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**Practice**

Private Equity  
Mergers & Acquisitions  
International

**Education**

Columbia University Law School, J.D.  
Hamilton College, A.B., *cum laude*

**Admissions**

Mr. Glucroft is admitted to practice in the State of New York, and Paris, France.

Douglas Glucroft joined Orsay as a partner in 2013. He has extensive experience in cross-border transactions, particularly in the high-tech sectors, including joint ventures, mergers and acquisitions, licensing, establishment of foreign subsidiaries and branches, intellectual property, software development and other technology-related transactions. Doug. In addition, Doug has advised leading institutional investors in connection with their private equity investment programs.

Prior to joining Orsay, Doug was a partner with a leading US law firm in Paris and New York and prior to that was at partner with a Paris law firm particularly well-known for its experience in the high-tech industry. He has also he served as associate general counsel for Ziff Communications Company (Ziff-Davis) in New York where he was responsible for all legal affairs created by the expansion of Ziff's international business operations. Doug began his legal career at the international firm of Cleary, Gottlieb, Steen & Hamilton and worked in its New York and Paris offices.

He is a member of the New York bar and the Paris bar. He received a J.D. from the Columbia University School of Law.

## TOPICS TO BE COVERED

- Foreign Investment
- Business Entities
- Intellectual Property
- Visas and Immigration Law
- Employment Law
- Tax Law

## Foreign Investment

- Advantages to Investing in the U.S.:
  - No government approval needed to establish a company in U.S.
  - No restrictions on interest and royalty rates, except withholding taxes
  - Profits and dividends from U.S. companies may freely flow abroad (subject to U.S. taxes)
  - Only certain sectors (media, airlines, defense etc) are controlled

## Foreign Investment

- Exon-Florio Amendment:
  - CFIUS (Committee on Foreign Investment in the United States) can review mergers or acquisitions that result in foreign control of U.S. business
  - If a would impact the "national security" of the United States, transaction it may be blocked or undone after-the-fact
  - Procedure: Acquiror and target apply for CFIUS review prior to the acquisition
  - Application is voluntary, but avoids future challenges to the transaction

## Foreign Investment

- Export Administration Regulations:
  - U.S. export control laws require licenses to export certain goods, software, technology and information
  - Military products, defense products and "dual-use" goods are subject to export controls
  - "Export" can be:
    - Physical shipment, electronic transmission or release of information
    - Transfer to a non-U.S. person, even if that person is physically in the U.S.
    - Transfer from a U.S. subsidiary to a foreign parent company

## Foreign Investment

- Dual-use Encryption Software:
  - Sharing, shipping, transmission or transfer of "strong" dual-use encryption software is subject to Export Administration Regulations
  - An export license or a license exception is required to export the encryption code

# Business entities



# General Business Regulatory Scheme

## ➤ Federal Statutes

- regulate interstate commerce, antitrust, IP, much more; can preempt state law on same subject
- regulate “public companies” – e.g., Sarbanes-Oxley
- regulate employment/unions/wages and hours

## ➤ State Statutes

- 50 sets of statutes
- similar, but often not the same
- regulate private companies
- regulate employment/unemployment insurance/worker’s compensation insurance

## Litigation environment

- Two level court system: federal and each state
- Trend toward various « alternative dispute resolution » systems
- Expensive and cumbersome procedures compared to France:
  - Discovery (and e-discovery)
  - Jury trials
  - Examination of witnesses

## Minimizing Civil Liability in the U.S.

- Do not use a mere translation of your French licensing and services agreements; have them newly prepared under the relevant US state law
- Licensing contracts should include:
  - "Limitation of liability" clause
  - Narrow definition of consequential (indirect) damages
  - Exclusion of "implied warranties"
  - Choice of law and jurisdiction

## Parent company liability

- Foreign parent may incur liability for actions of U.S. subsidiary under one of the following theories:
  - Piercing the corporate veil
  - Agency theory of liability
  - “Minimum contacts”

## Basic considerations for choice of entity

- Considerations in choosing a form of business entity:
  - Limitation on liability
  - Management, capital requirements
  - Tax considerations
  - Ease of organization
  - Easy transferability of equity interests
  
- Types of Entities:
  - Corporations
  - Limited Liability Companies
  - Partnerships
  - Branches
  - Other (Joint Ventures)

## Corporations (Cont'd)

- Charter documents: Corporation must establish by-laws setting out internal rules for how it will function
- Profits: Profits may be distributed to stockholders in the form of dividends (periodic per-share cash distributions)
- Double taxation: A “C” corporation pays income taxes as a single entity, but stockholders also pay taxes on dividends and capital gains. (NOTE: An “S” corporation does not pay income taxes at the corporate level, all profits are taxed once at the shareholder level.)

## Incorporation process

- Generally quicker and easier than in France:
  - Faster – can usually be done in the same day
  - No advance preparation of « statuts » or designation of directors or officers
  - No bank account requirement prior to incorporation
  - Attention: important to avoid creating a « permanent establishment » (établissement stable)

## Incorporation process (cont'd)

- Reserve a Name – check availability of name and trademarks; include certain words or abbreviations (e.g., Company or Co.)
- Certificate of Incorporation – must be filed with Delaware Secretary of State and include:
  - Name and address of registered agent – person or office designated to receive official state correspondence and notice if the corporation is served with a lawsuit
  - Stock information – classes, number and par value of shares that the corporation is authorized to issue
  - Corporate purpose – very broad statement is fine



## Corporations – where to incorporate?

- Corporations are formed under state law (e.g., Delaware), which regulates structure and operations
- Why Choose Delaware?
  - Pros:
    - Corporate-friendly laws and reputation
    - Predictability and stability
    - Low costs and fees
    - Flexibility of corporate structure and operation
  - Cons:
    - Must file foreign qualification certificate in the state of operation and pay Delaware franchise tax
    - Most other states now have modern corporate laws

# Corporations

- Bylaws - Corporation must establish bylaws setting out internal rules for how it will function
- EIN (Employer Identification Number) – Federal tax ID number assigned by IRS
  - Need name and Social Security number of person filing
  - Non-U.S. citizens must apply to IRS for individual tax ID number in order to file for the EIN
- Corporate Resolutions – consent of shareholders and/or directors to the adoption of bylaws, establishment of number of directors, election of officers, or other powers of corporation
- Annual Franchise Tax Report – minimum tax is \$75 and maximum is \$180,000 (plus \$50 filing fee); filed each year on or before March 1, includes corporation's registered name and office, names and addresses of the directors and up to two officers

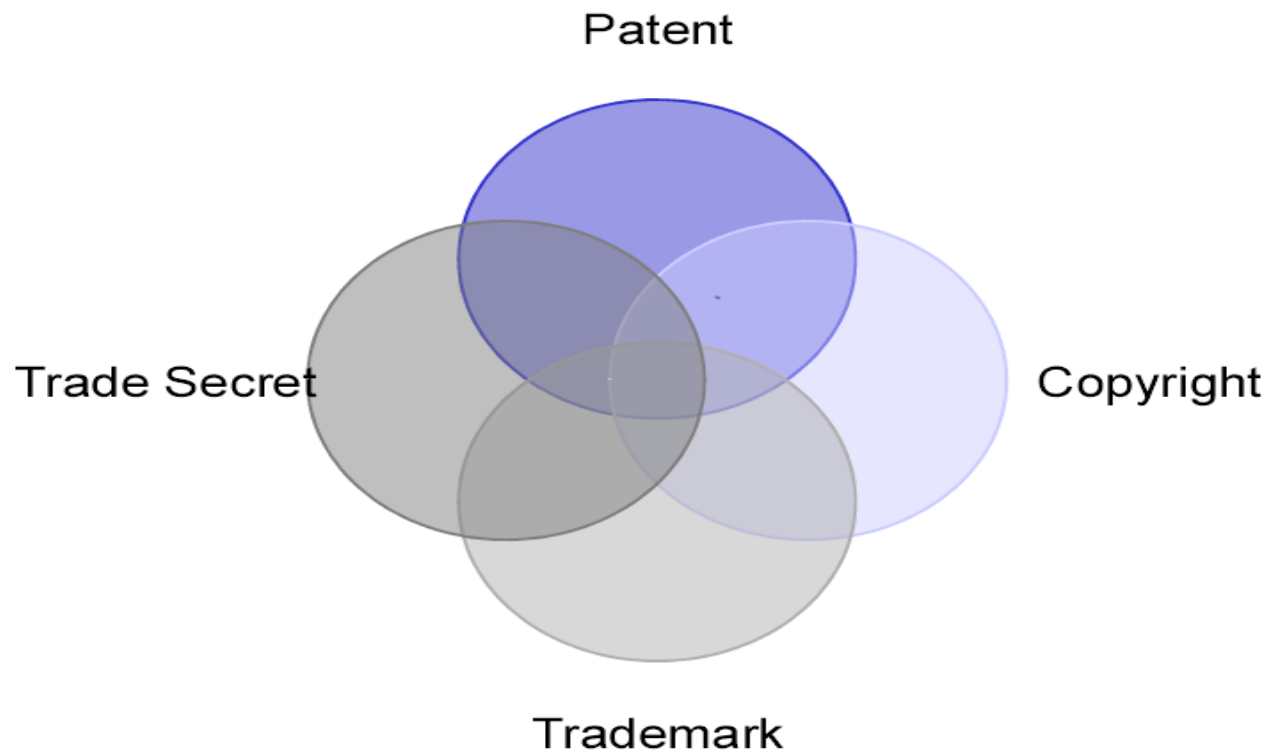
# Corporations

## ➤ Other Considerations:

- Doing Business In Other States- must register as a foreign corporation in another state if you plan to do business there, i.e. if you have an office in the state, or an employee based in the state
- D/B/A (“Doing Business As”) Certificate – if using a commercial name other than corporate name; sometimes used to open bank accounts or to sign contracts

# Intellectual Property

# Forms of Intellectual Property Protection



## Forms of Intellectual Property Protection

- Trademark: precludes others from using a word, phrase or design in connection with the sale of related goods or services; Can last as long as use of mark, registration process
- Copyright: prevents copying and distribution of creative works (including software); Currently life plus 70 years (longer for “works made for hire”), registration process
- Trade Secret : prevents use of any secret information that provides commercial advantage; Can last indefinitely, no registration of examination
- Patent : right to exclude others from making or using a machine, process, article of manufacture (including software); 20 year term, protracted examination

# Trademarks

- Types of Trademarks:
  - Brand names – name of a company or product line
  - Service marks – identify and distinguish the services of one company from those of another
  - Certification marks – identify quality, materials, origin
  - Collective marks – identify members of a collection/group
  - Trade dress – look and feel of object; physical identity

## Trademarks

- Application Process:
  - Patent & Trademark Office (PTO) examination to ensure that mark is distinctive, appropriate and unlikely to mislead, confuse or deceive customers
  - After obtaining registration, the owner can use the registered trademark symbol “®” (prior to registration the owner can use the “™” symbol)



# Trademarks

- Advantages of U.S. Trademark registration:
  - Creates presumption of ownership and nationwide rights regardless of geographic scope of use
  - Creates federal jurisdiction for enforcement
  - Can be used to attack imported goods bearing an infringing mark
  - Strong counterfeiting remedies
  - Provides for the possibility of recovering damages and attorney fees

# Trademarks

- Advantages of U.S. Trademark registration:
  - Creates a tangible asset for use in connection with licensing or selling the mark and for use as collateral
  - Party may apply for registration before using mark, or once mark is already being used in commerce
  - Trademark valid so long it remains in use and does not become generic and the owner files timely declarations to avoid abandonment

# Copyright

- US has a registration system; can be used for software
- Registration provides enhanced remedies in case of litigation and is required to bring infringement actions
- Assignment of copyright requires a written agreement in absence of employment relationship

# Patent Law

- Patent Trends in US
  - More difficult to obtain
  - More expensive to obtain
  - More difficult to enforce
  - More expensive to enforce

# Patent Law

- What Can be Achieved (why climb the mountain)?
  - Protect market by excluding others
  - Value add to customers through reduced risk
  - Generate revenue from licensing
  - Reduce risk by cross-licensing
  - Patents are the “currency” for deals
    - Investment capital
    - Joint ventures
    - M and A

# Patent Law

- The Scope of Patent Eligible Subject Matter
  - Software-generated business processes and methods can be patented
  - 2010 Supreme Court decision (“Bilski”) did not dramatically alter the landscape, but reinforces that there is no “bright line” for patent eligibility and applications for business processes and methods must be drafted carefully
  - Continues to evolve: new case decided May 10, 2013

## Patent Law – Reasons to think the strategy through

- Application filings have a 25% patenting success rate, patent portfolios are bloated with low quality patents, costs are skyrocketing and most patents are irrelevant to company business
- Cost of pursuing patents that are not likely to be valuable
- Increased government filing fees
- Maintenance costs for unworthy patents
- Management costs of unduly large portfolio
- Lower percentage of budget is allocated to creative activities
- Attorney fees are “only the tip of the iceberg”!

## Trade Secrets

- The Patent Reform legislation also strengthened trade secret protection by providing « prior use » defense to patent infringement claim
- Trade secrets can only be validated through litigation
- Importance of taking (and being able to demonstrated) reasonable measures to protect secrecy
- Must restrict access to rebut defense of « independent development »
- No automatic transfer of trade secrets to employer (as is the case with copyright under US law)



# Visas and Immigration Law in the United States

## Nonimmigrant Visas

- Temporarily allow foreign nationals to enter the U.S.
- Types:
  1. Temporary Business Visitor [B-1]
  2. Visitor for Pleasure [B-2]
  3. Visa Waiver Program
  4. Treaty Trader and Investor [E]
  5. Temporary Worker in Specialty Occupation [H-1B]
  6. Trainee [H-3]
  7. Intracompany Transferee [L-1]
  8. Person of Extraordinary Ability [O]
  9. Practical Training [F-1, J-1]

## Immigration Guidelines

- Immigration is regulated exclusively by Federal law
- Numerous alternatives available for visitors
  - All are Temporary
- Obtaining VISA is process specific ... all required steps must be completed
- Case can be time consuming ... start 6 months prior to visit
- Retain qualified help

## Determine Needs of Company and of Employee

- A foreign national employee cannot work in the U.S. until visa approved (even a company owner or officer)
- The different visa categories have varying eligibility requirements, restrictions, and time limits (see slide below)
- Timely analysis of visa options is crucial for long term success
- **Plan ahead: strategy and processing can take from a few weeks to several months or more**
- Do not think you can keep coming to the U.S. on visa waiver

## « WORKING » IN THE U.S.

- *Visiting* as a tourist or business visitor for <90 days:
  - OK to seek investments or new office research in U.S.
  - Cannot do productive work, as an employee or independently, while visiting
  - Before beginning to work, must have valid work visa:
    - E-1 or E-2 as treaty-trader or treaty-investor
    - L-1 as intracompany transferee
    - H-1B as a professional employee in a specialty occupation

# Employment Law

# Employment Law

- Employment Agreements:
  - Written agreements with employees are not required
  - Employers should always consider using written agreements because they provide protection and prevent misunderstanding
  - Other documents (such as employee handbooks, company policies, correspondence with employee) may create contractual obligations

# Employment Law

## ➤ Governing Law:

- Employment is governed by both Federal and State law
- Employers must always be aware of the Federal requirements and then determine whether State law creates different or greater responsibilities.
- Always consult counsel in the state where an employer is actually operating.



# Employment Law

- Applicable Federal Statutes:
  - Title VII – race, color, religion, gender, pregnancy, sexual harassment
  - ADEA – no mandatory retirement age
  - ADA – reasonable accommodation
  - FLSA – overtime, damages, collective actions

# Employment Law

- Protection of Intellectual Property:
  - Always enter into Confidential Information and Inventions Assignment Agreement (CIIAA) with each employee
  - CIIAAs ensure Company ownership of IP developed by US employees
  - CIIAAs ensure the protection of trade secrets
  - CIIAAs are critical to protection of IP

# Tax Law

# Tax Law

- Taxation of U.S. Corporate Subsidiary
  - Federal corporate income tax rate (maximum 35%, top bracket applies quickly) but there are often state corporate taxes that can increase overall taxation.
  - State income tax rate (typically ranges from 6% to 8%)
    - It is a deductible item in computing federal taxes
  - Some local income taxes (NYC)
  - State sales tax on purchases of tangible personal property and certain services (if subsidiary has taxable nexus to state where sale occurs) (typically ranges from 5% to 10%)
  - Real property transfer tax and ad valorem tax
  - Some states have a tangible personal property tax

## Tax Law

- French-U.S. Tax Treaty:
  - Interest payments to French parent:
    - 0% U.S. withholding
  - Dividends to French parent:
    - 5% U.S. withholding tax (0% in some cases)
  - Royalty payments to French parent:
    - 0% U.S. withholding
  - Generally no withholdings for capital gain tax on sale of stock or securities

## Tax Law

- Use U.S. Subsidiary
  - keeps French parent out of the U.S. tax scheme
  - best way to take advantage of the French-U.S. Tax Treaty (avoids “permanent establishment” problems)
  - Intercompany Agreement – extremely important to determine and document arrangements regarding management fees, royalties, and other income flows. All must be on an arm’s length basis and based on prevailing market conditions as between unrelated parties.

## Commercial Leases

- Parent and individual guarantees – avoid if possible
- Landlord can pass along operating costs to tenant – define "operating costs" narrowly
- No 3-6-9 terms – try for short term (e.g. 3 years, with rights to renew)
- Sub-lets and assignments – obtain rights to sub-let (at least to affiliates) and to assign lease in case of change in control (e.g., merger or acquisition)

## Commercial Leases

- Obtain option or right of first refusal for more space
- Rent escalation – try to cap annual increases during the lease term
- Right of early termination – try to obtain in exchange for agreeing to reimburse landlord for previously covered tenant improvement or leasing commission costs
- Square footage – check "rentable" vs "usage" square feet; landlord should represent that square footage complies with BOMA (Building Owners and Managers Association)
- Indemnity provisions – try to limit so that landlord cannot recover punitive, consequential or lost profit damages