

Message from Our Managing Partner

Our office has welcomed **Frank J. Cerza**. He joins the firm as a partner in the firm's Real Estate and International Practice Groups. Mr. Cerza represents retail and private companies in connection with general corporate, real estate and commercial matters. He serves as general corporate counsel and business advisor to a number of international companies doing business in the United States and assists American companies in their business endeavors in the United States, Italy and elsewhere in Europe.

Our office also has welcomed two new associates in Pepper's Corporate and Securities Group. **Jamie L. Laskis**, also a member of our Canadian Practice Group, concentrates on U.S. and international mergers and acquisitions, corporate finance and securities law. **Bipul Mainali** focuses on mergers and acquisitions, capital markets, corporate finance and general corporate representations; advises clients on complex cross-border transactions; and represents corporations and financial entities in corporate and securities matters.

Online, Pepper has partnered with The Deal on a podcast series and our first edition explores midmarket pharma and health care deals, and we note the latest podcast offerings among Pepper's Indian Series, Canadian Series, health care and life sciences webinars.

We always welcome comments, questions and suggestions.

James D. Rosener, Managing Partner

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U.S. Broker-Dealers Will Face More Restrictions on Selling Securities in The Exempt Market in Canada

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In provinces and territories outside of Ontario and Newfoundland and Labrador, Canadian securities laws have not required U.S. broker-dealers to be registered as a dealer in circumstances where they engage exclusively in the business of trading in securities in the "exempt market." Trading in the "exempt market" commonly refers to trading securities in reliance upon exemptions from the prospectus and dealer registration requirements under applicable Canadian securities laws, such as trades to "accredited investors" (e.g. certain institutions and high-net-worth individuals) and trades with a "minimum investment amount" of \$150,000 (Canadian). Historically, U.S. broker-dealers have been unable to rely on such dealer registration exemptions to trade securities in Ontario and Newfoundland and Labrador.

As a result of the recent effort to harmonize dealer registration requirements across Canada pursuant to National Instrument 31-103 – *Registration Requirements and Exemptions* (NI 31-103), U.S. broker-dealers that seek to act as agents or underwriters for issuers in the private placement of securities to Canadians in the exempt market in British Columbia, Alberta, Saskatchewan, Manitoba, Québec, Nova Scotia, New Brunswick, Prince Edward Island, Yukon, Nunavut and the Northwest Territories will be subject to more restrictions effective March 27, 2010. On that date, the accredited investor, minimum investment amount and other commonly used exemptions from the dealer registration requirement that were previously available to U.S. broker-dealers in these jurisdictions will be eliminated.

This publication may contain attorney advertising.

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A U.S. broker-dealer that engages in the business of trading, or holds itself out as in the business of trading, in securities in a Canadian jurisdiction will be required to register as a dealer in that jurisdiction. However, a U.S. broker-dealer that acted as a dealer in the exempt market in a Canadian jurisdiction (other than Ontario and Newfound and Labrador) on September 28, 2009 will have until September 27, 2010 to file an application to register as an exempt market dealer in such jurisdiction and may continue to act as a dealer in the exempt market in that jurisdiction until September 27, 2010 (or until its registration application is approved, provided that it is filed by September 27, 2010). Alternatively, a U.S. broker-dealer can seek to satisfy one of the few remaining exemptions from the dealer registration requirement in NI 31-103.

One important remaining dealer registration exemption for U.S. broker-dealers is the International Dealer Exemption. Under this new exemption, a U.S. broker-dealer may trade free from any registration requirements in Canada under certain limited circumstances, including when trading in “foreign securities” (other than during the security’s distribution made under a prospectus filed in Canada) with “permitted clients” as defined in NI 31-103. “Permitted clients” are a subset of accredited investors and

includes institutional investors, pension funds and ultra-high-net-worth individuals. “Foreign securities” are securities of an issuer formed under the laws of a non-Canadian jurisdiction or a security issued by a non-Canadian government.

In order to qualify under the International Dealer Exemption, a U.S. broker-dealer must be registered under the securities legislation of its home jurisdiction and only engage in those activities in Canada that it would be permitted to carry on in its home jurisdiction. Further, prior to trading under the International Dealer Exemption, a U.S. broker-dealer must deliver to the securities regulator in the Canadian jurisdictions in which its potential clients are located a prescribed form appointing an agent for service those jurisdictions. A U.S. broker-dealer will also be required to satisfy certain advance notice requirements to Canadian investors and will need to advise the applicable regulator(s) if it continues to rely on the exemption every 12 months.

For more information on how these new requirements affect U.S. broker-dealers and issuers, please contact the authors, D’Arcy Doherty, partner at Gowling Lafleur Henderson LLP in Toronto, at darcy.doherty@gowlings.com or 416.369.6185; or Jaime L. Laskis, attorney at Pepper Hamilton LLP in New York, at laskisj@pepperlaw.com or 212.808.2744.



The Deal and Pepper Hamilton’s Legal Roadmap to Success - Midmarket Pharma, Health Care Deals

There are a number of hot-button legal topics interesting to dealmakers at the moment. What key legal issues should you be thinking about in the coming months? Hear thoughtful perspectives in this series of incisive podcasts from The Deal and Pepper Hamilton LLP.

The Deal

EPISODE 1: PEPPER HAMILTON ON MIDMARKET PHARMA, HEALTH CARE DEALS

Pharma and health care deals seem to have remained recession-proof. As the economic environment improves, Pepper Hamilton partners Christopher S. Miller and John W. Jones, Jr. believe dealmaking in the sector is likely to pick up. In this podcast sponsored by Pepper Hamilton, the two discuss the larger issues facing the industry and how they will affect dealmaking.

Listen today by visiting

www.thedeal.com/knowledge/podcasts/pepper-hamilton-on-midmarket-pharma-healthcare-deals.php.

Patent Owners Find Protection in Landmark Case Argued Before ITC by Pepper Hamilton

Legal Victory Accelerated the Sale of Saxon Innovations LLC

Pepper Hamilton LLP has prevailed in a cast that led to a recent ruling by the International Trade Commission (ITC) that will have major implications for companies that license their patent portfolios to U.S. businesses.

“This is an important ruling that significantly impacts technology companies who license their patent portfolios, as well as venture capital and private equity firms with portfolio companies that hold valuable patents,” said William D. Belanger, a partner in Pepper’s Boston office. “The ruling gives patent owners greater flexibility to enforce their intellectual property and may result in more case filings at the ITC.”

The ITC has become an important venue for patent disputes because of its power to issue orders barring the importation of goods that infringe on U.S. patents. A 2006 Supreme Court ruling made it much more difficult to obtain broad injunctions against infringing goods in federal court, so increasingly patent holders are turning to the ITC for relief. However, very few practitioners are experienced in the rules and requirements of litigation before the ITC. Pepper is one of those few firms.

To win a patent dispute before the ITC, the plaintiff must establish a domestic industry related to the patent at issue. The ruling in *Certain Electronic Devices Including Handheld Communications Devices*, (Inv. 337-TA-673 and 337-TA-674), which caused ripples in the intellectual property field, held that patent owners can fulfill the domestic industry requirement based exclusively on the activities of their domestic licensees.

Pepper attorneys, representing Saxon Innovations LLC, filed a complaint for patent infringement against prominent international technology companies, including Samsung, Nokia, HTC, Palm and Sharp.

“One key issue in this case centered on establishing a domestic industry related to the patent. Typically, parties satisfy the domestic industry requirement by pointing to an existing factory or R&D facility that employs the patented technology,” said Aaron Levangie, an associate in Pepper’s Boston office. “In Saxon’s case, we focused on domestic companies who licensed the asserted patents, and those licensee’s activities exploiting the patented

technology in the United States.” The ITC ultimately ruled in favor of Saxon, creating an opportunity for patent owners who have licensed their portfolios to domestic companies.

“Pepper Hamilton helped manage this opportunity for us from the initial acquisition through the sale of the asset. This was a complex IP monetization program, and required a truly sophisticated partner, which they proved to be,” said Bill Marino, CEO of Saxon Innovations. “Pepper’s ITC expertise, combined with their industry knowledge and ability to manage this program on an alternate fee basis, was critical to our company’s success.”

“Our success at the ITC ratified the value of Saxon’s patent assets and Pepper’s work in obtaining this ruling and at trial was key in driving the sale,” said Marino. “For such a major transaction, this deal was finalized in a remarkably short timeframe. The value of the patent sale was increased by Pepper’s seamless representation on litigation and transaction matters, as well as the ITC’s willingness to protect Saxon’s domestic licenses.”

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Non-Compete Clauses Are Unenforceable in India

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With the increase in cross-border trade and an enhanced competitive climate in India, confidentiality, non-compete and non-solicitation agreements are becoming increasingly popular there, especially in the IT and technology sectors. An increasing number of outsourcing and IT companies are including confidentiality, non-compete and non-solicitation covenants in agreements with their employees, with terms ranging from a few months to several years after the employment relationship is terminated. The companies claim that such restrictions are necessary to protect their proprietary rights and their confidential information.

Similarly, foreign companies doing business in India often seek to include confidentiality, non-compete and non-solicitation covenants in their agreements with senior management and employees, as is customarily done in certain foreign jurisdictions.

However, Indian courts have consistently refused to enforce post-termination non-compete clauses in employment contracts, viewing them as “restraint of trade” impermissible under Section 27 of the Indian Contract Act, 1872 (the Act), and as void and against public policy because of their potential to deprive an individual of his or her fundamental right to earn a livelihood.

The principles of Section 27 were aptly summarized by the Supreme Court of India in *Percept D’ Mark (India) Pvt. Ltd v. Zabeer Khan* (AIR 2006 SC 3426), in which the Supreme Court observed that under Section 27 of the Act a restrictive covenant extending beyond the term of the contract is void and not enforceable. The court also noted that the doctrine of “restraint of trade” is not confined to contracts of employment only, but is also applicable to all other contracts with respect to obligations after the contractual relationship is terminated.

This long-standing stance was clearly reaffirmed recently in a 2009 decision by the New Delhi High Court in *Desiccant Rotors International Pvt Ltd v. Bappaditya Sarkar & Anr* (I.A. No.5455/2008, I.A. No.5454/2008 & I.A. No.5453/2008 in CS(OS) No.337/2008), which involved a senior marketing manager at a manufacturer of evaporative cooling components, products and systems. As part of his employment agreement with Desiccant, the manager agreed that for two years follow-

INDIAN COURTS REMAIN SENSITIVE TO THE POSSIBILITY THAT EMPLOYERS MAY TRY TO USE RESTRICTIVE COVENANTS AS A BACK-DOOR MEANS OF RESTRAINING EMPLOYEES FROM EXERCISING THEIR TRADE AND WILL PLACE AN EXTREMELY HIGH BURDEN OF PROOF ON EMPLOYERS SEEKING TO ENFORCE THESE PROVISIONS.

ing the termination of his employment, he would be bound by a covenant with Desiccant that would require him to keep Desiccant’s matters confidential, and that would prevent him from competing with Desiccant and soliciting Desiccant’s customers, suppliers and employees. Expressly embodied in the employment agreement was an acknowledgement by the manager that he was dealing with confidential material of Desiccant, including know-how, technology trade secrets, methods and processes, market sales and lists of customers. After a few years of employment, the manager resigned and, notwithstanding the terms of his old employment agreement, within three months of his resignation joined a direct competitor of Desiccant as country manager in charge of marketing and started contacting customers and suppliers of Desiccant. In injunctive proceedings against the manager by Desiccant, the High Court reiterated the principles embodied in Section 27 of the Act and the individual’s fundamental right to earn a living by practicing any trade or profession of his or her choice. Brushing aside any argument by Desiccant that the restrictive covenants were primarily designed to protect its confidential and proprietary information, the High Court ruled that in the clash between the attempt of employers to

protect themselves from competition and the right of employees to seek employment wherever they choose, the right of livelihood of employees must prevail. Similarly, in a 2007 decision in *V.F.S. Global Services Ltd. v. Mr. Suprit Roy* (2008 (2) BomCR 446) the Bombay High Court held that a fully paid three-month “garden leave” agreement with a senior manager did not renew the employment contract and constituted a “restraint of trade” unenforceable by V.F.S.

Foreign investors in India need to be aware of Section 27 of the Act and the well-established line of court cases under it, as they structure their employment relationships and incentives with local management. As a general principle, confidentiality, non-competition and non-solicitation agreements will be enforceable during the term of the employment relationship. After termination of employment, however, many provisions of these agreements will be struck and deemed unenforceable by Indian courts in enforcement proceedings, even if the provisions are reasonable in scope and duration, subject to certain exceptions.

One of the few instances in which non-competition clauses will generally be enforceable is in the context of the sale of a business, where the owners of the business will agree to a non-compete in exchange for consideration for the goodwill associated with the business (for example, in a stock sale where the promoters will sell their stock in the business to a buyer in exchange for consideration). To be enforceable, the non-compete will need to be reasonably limited in time and scope, and consideration will need to be attributed to the goodwill in the transaction, as evidenced in the documentation. Similarly, a non-compete clause in a joint venture in which shareholders mutually agree not to compete with each other on certain terms and conditions, which include time and geographic restrictions, will generally be enforceable in India.

Non-solicitation obligations post-termination of employment may be enforced in limited circumstances, based upon the facts of each individual case. For example, they were upheld in the *Desiccant* case, in which the High Court did allow an injunction against the manager prohibiting him from soliciting Desiccant’s customers and suppliers to stand in effect. In the *V.F.S.* case, however, relief for breach of non-solicitation obligations was denied on the basis of vagueness of the relief claimed.

Confidentiality obligations post-termination of employment will similarly be enforced in limited circumstances so long as they remain reasonable and limited in time and scope and the employer

Upcoming Events

EACC-NY ROUNDTABLE ON CURRENT BUSINESS ISSUES SERIES - LEADERSHIP AND MANAGEMENT RESPONSE TO THE ‘WAR ON TERROR’

Wednesday, March 24, 2010 | 8:00-10:30 A.M.

This roundtable will discuss key issues related to terrorism and how business can respond to today’s terrorist threats. How the CIA and the U.S. government respond to crises or failures, how such responses are often wrong and what businesses can learn from these will be the focus of the discussion. There are real terrorist threats to business but these are often less serious than our fears—and our leaders—would lead us to believe. Speaker Glenn Carle is a former CIA officer with more than 15 years of experience of high-level U.S. government experience as a senior manager, policy developer/analyst, and negotiator on major international and security issues. RSVP to Francesco Liberti at libertif@eaccny.com.

THE CAPITAL ROUNDTABLE’S PE FUNDRAISING FROM INSTITUTIONAL INVESTORS IN 2010

Thursday, May 13, 2010

Pepper partner Julia D. Corelli will be speaking at The Capital Roundtable’s MasterClass on May 13, in New York City. For more information and to register, visit <http://capitalroundtable.com/calendar/>.

EACC-NY EXECUTIVE BRIEFING ON ENFORCEMENT INITIATIVES AND TRENDS AT THE SECURITIES AND EXCHANGE COMMISSION

Wednesday, April 14, 2010

The SEC’s Enforcement Division has undergone drastic operational changes and implemented various investigative initiatives that affect the regulatory landscape, whether you conduct business domestically or abroad. Attendees of this seminar will gain insight into operational changes made by the SEC’s Division of Enforcement, learn what the SEC’s new cooperation initiative is trying to accomplish, discover how the SEC’s initiatives could affect your operations in the U.S. and Europe. RSVP to Francesco Liberti at libertif@eaccny.com.

Upcoming Webinars

INDIAN WEBINAR SERIES: HIDDEN EMPLOYMENT LAW RISKS IN DOING BUSINESS IN THE UNITED STATES

Wednesday, March 24, 2010
11:00 A.M. - 12:00 P.M. EDT

DUMPING PHARMA

Health Care Legal Issues for 2010 and Beyond
Webinar Series
Thursday, March 25, 2010
12:00 - 1:00 P.M. EDT

CRITICAL CONSIDERATIONS IN DISTRESSED M&A TRANSACTIONS: EXPLORING RISKS AND OPPORTUNITIES

Wednesday, April 7, 2010
12:00 - 1:00 P.M. EDT

INDIAN WEBINAR SERIES: PITFALLS OF PREPARING AND MANAGING AN ARBITRATION INVOLVING INDIA

Wednesday, April 21, 2010
11:00 A.M. - 12:00 P.M. EDT

HEALTH CARE PRIVACY AND SECURITY AFTER HITECH

Health Care Legal Issues for 2010 and Beyond
Webinar Series
Thursday, April 22, 2010
12:00 - 1:00 P.M. EDT

CANADA-U.S. TRADE UPDATE LUNCHEON

Canadian Webinar Series
Thursday, April 29, 2010
12:00 - 1:00 P.M. EDT

SOLAR POWER FOR END USERS - WHERE TO STORE?

Thursday, May 6, 2010
12:00 - 1:00 P.M. EDT

LEASE CONSIDERATIONS FOR GREEN BUILDING

Wednesday, May 19, 2010
12:00 - 1:00 P.M. EDT

GREEN BUILDING FOR OWNERS AND DEVELOPERS

Wednesday, June 9, 2010
12:00 - 1:00 P.M. EDT

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can support that the information is confidential and proprietary to it. Indeed, while denying enforcement of the garden leave in the *V.F.S.* case, the Bombay High Court established the principle that a restraint on the use of trade secrets during or after cessation of employment is not tantamount to a “restraint on trade” under Section 27 of the Act and therefore can be enforceable under certain circumstances. This case and others show that Indian courts will in certain circumstances enforce confidentiality agreements intended to protect an employer’s proprietary rights. But the courts remain sensitive to the possibility that employers may try to use these covenants as a back-door means of restraining employees from exercising their trade and will place an extremely high burden of proof on employers seeking to enforce these provisions. In the *Desiccant* case for example, the court

held that a marketing manager could not be deemed to possess confidential information and that his written declaration to that effect in his employment agreement was meaningless; the court rejected *Desiccant*’s claim to enforce the confidentiality obligations of the manager.

Therefore, when dealing with local management and key employees in India, foreign investors need to remember that the position of Indian courts on the question of non-competes is unmistakably clear—any restriction with regard to freedom of employees to seek employment and earn a living after termination of their employment contract will generally be unenforceable as contrary to public policy as set forth under Section 27 of the Act.