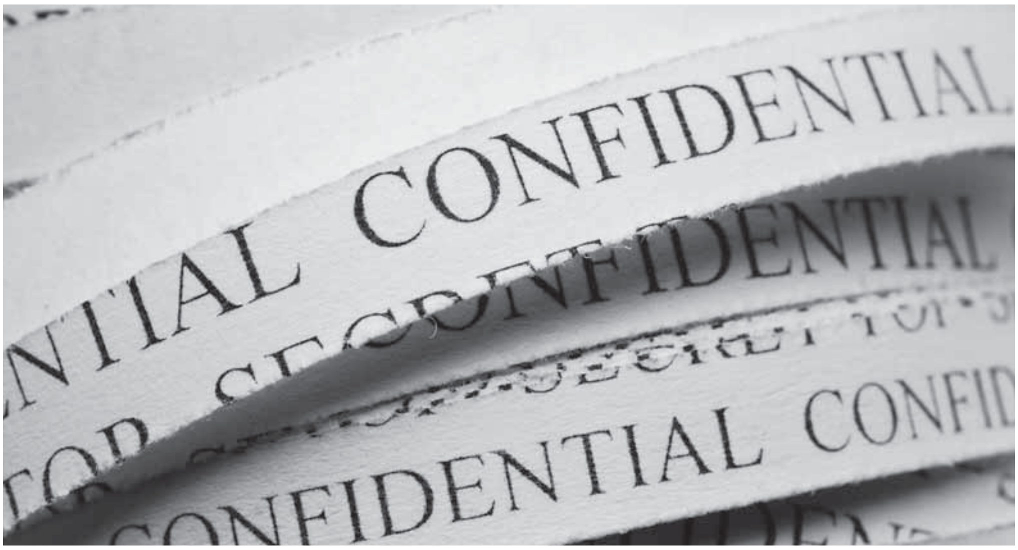
Note: *The information provided in this article is intended to provide general information only. This information is not intended to constitute expert or professional advice and should not be relied upon as such. Specialist legal advice should always be sought for your particular circumstances*.

April 2009

Duty Of Confidentiality Versus Interests Of Third Party Security Providers



"In exceptional situations where the bank had such contractual rights of disclosure and where there were 'unusual features' in its transactions with the borrower, it is possible that a court may find the bank bound to disclose information to the surety…"

Introduction

Conflicts between confidentiality and disclosure obligations manifest most starkly in suretyship transactions, not least in the context of guarantees taken by banks in respect of their customers. Third party security providers would usually want to know the precise nature, scope and extent of the security they are providing, as well as the liability incurred by the customer that they may be exposed to at any given time. While it is essential for such information to be honest, accurate and given with reasonable care, such disclosure would be in direct conflict with the bank's duty of confidentiality owed to its customer.

Duty of confidentiality

Banks in Singapore have both a contractual and statutory duty to keep the affairs of their customers confidential. The contractual duty is implied from the banker and customer relationship while the statutory duty is imposed by section 47 of the Banking Act (the "Act") which provides for a general prohibition against disclosure of customer information followed by a limited number of exceptions embodied in the Third Schedule of the Act. What is the impact of this duty of confidentiality on the common law doctrine of implied consent and the limited duty of disclosure?

Implied consent to disclose and the limited duty of disclosure

The most authoritative statement of the scope of the common law duty of confidentiality is from *Hamilton v Watson* (1845) 12 Cl & Fin 109 which states that, unless the surety questions the bank for information on the customer, it is unnecessary for the bank to make any such disclosure to the surety. However, "where there is anything that might not naturally be expected to take place between the parties who are concerned in the transaction, to the effect that the position shall be different from what which the surety might expect, then disclosure ought to be made voluntarily". Thus, it would seem that the case alludes to a limited duty of disclosure with reference to any transaction between the bank and the customer which might potentially "subvert the presumed basis of the guarantee".

The Singapore Court of Appeal in *Habibullah Mohamed Yousuff v Indian Bank* [1999] 2 SLR

Continued ›

"…the court hoped that, in time to come, there would be amendments to the Act or new legislation altogether to strike an appropriate and fair balance between the interests of confidentiality for banks and the protection of guarantors."

650 accepted and applied the principle requiring a bank to disclose "unusual features" relating to its transaction with the customer to the surety. Section 47(4) of the Act, as it was when the *Habibullah* case was decided, had excluded information relating to "credit facilities granted by a branch in Singapore or a bank incorporated outside Singapore" from the scope of section 47 of the Act. Thus, the Court of Appeal did not have to consider the impact of the banking secrecy legislation (as it was then) on the common law doctrine of limited duty of disclosure.

Singapore position today?

The High Court recently considered these issues in *Susilawati v American Express Bank Ltd* [2008] 1 SLR 237; [2007] SGHC 179. The plaintiff executed a third party charge over all moneys in her account with the bank to secure the liability of her son-in-law (the "Borrower") to the bank. Later, as a result of the Borrower's inability to discharge his liabilities, the bank deducted a sum of money from the account. The plaintiff brought an action against the bank to recover the money.

Among other things, the High Court noted that:

(1) the bank was aware of the potential conflict of interest between the plaintiff and the Borrower, who was a remunerated referral agent for the bank;

(2) the bank's lack of vigilance had contributed in no small measure to the present dispute;

(3) the information regarding the debts or liabilities that the Borrower was incurring fell squarely within the ambit of banking secrecy laws; and

(4) there was no evidence that the plaintiff had at any time requested such information and/or that it had been denied.

After examining the principles in common law and interpreting the same in the context of our current statutory regime, the High Court stated that section 47 of the Act effectively negates the doctrine of implied consent to disclosure. Therefore, nothing less than a written consent by the customer or his personal representatives would suffice to lift the prohibition against disclosure. In this particular case, the bank did not have express written consent from the Borrower to disclose information to the plaintiff. As such, the plaintiff's claim was dismissed.

Interestingly, the High Court also stated that:

(1) where a guarantor or surety requests for information, banks are best advised to ensure that it has the customer's explicit written authority to override its statutory duties of

Continued ›

confidentiality. Where there is no express written authority from the customer, the prudent thing would be "to arrange for a joint meeting with the customer and the surety, during which the surety may, in the presence of the customer, ask for information on matters relating to the customer's affairs";

(2) alternatively, a person asked to provide security should insist as a precondition that the customer gives his express consent to the bank to disclose his liabilities "both at the time when the security is executed and at periodic intervals", for so long as the security is in force. Therefore, the practice of obtaining written consent at periodic intervals from the customer is one which banks may consider adopting; and

(3) the court hoped that, in time to come, there would be amendments to the Act or new legislation altogether to strike an appropriate and fair balance between the interests of confidentiality for banks and the protection of guarantors. At the very least, such new legislation would provide a modicum of guidance to banks who find themselves in a similar position to the defendant, to avoid being the recipient of writs from disgruntled guarantors.

Possible implications and unresolved matters

It has become common practice for banks to include in its legal documentation today clauses which entitle the bank to disclose information about the borrower and the banking facilities and information regarding the moneys or other relevant particulars of the borrower's accounts with the bank to, *inter alia*, relevant security parties.

While such disclosure clauses are usually advantageous to the bank, it has yet to be decided whether such disclosure clauses, which are in effect written consent to disclosure from the borrower, allow for the common law doctrine of limited duty of disclosure to apply. In exceptional situations where the bank had such contractual rights of disclosure and where there were 'unusual features' in its transactions with the borrower, it is possible that a court may find the bank bound to disclose information to the surety, failing which the security would be rendered unenforceable.

Further, the High Court's suggestion of obtaining written consent periodically so long as the security is in force in the *Susilawati* case raises doubts as to whether the disclosure clause would be regarded as sufficient 'written consent to disclosure'. While such a statement is merely dicta, the possibility that banks may not be fully protected by such standard disclosure clauses from the duty of confidentiality is enough cause for concern. This is particularly so given that it is an offence to act in contravention of section 47 of the Act.

In conclusion, we echo the High Court's sentiment in the *Susilawati* case for amendments to the Act or the enactment of new legislation. There is clearly a need for clarity in the laws of banking secrecy and also guidance for banks so that they may avoid suits from disgruntled third party security providers as well as the criminal liability of banks and bank officers pursuant to the Act. In the meantime, banks should exercise caution when disclosing information and be vigilant in situations which might be unusual or where the third party security provider has no control over the liabilities of the borrower.

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FOCUS

RULES AMENDED TO ATTRACT INVESTMENTS FROM FOREIGN TECHNOLOGY COMPANIES

Lihuei Mao/Winnie Lin

The Taiwan Stock Exchange Corporation ("TSE") and the GreTai Securities Market ("GTSM") have amended their listing rules by relaxing certain restrictions on foreign technology companies' applications for listing on TSE and the GTSM in Taiwan.

Under the new listing rules for the foreign technology companies, if a foreign company or a subsidiary in which it holds over 50% shares has obtained an opinion from the Industrial Investment Bureau of the Ministry of Economic Affairs or a professional institution recognized by the TSE or GTSM proving that either of them is a technology company and whose product(s) or technology(s) is well developed and marketable, such company may be exempt from certain restrictions when applying for listing in Taiwan. For example, for listing on the GTSM, the requirements regarding the establishment period and profitability are lifted. As for listing on the TSE, the major differences of the requirements are as follows:

Requirements for Listing on the TSE	Other foreign companies	Foreign technology companies
Establishment Period	Business records for at least 3 years	Business records for at least 1 year
Capital	A paid-in capital/shareholders' equity of at least NT$600,000,000 *and* a market value of at least NT$1,600,000,000	A paid-in capital/shareholders' equity of at least NT$300,000,000 *or* a market value of at least NT$800,000,000
Profitability	The pre-tax revenue in the past 3 years has reached NT$250,000,000, the pre-tax revenue in the past year has reached NT$120,000,000, and there was no accumulated loss in the past year.	The net asset value stated on the audited financial report for the past year shall be at least two-thirds of the shareholders' equity, and the company has sufficient operating capital for 12 months after the listing.
Registered Shareholders	The number of registered shareholders shall exceed 1,000; there shall be at least 500 non-insider shareholders, and their aggregate shareholdings shall exceed 20% of the issued and outstanding shares or reach at least 10,000,000 shares.	The number of registered shareholders shall exceed 500; the aggregate shareholdings of the non-insider shareholders shall exceed 20% of the issued and outstanding shares or reach 5,000,000 shares.

On the other hand, the lock-up requirements are expanded. In addition to the directors, supervisors and shareholders holding 10% or more shares, (i) a shareholder holding 5% or more shares, (ii) a shareholder who holds 0.5% or more shares or holds over 100,000 shares by way of technological contributions and who also works for the company, are also subject to lock-up requirements.

Please refer to our November 2008 and January 2009 bulletin for related reports.

California Court of Appeal Says MySpace Not Private

04.08.09

Author: Kelli L. Sager and Jeff Glasser

In a decision that reinforces the application of traditional free speech protections to claims arising from Internet publications, the California Fifth District Court of Appeal has held that a plaintiff may not maintain an action for invasion of privacy based on the republication of information she voluntarily posted to her MySpace.com page.

Writing for a unanimous three-judge panel, Justice Bert Levy found that no reasonable person would have an expectation of privacy regarding information that he or she has freely disseminated on a public social networking Web site. “A matter that is already public or that has previously become part of the public domain is not private,” according to the court.

In *Moreno v. Hanford Sentinel Inc.*, No. F054138 (Cal. Ct. App. Apr. 2, 2009), plaintiff Cynthia Moreno posted an article on her MySpace page titled “An Ode to Coalinga,” which railed against the Central California town where she grew up. After the principal at Moreno’s former high school convinced a friend to publish the ode in the local newspaper, the Coalinga Record, Moreno and her family claimed that they were so severely harassed by local residents that the family was forced to move out of town. Moreno and other family members sued the principal and the newspaper publishers[1] for invasion of privacy by publication of private facts, and for intentional infliction of emotional distress.

In the published portion of the decision, the Court of Appeal rejected Moreno’s privacy claim on the ground that the allegedly “private facts” were not actually private. As the court explained, whether or not Moreno intended her article to reach only a limited audience, “[b]y posting the article on myspace.com, Cynthia opened the article to the public at large. Her potential audience was vast.” The court also rejected Moreno’s claim that her name was private because the article only used her first name, noting that “her identity was readily ascertainable from her MySpace page.[2]

This decision is consistent with a 2005 ruling from a federal district court in San Diego, which held that the Associated Press did not violate the privacy rights of Navy SEALs by republishing photographs found on the Internet that depicted the SEALs roughing up detainees in Iraq. *Four Navy Seals v. Associated Press et al.*, 413 F. Supp. 2d 1136 (S.D. Cal. 2005). The district court held that because the plaintiffs had willingly taken these photographs and allowed them to be placed on the Internet, their privacy was not invaded when the same photographs were widely distributed by the Associated Press. *Id*.

Both *Moreno* and *Four Navy Seals* applied protections against privacy claims that developed in response to claims against traditional media companies. For example, more than two decades ago, in *Sipple v. Chronicle Publishing Co.*, 154 Cal. App. 3d 1040 (1984), the California First District Court of Appeal found that plaintiff Oliver Sipple’s disclosure of his sexual orientation to hundreds of people in San Francisco barred his invasion of privacy claim against the San Francisco Chronicle, which had reported that Sipple was gay in a story describing his heroic act in saving President Gerald Ford’s life from an attempted assassin. See also *Brewer v. Hustler Magazine, Inc.*, 759 F.2d 527 (9th Cir. 1984) (no cause of action for violation of right to privacy from magazine publication of plaintiff’s photograph when plaintiff already had distributed it to approximately 200 people in the advertising industry).

These recent decisions help to limit the threat of invasion of privacy claims arising from the republication of content that a prospective plaintiff has posted on the Internet for the world to see. Under these circumstances, a defendant who “merely [gives] further publicity” to information that already is “public,” by virtue of its dissemination on the Internet, can and should be protected.

FOOTNOTES

1 The publishers prevailed on an anti-SLAPP motion, which was not challenged on appeal.

2 The court also rejected the privacy claim brought by Moreno’s family members for the same reason, as well as on the ground that privacy rights cannot be asserted by family members merely based on their relationship to the individual identified in the publication. In an unpublished portion of the decision, however, the court held that an emotional distress claim alleged against the individual who supplied the article to the local newspaper could not be decided on demurrer, since “reasonable people could differ” about whether this action was “extreme and outrageous.”

Disclaimer

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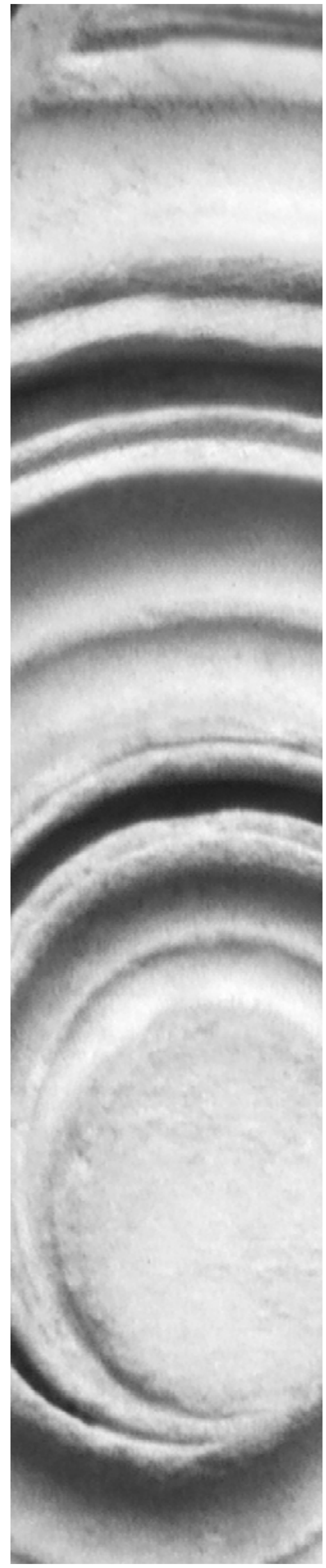
PHARMACEUTICAL AND BIOTECHNOLOGY UPDATE



FDA Enforcement of Online Advertising and Promotional Activities: Emerging Marketing Opportunities Come with Legal and Regulatory Risk

On April 2, 2009, the U.S. Food and Drug Administration (FDA) publicly released fourteen "untitled" letters to major pharmaceutical firms challenging the use of "sponsored links" and alleging that the links make product claims but fail to provide required risk information. This is the latest example of the FDA addressing the regulatory standards for pharmaceutical Internet advertising in an *ad hoc* manner. For the last decade, the FDA has addressed important legal and policy issues surrounding the use of the Internet for pharmaceutical advertising in this way. Indeed, the FDA has affirmatively declined to articulate clear standards for online advertising, relying instead on its "print-based" media standards.

The development of interactive online media outlets offers pharmaceutical manufacturers new opportunities for professional and direct-to-consumer (DTC) advertising and promotion. Because the FDA has not provided guidelines for applying existing "print-based" rules to electronic media, online advertising poses challenges and risks for companies eager to embrace these new alternatives. In the absence of specific guidance from the FDA, pharmaceutical manufacturers must look carefully at FDA's enforcement activity and at recent statements by agency personnel to effectively assess risks.

This Update reviews FDA's enforcement activity aimed at online advertising and identifies those Internet applications that await FDA guidance.

Past FDA Statements and Actions on Internet Advertising and Promotion

FDA addresses online promotion on a case-by-case basis

One early indication of FDA's approach is a 2001 response to a Citizen Petition submitted by the Washington Legal Foundation (WLF).[1] WLF's petition requested that the FDA formally adopt a rule or policy that: (1) "information presented or available on a company's Internet Web site, including hyperlinks to other third party sites, does not constitute 'labeling,'" as defined by the Food, Drug, and Cosmetic Act (FDCA); and (2) "such information may, but does not necessarily, constitute advertising."

[1] Letter from Margaret M. Dotzel, Associate Commissioner for Policy, to Daniel J. Popeo and Paul D. Kamenar, Washington Legal Foundation (November 1, 2001), *available at* http://www.cfsan.fda.gov/~DMS/labwww.html.

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The FDA did not agree with WLF, but rather took the position that "information about FDA-regulated products that is disseminated over the Internet by, or on behalf of, a regulated company can meet the definition of labeling in section 201(m) of the Food Drug and Cosmetic Act." The FDA also stated its position that "some product-specific promotion presented on non-company Web sites…would be viewed as advertising." In sum, the FDA declined to offer Internet-specific standards for regulating online promotional material. Instead, the FDA concluded that it would proceed on a "case-by-case" basis in determining what online information would be subject to the labeling and advertising disclosure requirements.

The Distinction Between Advertising and Labeling

The FDCA defines "labeling" as any written, printed, or graphic matter on the immediate drug container, i.e., the label.[2] Labeling also includes any information "accompanying" the drug.[3] This provision has been interpreted broadly by the courts and the FDA to mean any material that is part of the "integrated distribution program" for a drug.[4] Thus, "labeling" need not be limited to materials physically attached to the drug package, but extends to all materials that supplement or explain the drug product, including brochures, mailing pieces, catalogs, sound recordings, exhibits, reprints, and other printed, audio, or visual materials describing a drug.[5]

By contrast, the FDCA does not define "advertising." FDA regulations list examples, including advertisements in journals, magazine, newspapers, and other periodicals, and broadcast media (*e.g*., radio, television, telephone).[6] The FDA generally regards any material, other than labeling, as advertising if it promotes a drug product and is sponsored by or on behalf of a manufacturer. This distinction between advertising and labeling is critical because the categories trigger different regulatory standards. For example, advertising must include a "brief summary" of the drug's side effects, contraindications, and effectiveness contained in the approved package insert (PI), while labeling must include adequate directions for use, i.e., the approved PI.

This general approach was recently restated by Nancy Ostrove, senior advisor to the Division of Drug Marketing, Advertising, and Communications (DDMAC), at a public meeting of the agency's Risk Communication Advisory Committee in May 2008.[7] According to Ms. Ostrove, DDMAC's position is that manufacturers may choose whether to treat promotional material on the Internet as either labeling or advertising and should apply the applicable rules consistently. To our knowledge, most companies treat product Web pages as promotional labeling.

Sponsored Links

On April 2 the DDMAC made public 14 untitled letters to companies for violations related to sponsored links on search engines.[8] The sponsored links result from searches for the brand names

[2] Food Drug and Cosmetic Act. § 201(m).
[3] *Id.*
[4] *Kordel v. United States*, 335 U.S. 345, 350 (1948).
[5] 21 C.F.R. 202.1(l)(2).
[6] 21 C.F.R. 202.1(l)(1).
[7] *See* Carlene Olsen, *FDA's Internet Oversight: Choose Your Own Adventure*, THE PINK SHEET (May 15, 2008).
[8] Companies receiving untitled letters: Biogen Idec, Sanofi-Aventis U.S., GlaxoSmithKline, Forest Laboratories, Cephalon, Bayer Healthcare Pharmaceuticals, Johnson & Johnson Pharmaceutical Services, Pfizer, Novartis Pharmaceutical Corporation, Genentech, Boehringer Ingelheim Pharmaceuticals, Merck & Company, Hoffman-La Roche, Lilly Technology Center. Click here to view untitled letters and related promotional materials.

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of either drug products or disease conditions on search engines such as Google and Yahoo. In virtually identical letters to each company, the DDMAC cited violations of the FDCA and labeling and advertising regulations for omission of risk information,[9] inadequate communication of the indication,[10] and failure to use required established names.[11]

The DDMAC asserted that the sponsored links misbrand the drugs because they include the name of the drug plus a claim and, therefore, must disclose risk and other information about the drug. The agency explained that providing the link to the product's Web site, where consumers could get more information about the drug's risks and benefits, "does not mitigate the misleading omission of risk information." The letters also assert that the sponsored links failed to adequately communicate the drugs' indication, or broadened the indication, by failing to disclose limitations to the indication for the drug, such as the appropriate patient population, disease stage, or use as a combination therapy. Finally, the sponsored links presented the brand names of the drugs and thus failed to use the required established names.

The DDMAC compared the sponsored links with reminder ads, which only include the drug name but do not include indications or other representations or suggestions about the drug[12] and that are exempt from the requirement to present risk information. Several of the drugs addressed in the DDMAC letters carry boxed warnings on their approved labels and cannot be promoted through reminder ads under 21 C.F.R. sections 201.100(f) and 202.1(e)(2)(i). The letters leave companies limited options for online searches. Because adding the Important Safety Information (ISI) is likely impractical given current character limitations, search links for unbranded disease awareness pages may be the only alternative.

The Shire YouTube Warning Letter

In September 2008 the DDMAC sent a warning letter to Shire Development, Inc. (Shire) regarding its online marketing of Adderall XR, an ADHD treatment. FDA alleged that Adderall XR's Web page and a video celebrity testimonial posted on YouTube on behalf of the company misbranded the drug in violation of FDCA sections 502(a) and (n) by overstating the drug's efficacy, broadening its indication, and omitting important risk information. Additionally, FDA objected that the video testimonial had not been submitted to FDA as required by 21 C.F.R. 314.81(b)(3)(i).

This letter represents the first time that FDA has addressed material posted on YouTube in a warning letter. Though this distinction was noted in the pharmaceutical trade press,[13] FDA did not emphasize that fact. The agency sent four other warning letters on the same day, all of which concerned false and misleading promotion of ADHD medication in traditional media. Only the Shire letter referred to YouTube, so it seems that the FDA focused on the drug class, rather than on the media used.

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[9] *See* FDCA §§ 201(n) and 502(a) & (n); 21 C.F.R. 202.1(e)(3)(i).
[10] *See* FDCA §§ 201(n) and 502(a) & (n); 21 C.F.R. 202.1(e)(3)(ii) & 202.1(e)(6)(i).
[11] *See* FDCA §§ 201(n) and 502(a) & (n); 21 C.F.R. 201.10(g)(1) and 202.1(b)(i).
[12] *See* 21 C.F.R. 200.200, 201.100(f), and 202.1(e)(2)(i).
[13] *See, e.g.*, Carlene Olsen, *FDA's Advertising Enforcement Turns its Focus to YouTube*, THE PINK SHEET, October 6, 2008, at 12.

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Search Engine Optimization and Metatags

Search engine optimization (SEO) is a marketing technique used to increase the likelihood that search engine users will be directed to a particular Web site. In its most common form, SEO involves the use of "keywords" metatags. Metatags are specific types of data in the HTML code used to create a Web site. Viewers of a Web page do not see the metatags, which store information about the page. Many search engines use the contents of the "keywords" metatag to index and rank Web pages in search results.

For some time, the FDA has alluded to metatags in its enforcement aimed at manufacturers' Web sites.[14] For example, the FDA reviewed Web sites of manufacturers of allegedly unapproved new drugs and alleged that Web site therapeutic claims indicate that the products are intended for the treatment of disease, and therefore drugs. The FDA also concluded that the products were not generally recognized as safe and effective for the described conditions, and thus new drugs. Additionally, the drugs were illegally marketed because they were not approved and were misbranded because the labeling did not give adequate directions for use.

Megatags supported two such allegations. First, 15 cyber letters sent in November 2005 included a paragraph describing the Federal Trade Commission's laws governing unfair or deceptive advertising practices.[15] This concluded with the sentence: "Be aware that product claims can be communicated to consumers in a variety of ways, including product name, web site name, product testimonials, endorsements, *or use of metatags*." (emphasis added) Second, the FDA alleged that the therapeutic claims were "supplemented by the use of metatags [used] to bring consumers to your web site." Numerous warning letters from 2008 follow this pattern.[16] Examples of metatags noted by the FDA in these letters include basic terms such as "cancer," "joint pain," "alternative cancer treatment," and "pancreatic cancer." Thus, the FDA has been concerned that metatags may inappropriately drive Internet users to product Web sites and, additionally, broaden the indication of the drugs at issue.

Online Banner Ads for Black Box Products

In August 2008 the DDMAC sent an untitled letter objecting to eight online banner ads by Novartis Pharmaceuticals Corp. promoting Diovan, a "black box" product.[17] The DDMAC warned that the banner ads presented efficacy claims but failed to communicate required risk information, thereby misbranding the drug.[18] The DDMAC noted that the banner ads included links to the PI and Patient Product Information (PPI), but concluded that the presence of these links "does not mitigate the misleading omission of risk information from the banners."

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[14] A search of warning letters, cyber letters and untitled letters shows approximately 75 letters using the terms "metatag" or "metatags."

[15] *See, e.g.*, Letter from Kathleen R. Anderson, Acting Director, Division of New Drugs and Labeling Compliance, to Susan Turner, HMS Crown, Inc., (Nov. 9, 2005), click here to view.

[16] *See, e.g.*, Letter from Alonza E. Cruse, Director, Los Angeles District, to Erick Del Rio, Omega Supply (Sept. 17, 2008), click here to view.

[17] Letter from Sangeeta Vaswani, Acting Group Leader, DDMAC, to Graydon A. Elliott, Novartis Pharmaceuticals Corp. (Aug. 28, 2008), click here to view.

[18] *See* FDCA §§ 502(a) & (n); 21 C.F.R. 202.1(e)(3)(i), (e)(5), and (e)(6)(i).

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"One click" rule

The recent untitled letters call into question the "one click" rule, which many in industry believed that the FDA had embraced.[19] In response to FDA's request for comments on Consumer Directed Promotion in 2003, the FTC discussed the distinction between reminder ads/help-seeking ads and other ad formats, suggesting that the brief summary should be satisfied if the advertisement contains a link that leads directly to the main product Web page that includes the major statement of risks. The FDA held a public hearing on the same topic, but did not directly address the "one click" rule, and no draft guidance followed.

Online banner ads or pop-up ads will often be reminder ads or help-seeking ads. As such, they need not include a brief summary consistent with the current treatment of similar ads in other media. Other ads in these formats, according to the FDA, will need to disclose the brief summary information to the same extent as ads in other media. Industry has followed the FTC's suggestion that this requirement can be satisfied by sending consumers who click on the banner ad or pop-up ad to the first Web page on the company Web site that discusses the benefits of the drug; that is, a Web page that will have the major statement of risks and an appropriate link to more complete risk information. Based on FDA's statements in the just-released untitled letters, however, manufacturers may no longer be able to rely on the "one click" rule, and online banner ads will be treated just as "print-based" materials.[20] This policy, if applied to other Internet advertising, could substantially affect Web site design and use.

Policy Issues for FDA Consideration

The Prescription Project Citizen Petition: A Call for Guidance

On December 3, 2008, the Prescription Project, a non-profit consumer healthcare advocacy organization, submitted a Citizen Petition[21] to the FDA, requesting that the FDA:

- Send a letter to all "major" prescription drug and restricted medical device manufacturers stating that Internet advertising and promotion is subject to the same requirements as advertising in traditional media; and

- Issue a Draft Guidance on Consumer-Directed Broadcast Advertising of Prescription Drugs and Restricted Devices on the Internet, which would: (1) clarify that online promotions meet the definition of "broadcast advertisements" in 21 C.F.R. §§202.1(e)(1) and (l)(1); and (2) describe the requirements for online advertisements under section 502 of the FDCA.

The Prescription Project argued that the statutory and regulatory framework for broadcast advertising is sufficiently broad to govern promotional material delivered online.[22] The Citizen

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[19] *See* Docket 2003N-0344 - Consumer-Directed Promotion; Public Meeting (Notice of Public Meeting; Request for Comments, 68 Fed. Reg. 47920.

[20] *See also* Letter from Melissa M. Moncavage, DDMAC, to Marie De Gayner Kuker, Orphan Medical, Inc. (Sept. 17, 2008), click here to view; Letter from Thomas W. Abrams, Director, DDMAC, to Kurt Orlofski, Morton Grove Pharmaceuticals, Inc. ((Dec. 13, 2007), click here to view.

[21] Click here to view the letter.

Petition also highlighted the recent use of YouTube video ads by three medical device and drug manufacturers.[23] Finally, the Prescription Project argued that manufacturers evade statutory and regulatory requirements by the use of third parties, such as marketing firms, in the placement of video content on YouTube and other interactive media. The FDA has yet to respond to this Citizen Petition.

How Will the FDA Address Advertising in New Online Applications?

Other than the warning and untitled letters discussed above, there has been little enforcement activity specifically aimed at advertising through new media. Recent comments by Kristin Davis, Deputy Director of DDMAC, at the September 2008 Food and Drug Law Institute (FDLI) Advertising and Promotion Conference do, however, indicate some areas of concern:[24]

- Interactive promotions such as contests in which patient users submit videos: Davis cautioned that companies would be wise to review all submissions before posting them, because the videos might be treated as testimonials, which need to be supported by substantial evidence and include risk information

- Blogs organized, supported or maintained by the manufacturer: Davis recommended monitoring or reviewing patient-generated comments before they are publicly posted on the Web site, because they also could be attributed to the manufacturer

- Promotional material posted on YouTube and other third-party sites: Davis stated that companies are responsible for company-generated material, even if it is posted on third-party Web sites outside the manufacturers' control

- Wikipedia, which permits companies to contribute to, or edit, entries describing their products: Davis concluded that posting information on Wikipedia would likely be considered promotion.

Conclusion

As new online media evolve at an explosive pace, FDA's inability to clarify how existing regulations apply to online advertising becomes increasingly problematic for stakeholders, including pharmaceutical companies, media companies, and consumers. Pharmaceutical companies using sites featuring user-generated content (YouTube, Wikipedia, blogs), social networking sites (Facebook, LinkedIn, MySpace), and professional networking sites (Sermo, Socrato) must carefully

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[22]21 C.F.R. 202.1. *See also* Guidance for Industry, Consumer-Directed Broadcast Advertisements (Aug. 1999), click here to view.

[23]These three manufacturers' products (Medtronic's PRESTIGE Cervical Disk video posted by VNR-1 Communications; Corin Group PLC and Stryker's Cormet Hip Resurfacing System; and Abbott Laboratories' XCIENCE V drug-eluting stent) and their YouTube videos were the subject of three other citizen petitions filed by Prescription Project on the same day. These Citizen Petitions alleged that the videos at issue fail to meet the statutory and regulatory disclosure requirements for advertisements. They requested that the FDA notify the companies of their noncompliance, require the companies to remove all noncompliant ads, and require them to post "curative" video ads on their company Web sites.

[24]*See* Carlene Olsen, *Wiki-How: FDLI Panel Cautions Firms On New Media Use*, THE PINK SHEET, Sept. 15, 2008, at 24.

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weigh a number of risks. Additionally, manufacturers may also be hesitant to engage with such interactive sites and applications for fear of discovering adverse events.[25]

To date, the FDA has applied a "paper" mentality to the Internet. This approach does not fully take into consideration how individuals interact with new technology or whether paper requirements are practical or helpful in the online arena. For all stakeholders including patients, HCPs, industry and concerned citizens, there should be a public discussion of what the new FDA standards should be and whether the old "paper" rules still fit in this dramatically changing environment.

For additional information about this Update, please contact any Hogan & Hartson attorney with whom you regularly work or one of the authors listed below.

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[25] *See* Carlene Olsen, *New Media is the New Frontier for Drug Promotion*, THE PINK SHEET, Nov. 17, 2008, at 14.

Stimulus Bill Provides Benefits for Builders and Developers

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Federal and State First Time Homebuyers Credits.

The American Recovery and Reinvestment Act of 2009 ("Act") modifies the first-time homebuyers credit. A first-time homebuyer who, in 2008, purchased a home that he or she uses for principal residence, may claim a credit up to $7,500. An individual who is married filing a separate return may claim a $3,750 tax credit. If the married person files a joint return, and has adjusted gross income of $150,000 or more, the credit is gradually reduced. For single taxpayers and married filing separately, the reduction begins at $75,000. In addition, anyone claiming this credit must pay it back over a 15-year period beginning on the second taxable year after which the credit is claimed. For example, for 2008, that would be 2010. Finally, a taxpayer claims the credit and then sells the home before the end of the 15-year recapture period, has an accelerated recapture provision in effect causing a repayment of the credit.

For 2009, the credit amount increases to $8,000 and the repayment provision no longer applies. Unfortunately, the accelerated recapture provisions apply for the 3-year period following the date of purchase. The increased credit only applies to homes purchased before December 1, 2009. A taxpayer may elect to accelerate the benefit of the credit by treating a purchase made before December 1, 2009 as if the purchase occurred in 2008.

Filing Options for First Time Homebuyer.

- ***File an extension.*** Taxpayers who haven't yet filed their 2008 returns but are buying a borne soon can request a six-month extension to October 15. This step would be faster than waiting until next year to claim it on the 2009 tax return. Even with an extension, taxpayers could still file electronically, receiving their refund in as few as 10 days with direct deposit.

- ***File now, amend later.*** Taxpayers due a sizable refund for their 2008 tax return but who also are considering buying a house in the next few months can file their return now and claim the credit later. Taxpayers would file their 2008 tax forms as usual, then follow up with an amended return later this year to claim the homebuyer credit.

- ***Amend the 2008 tax return.*** Taxpayers buying a home in the near future who have already filed their 2008 tax return can consider filing an amended tax return. The amended tax return will allow them to claim the homebuyer credit on the 2008 return without waiting until next year to claim it on the 2009 return.

- ***Claim the credit in 2009 rather than 2008.*** For some taxpayers, it may make more financial sense to wait and claim the homebuyer credit next year when they file the 2009 tax return rather than claiming it now on the 2008 tax return. This could benefit taxpayers who might qualify for a higher credit on the 2009 tax return. This could include people who have less income in 2009 than 2008 because of factors such as a job loss or drop in investment income.

Stimulus Bill Provides Benefits for Builders and Developers

In addition, California has its own first-time homebuyer credit. Whereas under the federal rules, the taxpayer could not have owned a home within the 3-year period ending on the date of the purchase of the home, the California credit only applies for the purchase of a newly built home that has never been occupied. The California state tax credit is $10,000 or 5% of the purchase price of the home, whichever is less. The sale must close between March 1, 2009 and March 2010. The California credit will be provided in 3 equal amounts (up to $3,333 per year) over three consecutive tax periods, beginning in the year of purchase. It can be combined with the federal tax credit, in essence, creating up to a $18,000 tax benefit.

Extension of Bonus Depreciation.

The 50% bonus depreciation deductions for property placed in service prior to January 1, 2009 has now been extended through January 1, 2010. The placed in service deadline for non-commercial aircraft is one year longer, to January 1, 2011. Bonus depreciation is available for new property that is depreciable with a recovery period of 20 years or less, off the shelf computer software depreciable over 3 years or qualified leasehold improvement property. Listed property such as passenger automobiles, which is used 50% or less for business, does not qualify for bonus depreciation, nor does most intangible property.

- The bonus first-year depreciation deduction is allowed for both regular tax and alternative minimum tax purposes. The taxpayer may elect out of bonus first-year depreciation.
- "Qualified property" for purposes of this section includes (1) depreciable property to which § 16 applies and has a recovery period of 20 years or less (most machinery, equipment or other tangible personal property), (2) computer software, and (3) certain leasehold improvements. The original use of the property must begin with the taxpayer.

Election to Accelerate Recognition of Historic AMT/R&D Credits.

In 2008, in lieu of the above-described bonus depreciation, businesses can elect to accelerate the recognition of a portion of their historic AMT or research and development (R&D) credits. The amount that taxpayers may accelerate is calculated based on the amount that the taxpayer invests in property that would otherwise qualify for bonus depreciation. The Act extends this acceleration rule through 2009.

Election to Expense the Purchase of Assets.

Code Section 179, which allows a tax credit to expense the cost of an asset purchased for a trade or business is increased in 2009 from $250,000 to $800,000.

5-Year Carryback for 2008 and 2009 Net Operating Losses.

The Act extends the period that a small business can carryback net operating losses. Instead of the normal 2 years, a taxpayer may elect to carryback 2008 losses 3, 4, or 5 years. Generally, the 5-year loss period will only apply if the taxpayer has less than $15 million in gross receipts, including any entities in which the taxpayer has a 50% or greater common ownership. Taxpayers must make an affirmative election to use a longer carryback.

- Eligible "small businesses" are corporations, sole proprietorships, or partnerships whose average annual gross receipts are $15 million or less for the three-tax-year period ending with the tax year in which the loss arose.
- A "2008 NOL" is a NOL either for a tax year beginning in 2008 or ending in 2008.
- The election must be made by the due date for the taxpayer's return for the year in which the NOL arose, with extensions.
- This provision may be useful to taxpayers in obtaining cash refunds in a loss year. If for example, a taxpayer paid taxes in 2004, and incurs a NOL in 2008, the taxpayer can carry back this NOL to create a current tax refund.

Stimulus Bill Provides Benefits for Builders and Developers

Deferral of Cancellation of Indebtedness Income.

Income attributable to the discharge of indebtedness after December 31, 2008 and before January 1, 2010 may be included in income over a 5-year period beginning with the 5th taxable year following the year of reacquisition occurring during 2009 and the 4th taxable year in which the reacquisition occurs during 2010. This applies whether the debt is acquired for cash or is acquired for a new debt instrument. Further, this provision may apply even if a related party acquires the debt from an unrelated person. If the taxpayer elects to defer the discharge of indebtedness income, the other exclusions for Chapter 11, insolvency and qualified real property business indebtedness do not apply.

- For example, if a taxpayer repurchases debt issued for $10 million at a discounted price of $5 million in 2009, such taxpayer has $5 million of Cancellation of Indebtedness Income ("COD"). If the relief provided under the Act is elected, instead of recognizing $5 million in 2009, the taxpayer recognizes $1 million in each of 2014-2018.
- This election is voluntary. Therefore, if a taxpayer has, for example, NOLs (see definition below) expiring in 2009, the taxpayer would generally not elect this deferral.
- A repurchase for this purpose includes the retirement of debt for cash, forgiveness of debt, conversion of debt into corporate stock or a partnership interest of the issuer, contribution of the debt to the capital of the issuer, or exchange of the debt for newly issued debt. Further, certain modifications of a debt obligation may cause a deemed debt-for-debt exchange.
- Applicable debt for purposes of this relief is either (1) a debt instrument issued by a C corporation, or (2) a debt instrument issued by any other person or legal entity in connection with the person's or legal entity's trade or business.
- COD deferred under this rule is accelerated upon the taxpayer's death, the liquidation or sale of substantially all the taxpayer's assets, or cessation of business by the taxpayer (as applicable). It does not appear that the COD deferral is accelerated in the case of a tax-free reorganization.
- Certain additional rules apply if the repurchased debt is exchanged for debt which is subject to the original issue discount ("imputed interest") rules.
- The election is made with the return for the taxable year in which the debt is repurchased.
- This rule allows taxpayers to restructure or buy back debt at a significant discount, which may be possible in current market conditions, and defer the related taxes on such buy-backs and restructurings.

Built-In Gains Period for S Corporations.

The Act reduces the built-in gains tax period for S corporations from 10 years to 7 years beginning in 2009 and 2010. Generally, when a taxpayer converts from C to S status, for a 10-year period following the date of conversion, there is a C corporation tax on the gain. The Act reduces this built-in gain tax period from 10 years to 7 years.

Small Business Estimated Tax Payment Relief for 2009.

The Act reduces the 2009 required estimated tax payments for individuals who received not less than 50% of their gross income in the prior year from a small trade or business and whose adjusted gross income from the prior year was less than $500,000 ($250,000 is married and filing separately). For purposes of this relief, a small trade or business means any trade or business that employed no more than 500 persons, on average, during the calendar year ending in or with the preceding taxable year.

Stimulus Bill Provides Benefits for Builders and Developers

Small Business Capital Gains.

Prior to the Act, 50% of the gain from the sale of certain small business stock held for more than five years is excluded from income. A percentage of the excluded gain, however, is an alternative minimum tax preference. The remaining 50% is taxed at a maximum rate of 28%. Under the Act, the 50% gain exclusion is increased to 75% for stock issued after February 17, 2009 and before January 1, 2011. The remaining 25% is taxed at a maximum rate of 28% (i.e., an effective rate of 7% under the regular tax and 12.88% under the alternative minimum tax).

- To qualify, the stock must generally be purchased by a non-corporate taxpayer at original issue for cash, and, at the time the stock is issued, the corporation must be a domestic C corporation whose gross assets do not exceed $50 million and is not primarily engaged in the active conduct of certain professional services.
- The amount of gain eligible for the exclusion is limited to the greater of 10 times the taxpayer's basis in the stock, or $10 million.

Work Opportunity Credit.

The work opportunity credit is expanded to apply to unemployed veterans and disconnected youth who begin work in 2009 or 2010.

New Markets Tax Credit.

The new markets tax credit provides tax benefits for investments in certain entities whose primary Mission is serving or providing investment capital for low-income communities or low-income persons. The Act increases the maximum amount of qualified investments by $1.5 billion to $5 billion per year for 2008 and 2009.

Additional Information.

To speak to one of our attorneys regarding the 2009 Recovery Act, please contact:

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Honda Motor Co. v. Winkelmann:
A Hard Stance Regarding the Bona Fide Intent to Use Requirement

April 14, 2009

On April 8, the U.S. Patent and Trademark Office Trademark Trial and Appeal Board (the Board) issued a precedential opinion denying trademark registration to a foreign trademark applicant on the ground that he lacked the requisite bona fide intent to use the applied-for mark in commerce for the goods identified in the application. *Honda Motor Co. v. Winkelmann*, Opposition No. 91/170,552 (T.T.A.B. 2009). The Board's decision in *Honda Motor* will be of interest to anyone filing a trademark application in the United States that requires a declaration under oath that the applicant has a bona fide intent to use the mark in commerce. This decision will also be of interest to parties to disputes involving such applications.

The Board's refusal to register the applied-for mark in *Honda Motor* came as the result of an opposition filed by Honda Motor Co. against Friedrich Winkelmann, who had applied to register the mark V.I.C. (Serial No. 76/587,840) for land, air, and water vehicles and parts for vehicles in Class 12. Winkelmann based his application for V.I.C. on Section 44(e), a provision of the Lanham Act that allows a foreign applicant to register a mark in the United States that has been registered in the applicant's country of origin without first showing actual use in the United States, so long as the applicant states under oath that the applicant has a bona fide intent to use the mark in U.S. commerce.

While the issue of bona fide intent has been addressed in a few Board decisions recently, *Honda Motor* is the first case involving a Section 44(e) application rather than a Section 1(b) "intent to use" application. It is also the first one decided in favor of the opposer that does not, on its face, have facts suggesting that the applicant was aware of the opposer's mark and intentionally selected a mark that was the same or similar.

In 2006, Honda Motor opposed Winkelmann's application, alleging a likelihood of confusion between V.I.C. and Honda's registrations for CIVIC. Following discovery, Honda amended its notice of opposition to add, as a basis for the opposition, Winkelmann's lack of a bona fide intent to use the V.I.C. mark in commerce for the goods listed in the application. Honda argued that Winkelmann failed to provide any objective evidence that he possessed the bona fide intent to use the V.I.C. mark at the time the application was filed (the operative date for determining the existence of a bona fide intent).

Specifically, Honda argued that that Winkelmann failed to provide any documentary evidence of intent such as current business plans, ongoing development discussions, promotional activities, or any other objective corroboration of his claimed bona fide intent to use the mark in the United States. In support of its argument, Honda submitted Winkelmann's written responses to various Honda discovery requests, including interrogatory responses in which Winkelmann stated that he had no activities in the United States and had no business plan or strategy in place to transact business there. Honda also pointed out that Winkelmann failed to provide any adequate explanation as to why no such documentation existed. In response, Winkelmann argued that evidence of his bona fide intent could be demonstrated by his non-U.S. registrations (which he did not translate) and claimed use of the V.I.C. mark on a website in German (which the applicant also did not translate). Winkelmann also relied on statements of subjective intent submitted by his counsel, to which the Board gave little weight.

Agreeing with Honda, the Board granted summary judgment on the issue of applicant's lack of the requisite intent and refused registration on that basis. In reaching its decision, the Board stressed that an applicant's subjective claim of intent, without more, is not sufficient; rather, the focus of the analysis must be whether the evidence of record demonstrates an objective, good-faith basis for finding such intent. Absent documentary evidence of intent, an applicant is required to present other facts to explain or outweigh the absence of documentary evidence. In the current case, the Board found that applicant lacked any objective documentation or facts demonstrating an intent to use the mark in the United States at the time the application was filed.

The *Honda Motor* decision provides a strong warning to non-U.S. trademark applicants, whose home countries may have vastly different requirements regarding use of or intent to use trademarks as a prerequisite for registration. In addition, even though the Board's decision in *Honda Motor* concerned an applicant who relied on a foreign registration to support its U.S. filing, the Board specifically noted that the same objective, good-faith standard applies to any party filing a trademark application based on a bona fide intent to use.

As with other applicants in the recent cases on this issue, the applicant in *Honda Motors* offered no objective evidence demonstrating an intent to use the mark in the United States in conjunction with the goods listed in the application. The Board's decisions have therefore provided limited guidance regarding how much and the specific nature of evidence that the Board will require to support a claim of bona fide intent, so that remains an open question. It is clear, however, that any trademark applicant filing under any section of the Lanham Act that requires an asserted bona fide intent to use must be diligent in making sure that, if challenged, it will be in a position to provide objective evidence in support of its intentions to use the applied-for mark. A subjective intent, absent documentation or other corroborating evidence, will not be sufficient to withstand a challenge.

If you have any questions regarding this issue and its impact of trademark prosecution or litigation strategy, then please contact any of the following Morgan Lewis attorneys:

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Email Alerts

CLOAKED IN UNCERTAINTY: TREATMENT OF "STUB RENT" IN THE GOODY'S AND STONE BARN RETAIL APPAREL BANKRUPTCIES

April 13, 2009

By Katharine E. Bachman, Keith R. Barnett, Benjamin W. Loveland, Nancy L. Manzer, George W. Shuster, Jr.

Two recent decisions in retail apparel bankruptcy cases, in Delaware and New York, highlight the ongoing uncertainty regarding "stub rent".* The two cases—*Goody's*[1] and *Stone Barn/Steve & Barry's*[2]—involved nearly identical facts, yet the courts adopted different approaches for the mechanisms available for landlords to collect "stub rent" from tenants in bankruptcy. While the ultimate financial outcomes for the landlords in the two cases are similar, the different approaches taken by the courts leave open questions regarding when and to what extent those claims will be paid.

When "Stub Rent" Claims Arise

A landlord's claim against a bankrupt tenant for "stub rent" arises when the lease calls for payment of rent in advance, *i.e.* the first of the month. If the tenant files its bankruptcy case later in the month without having paid that month's rent, the bankruptcy filing can be said to divide the monthly rent into two portions—first, the portion allocable to the days of the month before the bankruptcy filing, and second, the portion allocable to the days of the month remaining after the bankruptcy filing. The term "stub rent" refers to the amount of rent due under the lease for the second, or stub, period. When a tenant files for bankruptcy, landlords may assert a claim under Section 365(d)(3) of the Bankruptcy Code[3] for immediate payment of the "stub rent".

Two Approaches to Addressing "Stub Rent" Claims Under Section 365(d)(3)

The decisions in *Goody's* and *Stone Barn* illustrate the two main approaches courts have adopted for dealing with "stub rent" under Section 365(d)(3):[4]

- **"Billing Date" Approach.** The "billing date" approach, often preferred by tenants,[5] focuses on when the rent is due, usually prior to the petition date. Under the "billing date" approach, if the rent is due on the first of the month and the tenant files bankruptcy later in the month, none of the rent is considered a post-petition obligation subject to payment under Section 365(d)(3). Thus, under the "billing date" approach, there is no Section 365(d)(3) claim for "stub rent."[6]
- **"Proration" Approach.** The "proration" approach, often preferred by landlords, provides that the obligation to pay the month's rent should be allocated on a per diem basis to each day within the month, such that a bankruptcy filing on the fifteenth day of the month would create a "stub rent" claim for the second half of the month. Under the "proration" approach, there is a Section 365(d)(3) claim for immediate payment of rent allocable to the stub period.

"Back-up" Claims for "Stub Rent" under Section 503(b)(1)

When a court applies the "billing date" approach for purposes of Section 365(d)(3), the decision in *Goody's* instructs that landlords may nevertheless be entitled to payment of rent for the stub period under section 503(b)(1). Section 503(b)(1) provides an administrative expense claim for "the actual, necessary costs and expenses of preserving the estate."[7] Administrative expenses ordinarily must be paid in a successful Chapter 11 bankruptcy case, but are generally not required to be paid until a Chapter 11 plan is confirmed and effective—by contrast, Section 365(d)(3) expressly requires "stub rent" to be paid on a "timely" basis, which is usually interpreted to mean immediately as it becomes due. As such, a Section 503(b)(1) claim may serve as a "back-up" for a landlord in the event that a Section 365(d)(3) claim is denied, although Section 503(b)(1) may pose additional hurdles to a landlord (discussed further below) and will result in later and perhaps more uncertain payment if a Chapter 11 plan of reorganization is delayed or at risk of failure.

The Recent Decisions in *Goody's* and *Stone Barn*

The pertinent facts in *Goody's* and *Stone Barn* are nearly identical. The tenants in each case, apparel retailers, filed voluntary Chapter 11 petitions on the ninth day of the applicable months. At the time of filing, none of the debtors had paid the rent due on the first of the month under their retail location leases, yet they continued to occupy the leased space to conduct retail sales.

In re Goody's Family Clothing, Inc.

The March 31, 2009 decision in *Goody's*, by the United States District Court for the District of Delaware, resulted from an appeal of a decision from the Delaware Bankruptcy Court. The Bankruptcy Court, relying on precedent from the United States Court of Appeals for the Third Circuit in the *Montgomery Ward*[8] case, summarily disposed of the landlords' argument for adoption of the "proration" approach. Instead, the Delaware Bankruptcy Court held that the plain meaning of Section 365(d)(3) commanded use of the "billing date" approach for "stub rent." The court interpreted the term "obligations" as used in Section 365(d)(3) to mean "something that one is legally required to perform under the terms of the lease."[9] The court went on to conclude that an obligation only arises when a party becomes legally obligated to perform it. Because the debtors' obligations to pay rent under the leases were due on the first of the month (about a week before the petition date), they could not be said to have arisen "after the order for relief" and, therefore, the landlords were not entitled to payment of "stub rent" under Section 365(d)(3).

The Delaware Bankruptcy Court rejected, however, the debtors' argument that Section 365(d)(3) renders Section 503(b)(1) inapplicable, holding that (1) the debtors' occupancy of the premises alone was sufficient to establish that payment for such occupancy was an actual and necessary expense of preserving the debtors' estates, and (2) absent evidence to the contrary, the fair market value of occupying the premises was the lease rate. The court did not, however, order immediate payment of the administrative expense claim, a ruling emphasizing that a Section 503(b)(1) claim may be only a second-best result for landlords.

The debtors appealed the Bankruptcy Court's holding that Section 503(b)(1) was available to landlords seeking "stub rent" after the enactment of Section 365(d)(3), as well as the Bankruptcy Court's holding that the debtors' mere presence in the property was sufficient to satisfy the landlords' burden under Section 503(b)(1).[10] The landlords did not cross-appeal.

Because the parties to the appeal did not dispute the Delaware Bankruptcy Court's application of the "billing date" approach, the Delaware District Court declined to revisit the lower court's ruling on that issue. The Delaware District Court went to substantial lengths, however, to explain that if it had reached the issue, it might have read *Montgomery Ward* more narrowly than did the Delaware Bankruptcy Court. The District Court, in an extended footnote, explained its basis for why a Section 365(d)(3) "proration" approach might apply to "stub rent" notwithstanding the Third Circuit Court of Appeals precedent adopting the "billing date" approach for tax claims. Given that the purpose of Section 365(d)(3) was to free landlords from having to comply with the administrative expense procedure, the District Court found it "a perverse result that debtor-tenants could use § 365(d)(3) offensively to avoid timely rent payments."[11] Moreover, the District Court found problematic the idea that the impact of Section 365(d)(3) would depend on a landlord's lease-drafting choices, *i.e.* under the "billing date" approach, a lease requiring that rent be due in full on the first day of the month deprives Section 365(d)(3) of any practical effect, whereas a lease requiring that rent be due each day would presumably lead to payment for the stub period under Section 365(d)(3).

The Delaware District Court proposed three ways of reconciling the Third Circuit's apparent rejection of the "proration" approach for tax claims in *Montgomery Ward* with the legislative intent for rent claims underlying Section 365(d)(3). First, the District Court noted that rent could be viewed as an obligation that "arises" in full each day of a tenant's occupancy. The result would be that a tenant who files for bankruptcy after the first of the month still owes rent for the full month (not a prorated portion) under Section 365(d)(3). However, the District Court did not explain how this would provide a basis for distinguishing the treatment of rent claims from the treatment of tax claims. Second, the District Court reasoned that if a lease provides a grace period for payment that expires post-petition, it could be argued that the payment obligation has arisen post-petition under Section 365(d)(3). Of course, this might only shift the timing of a debtor's bankruptcy filing to several days later in the month, after any applicable grace period expires, rather than result in a dramatic change in treatment of "stub rent."[12] Third, if a lease provides for a default penalty that accrues during the post-petition/pre-rejection period, "one might interpret the lease as creating a new obligation to which § 365(d)(3) would apply, namely, payment of the complete delinquent rent plus the penalty."[13]

After a lengthy analysis, the Delaware District Court affirmed the Bankruptcy Court's conclusion that Section 365(d)(3) does not render Section 503(b)(1) inapplicable, holding that "[n]othing within the text of § 365, the legislative history, or other canons of interpretation, bars the collection of post-petition rent through the administrative expense procedure of § 503(b)(1)."[14] Applying Section 503(b)(1), the Delaware District Court held that the debtors' use of the premises to conduct normal business and rental of the premises to a liquidator to conduct profitable store closing sales was sufficient to establish the necessity of the debtors' use of the premises. The court noted that although there was no ambiguity in this case as to whether the debtors genuinely occupied and used the premises, "[h]ad the [debtors] vacated, or merely left idle the premises—a "lights out" lease—[the landlords] would be faced with a more difficult claim."[15]

In re Stone Barn Manhattan LLC

The court in *Stone Barn* did not require the landlords to follow as circuitous a path as the *Goody's* court to pursue "stub rent". The United States Bankruptcy Court for the Southern District of New York concluded that holding the debtor immediately responsible for "stub rent", measured on a daily basis as it accrued after the date of the order for relief until the end of that month, was the proper construction of Section 365(d)(3). The court reasoned that the "proration" approach is faithful to the purpose of Section 365(d)(3) because it "afford[s] landlords an enhanced right to timely performance under a commercial lease during [the post-petition, pre-rejection period]" and is faithful to the "purpose of the bankruptcy laws as a whole."[16]

The court noted that although a number of bankruptcy courts have eschewed the "proration" method, "very few of these courts have been willing to draw the obvious conclusion that rent for the first month is a pre-petition claim only, based on the "billing date" approach, and that the debtor has the right to use the leased property during the stub period without further liability."[17] Instead, these courts fill the gap by allowing landlords an administrative claim for rent under Section 503 (b). Indeed, that was the result in *Goody's*. Thus, the New York Bankruptcy Court implied that the "proration" approach under Section 365(d)(3) is a more straightforward mechanism of reaching a result that would likely be the same under Section 503(b)(1).

The court emphasized that Congress intended Section 365(d)(3) to nullify the requirement that a creditor prove benefit to the estate before it can obtain administrative expense status for a post-petition rent claim. Under the "billing date" approach, the landlords would have to prove, in order to prevail on a Section 503(b)(1) claim, that a debtor's use and occupancy was necessary and beneficial to the estate during the stub period. Therefore, the court reasoned that the "billing date" approach contradicts the plain purpose of Section 365(d)(3)—to give landlords an irrefutable right to rent at the contract rate during the bankruptcy. Still, the New York Bankruptcy Court noted that this is an issue on which different courts have come to different conclusions, and that its decision therefore may be an appropriate candidate for appeal to higher courts in the Second Circuit.

The Bottom Line

The contrast of *Goody's* and *Stone Barn* demonstrates the different approaches that courts may take to the stub rent issue under Section 365(d)(3). However, these different approaches are not polar opposites. Rather, the Delaware District Court's decision indicates a possible movement in the Third Circuit, which is a traditionally "billing date" jurisdiction, toward the "proration" approach used in New York. Moreover, the Delaware District Court's relatively brief treatment of the "actual" and "necessary" elements of the landlords' Section 503(b)(1) claims makes the Section 503(b)(1) process in Delaware appear very similar to the Section 365(d)(3) process in New York. Even assuming the Third Circuit retains the "billing date" approach for "stub rent," the primary disadvantage of that approach for landlords may be the timing and certainty of payment in a case where a Chapter 11 plan or reorganization is delayed or at risk of administrative insolvency.

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[1] The U.S. District Court for the District of Delaware, in *In re Goody's Family Clothing, Inc.*, No. 08-585 (D. Del. March 31, 2009), recently affirmed, in a lengthy opinion, the Bankruptcy Court's ruling in that case, 392 B.R. 604 (Bankr. D. Del. 2008).

[2] *In re Stone Barn Manhattan LLC*, 398 B.R. 359 (Bankr. S.D.N.Y. 2008). "Stone Barn" is often referred to by the trade name "Steve & Barry's."

[3] 11 U.S.C. § 365(d)(3). Section 365(d)(3) provides, in relevant part, that "the trustee shall timely perform all obligations of the debtor...arising from and after the order for relief under any expired lease of nonresidential real property, until such

lease is assumed or rejected, notwithstanding section 503(b)(1) of this title." 11 U.S.C. § 365(d)(3).

[4] Courts have disagreed on which approach to adopt with respect to the treatment of a debtor's post-petition lease obligations under Section 365(d)(3). *Compare In re Handy Andy Home Improvement Centers, Inc.*, 144 F.3d 1125 (7th Cir. 1998), *In re Furr's Supermarkets, Inc.*, 283 B.R. 60 (B.A.P. 10th Cir. 2002), *and In re All For a Dollar, Inc.*, 174 B.R. 358 (Bankr. D. Mass. 1994) (applying "proration" approach), *with Koenig Sporting Goods, Inc. v. Morse Road Co. (In re Koenig Sporting Goods, Inc.)*, 203 F.3d 986 (6th Cir. 2000), *and HA-LO Industries v. CenterPoint Properties Trust*, 342 F.3d 794 (7th Cir. 2003) (applying "billing date" approach).

[5] There are instances where a landlord may benefit from the billing date approach, for example, in the context of annual taxes that become due in arrears under a lease following the bankruptcy filing date. *See infra* note 8.

[6] The "billing date" approach is alternatively labeled the "performance" approach.

[7] 11 U.S.C. § 503(b)(1).

[8] *In re Montgomery Ward Holding Corp.*, 268 F.3d 205 (3d Cir. 2001). The Third Circuit in *Montgomery Ward* held that where a lease obligates a debtor to pay a tax bill upon receipt and the bill is received post-petition for taxes allocable to both pre-petition and post-petition periods, the entirety of the tax payment must be made in a timely manner under Section 365(d)(3). Significantly, as described below, in footnote 8 of its *Goody's* decision the Delaware District Court indicated that *Montgomery Ward's* ruling on tax claims may not be binding precedent with respect to "stub rent" claims, reviving the possibility of a "proration" approach to "stub rent" claims in Delaware and elsewhere in the Third Circuit.

[9] *In re Goody's Family Clothing, Inc.*, 392 B.R 604, 609 (Bankr. D. Del. 2008).

[10] The debtors appealed multiple Bankruptcy Court orders granting landlords administrative claims for "stub rent". While some of the appeals were consolidated and dealt with by the Delaware District Court's opinion, others remain pending. In addition, the debtors have indicated in filings with the Bankruptcy Court their intention to appeal future orders granting landlords' administrative claims under Section 503(b)(1). The legal issues raised in the pending and possible future appeals will likely be disposed of, under the doctrine of collateral estoppel, by reference to the District Court's recent decision. The factual issues of whether the debtors' occupancy was necessary to the preservation of the estate, however, may need to be decided on a case-by-case basis. The need for such fact specific inquiry under Section 503(b)(1) highlights the consequence to landlords of the court's declining to adopt the "proration" approach.

[11] *Goody's*, No. 08-585, slip. op. at 12 n.8.

[12] Nevertheless, a landlord may be able to take other actions to structure lease obligations in a way that mitigates the effect of the "billing date" approach. For example, a landlord could require monthly payment in advance toward annual taxes due at year end.

[13] *Id.* (emphasis in original).

[14] *Id.* at 25.

[15] *Id.* at 33. Not only must a landlord satisfy the burdens of proof imposed by Section 503(b)(1), but a landlord asserting a Section 503(b)(1) administrative claim may be denied the benefit of its lease bargain if prevailing rental rates change so that the fair market rental value of the premises drops below the originally bargained-for rent–not an uncommon occurrence in a declining real estate market. *In re Ames Dept. Stores, Inc.*, 306 B.R. 43, 68 (Bankr. S.D.N.Y. 2004). Although not as common, the converse is also possible where a landlord can establish that the fair market rental value of the premises is greater than the lease rate. *See In re Xonics, Inc.*, 65 B.R. 69, 74 (Bankr. N.D. Ill. 1986). While the Delaware District Court in the Goody's case did not press the landlords to prove the "actual" and "necessary" elements of their Section 503(b)(1) claims (indeed, the District Court declined to remand to the Bankruptcy Court for further consideration of those elements), relying on the debtors' use of the leased premises as *prima facie* evidence of those elements, other courts or other facts may require further proof of those elements.

[16] *Stone Barn*, 398 B.R. at 365-66.

[17] *Id.* at 366.