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Legal Issues for Entrepreneurs: Formation and Founders Issues

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Guide to Starting a Corporation

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FENWICK & WEST LLP

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Guide to Starting a Corporation

Introduction

This guide describes certain basic considerations and costs involved in forming a Delaware or California corporation. Although Delaware and California law are emphasized, the legal concepts are much the same in other states. One important tip is that you should avoid making business decisions in a vacuum. Instead, consider how this decision may impact future alternatives. For example, an improperly priced sale of common stock to founders immediately followed by a sale of preferred stock may result in a significant tax liability to the founders. Another example is that converting a limited liability company into a corporation immediately before the business is acquired, rather than at an earlier time, may prevent the transaction from being tax-free.

This guide is only an overview, particularly as to tax issues and cannot substitute for a professional advisor's analysis and recommendations based on your individual fact situations when establishing your business.

A. Selecting the Form of Business Organization

No single factor is controlling in determining the form of business organization to select, but if the business is expected to expand rapidly, a corporation will usually be the best alternative because of the availability of employee incentive stock plans; ease of accommodating outside investment and greater long-term liquidity alternatives for shareholders. A corporation also minimizes potential personal liability if statutory formalities are followed. The characteristics of a corporation are described below, followed by an overview of other traditional forms of business organizations. Each of the following factors is described for comparison purposes: statutory formalities of creation, tax consequences, extent of personal liability of owners, ease of additional investment, liquidity, control and legal costs.

1. Corporation

A corporation is created by filing articles of incorporation with the Secretary of State in the state of incorporation. Corporate status is maintained by compliance with statutory formalities. A corporation is owned by its shareholders, governed by its Board of Directors who are elected by the shareholders and managed by its officers who are elected by the Board. A shareholder's involvement in managing a corporation is usually limited to voting on extraordinary matters. In both California and Delaware, a corporation may have only one shareholder and one director. A president/CEO, chief financial officer/treasurer and secretary are the officer positions generally filled in a startup and, in fact, are required under California law. All officer positions may be filled by one person.

The reasons for using a Delaware corporation at startup are the ease of filings with the Delaware Secretary of State in financings and other transactions, a slight prestige factor in being a Delaware corporation and avoiding substantial reincorporation expenses later, since many corporations which go public reincorporate in Delaware at the time of the IPO. Delaware corporate law benefits are of the most value to public companies. However, if the corporation's primary operations and at least 50% of its shareholders are located in California, many provisions of California corporate law will be applicable to a private Delaware corporation and such a company would pay franchise taxes in both California and Delaware. These considerations may result in such a business choosing to incorporate in California instead of Delaware. Another reason for keeping it simple and using a California corporation is the current non-existent IPO market which makes an acquisition a more likely exit for a start-up.

There is more flexibility under Delaware law as to the required number of Board members. When a California corporation has two shareholders, there must be at least two Board members. When there are three or more shareholders, there must be at least three persons on the Board. Under Delaware law, there may be one director without regard for the number of stockholders. Most Boards stay lean and mean in number as long as possible to facilitate decision-making. Since the Board is the governing body of the corporation, when there are multiple board members, a party owning the majority of the shares can still be outvoted on the Board on important matters such as sales of additional stock and the election of officers. Removing a director involves certain risks even when a founder has the votes to do so. Thus, a founder's careful selection of an initial Board is essential. You want board members whose judgment you trust (even if they disagree with you) and who can provide you with input you won't get from the management team.

A corporation is a separate entity for tax purposes. Income taxed at the corporate level is taxed again at the shareholder level if any distribution is made in the form of a dividend. The S Corporation election described below limits taxation to the shareholder level but subjects all earnings to taxation whether or not distributed. The current maximum federal corporate tax rate is 35%. The California corporate income tax rate is 8.84% and the Delaware corporate income tax rate is 8.7% but Delaware income tax does not apply if no business is done in Delaware and only the statutory office is there. There is also a Delaware franchise tax on authorized capital which can be minimized at the outset but increases as the corporation has more assets.

If the business fails, the losses of the initial investment of up to $1 million in the aggregate (at purchase price value) of common and preferred stock (so-called "Section 1244 stock") may be used under certain circumstances by shareholders to offset a corresponding amount of ordinary income in their federal income tax returns. An individual may deduct, as an ordinary loss, a loss on Section 1244 stock of up to $50,000 in any one year ($100,000 on a joint return).

If statutory formalities are followed, individual shareholders have personal liability only to the extent of their investment, i.e., what they paid for their shares. If the corporation is not properly organized and maintained, a court may "pierce the corporate veil" and impose liability on the shareholders. Both California and Delaware law permit corporations to limit the liability of their directors to shareholders under certain circumstances. The company can raise additional capital by the sale and issuance of more shares of stock, typically preferred stock when an angel or venture capitalist is investing. Though rare, the power of a court to look through the corporation for liability underscores the importance of following proper legal procedures in setting up and operating your business.

Filing fees, other costs and legal fees through the initial organizational stage usually total about $3,500 to $5,000, with a Delaware corporation being at the high end of the range.

2. Sole Proprietorship

The simplest form of business is the "sole proprietorship," when an individual operates a business on his own. The individual and the business are identical. No statutory filings are required if the sole proprietor uses his own name. If a different business name is used in California, a "fictitious business name" statement identifying the proprietor must be filed with the county clerk of the county where the principal place of business is located and published in the local legal newspaper. A sole proprietor has unlimited personal liability to creditors of his business and business income is taxed as his personal income. Because of the nature of this form of business, borrowing is the usual method of raising capital. The legal cost of forming a sole proprietorship is minimal.

3. General Partnership

When two or more individuals or entities operate a business together and share the profits, the enterprise is a "partnership." Partnerships are either general partnerships or limited partnerships (described below). Although partners should have written partnership agreements which define each party's rights and obligations, the law considers a venture of this type as a partnership whether or not there is a written agreement. No governmental filings are required for a general partnership. A partnership not documented by a written agreement is governed entirely by the versions of Uniform Partnership Act in effect in California and Delaware.

In the absence of an agreement to the contrary, each partner has an equal voting position in the management and control of the business. Each partner generally has unlimited liability for the debts of the partnership and is legally responsible for other partners' acts on behalf of the business, whether or not a partner knows about such acts.

The partnership is a conduit for tax purposes: profits (even if not distributed) and losses flow through to the partners as specified in the partnership agreement. There is no federal tax at the entity level. Some partnerships contemplate raising additional capital, but accommodating future investment is not as easy as in a corporation. The legal cost of establishing a partnership is minimal if no formal written agreement is prepared but not having a written agreement may cause disputes over the economic benefits, intellectual property and aspects of the partnership. The cost of preparing such an agreement begins at about $2,000 and depends on the number of partners, sophistication of the deal and other factors.

4. Limited Partnership

This is a partnership consisting of one or more general partners and one or more limited partners which is established in accordance with the California and Delaware versions of the Uniform Limited Partnership Act. Like the corporation, this entity has no legal existence until such filing occurs. The limited partnership is useful when investors contribute money or property to the partnership but are not actively involved in its business. The parties who actively run the business are the "general partners," and the passive investors are the "limited partners." So long as the limited partnership is established and maintained according to statutory requirements, and a limited partner does not take part in the management of the business, a limited partner is liable only to the extent of his investment. Like a general partnership, however, the general partners are personally responsible for partnership obligations and for each other's acts on behalf of the partnership.

For tax purposes, both general partners and limited partners are generally treated alike. Income, gains and losses of the partnership "flow through" to them and affect their individual income taxes. A properly drafted limited partnership agreement apportions profits, losses and other tax benefits as the parties desire among the general partners and the limited partners, or even among various subclasses of partners subject to certain requirements imposed by U.S. tax law, i.e., the Internal Revenue Code (the "IRC").

5. Limited Liability Company

This form of business organization is available in Delaware and California as well as many other states. It is essentially a corporation which is taxed like a partnership but without many of the S Corporation restrictions identified below. An LLC has fewer statutory formalities than a corporation and is often used for a several person consulting firm or other small business. An LLC does not provide the full range of exit strategies or liquidity options as does a corporation. It is not possible to grant stock option incentives to LLC employees in the same manner as a corporation. Further, an acquisition of an LLC generally may not be done on a tax-free basis and the expenses of formation are higher than for forming a corporation.

B. S Corporations

A corporation may be an "S corporation" and not subject to federal corporate tax if its shareholders unanimously elect S status for the corporation on a timely basis. "S corporation" is a tax law label; it is not a special type of corporation under state corporate law. Like a partnership, an S corporation is merely a conduit for profits and losses. Income is passed through to the shareholders and is generally taxed only once. Corporate level tax can apply in some circumstances to an S corporation that previously had been a "C" corporation for income tax purposes. Losses are also passed through to offset each shareholder's income to the extent of his basis in his stock and any loans by the shareholder to the S corporation. The undistributed earnings retained in the corporation as working capital are taxed to a shareholder.

A corporation must meet certain conditions in order to be an S corporation, including the following: (1) it must be a U.S. corporation, (2) it must have no more than 75 shareholders, (3) each shareholder must be an individual, certain trusts, certain charitable organizations, employee stock ownership plans or pension plans, (4) no shareholder may be a nonresident alien, and (5) it can have only one class of stock outstanding (as opposed to merely being authorized). As a result, S corporation status will be terminated when a corporation sells preferred stock or sells stock to a venture capital partnership, corporation or to an off-shore investor.

California and Delaware recognizes the S corporation for state tax purposes, which may result in additional tax savings. California, however, imposes a corporate level tax of 1.5% on the S corporation's income and nonresident shareholders must pay California tax on their share of the corporation's California income. In addition, only C corporations and noncorporate investors are eligible for the Qualified Small Business Corporation capital gains tax break. The benefit of this tax break is that if the stock is held for at least 5 years, 50% of any gain on the sale or exchange of stock may be excluded from gross income. This benefit may not be as important because of the reduction in the capital gains tax rate.

C. Choosing a Business Name

The name selected must not deceive or mislead the public or already be in use or reserved. "Inc.," "Corp." or "Corporation" need not be a part of the name in California but must be part of a Delaware corporate name. Name availability must be determined on a state-by-state basis through the Secretary of State. A corporate name isn't available for use in California merely because the business has been incorporated in Delaware. Several alternative names should be selected because so many businesses have already been formed. Corporate name reservation fees range from approximately $5-50 per state for a reservation period of 30-60 days. Exclusive state rights in a trade name can also be obtained indefinitely through the creation of a name-holding corporation, a corporation for which articles of incorporation are filed but no further organizational steps are taken.

D. Selecting the Location for the Business

This decision is driven by state tax considerations and operational need, for example, to be near customers or suppliers or in the center of a service territory. A privately-held corporation cannot avoid California taxes or the application of California corporate law if it is operating here and has most of its shareholders here. For example, Delaware law allows Board members to be elected for multiple year terms and on a staggered basis rather than on an annual basis. A privately held corporation, however, cannot gain the benefits of these Delaware laws or any other state's corporate law if it is actually operating in California and more than 50% of its shareholders are here.

E. Qualifying to do Business in Another State

A corporation may need to open a formal or informal office in another state at or near the time of founding. This requires a "mini" incorporation process in each such state. If a California business is incorporated in Delaware it must qualify to do business in California. The consequences of failing to do so range from fines to not being able to enforce contracts entered in that state. The cost of qualifying is approximately $1,000 per state. Some states, like Nevada, also charge a fee based on authorized stock, so the fee could be higher in such states.

F. Initial Capital Structure

1. Structure

The capital structure should be kept as simple as possible and be within a range of "normalcy" to a potential outside investor for credibility purposes. A common initial structure is to authorize 10 million shares of common stock and 4 million shares of preferred stock. A "blank" preferred stock provision is often included in the articles of incorporation to permit the Board to create a series of preferred stock with special rights and privileges for a venture capital financing without additional shareholder approval. Not all authorized shares of common stock are sold at the founding stage. After initial sales to founders, there are usually only about 3-5 million shares issued and outstanding and about 1-2 million shares reserved in the equity incentive plan. This is referred to as the "1X model" below.

While at the outset there may not seem to be any difference between owning 100 shares or 1 million shares, a founder should purchase all of the units of stock he desires at the time of founding. Thereafter, a founder will generally lose control over further issuances and stock splits, particularly once a venture capital financing occurs. In addition, the purchase price will usually increase.

The number of shares issued and reserved in the initial capital structure are driven by a desire to avoid a later reverse stock split at the time of an IPO because of excess dilution. The number of shares outstanding at the time of an IPO is driven by company valuation at IPO, the amount to be raised in the IPO and IPO price per share range (usually $10 to $15). The "pattern" for the business value at the time of the IPO can be reached by forward or reverse stock splits. For example, if a corporation has a market valuation at IPO time of $200 million, it would not be feasible for 40 million shares to be outstanding. A reverse stock split is needed. Reverse stock splits reduce the number of shares held. On the other hand, forward stock splits add shares to holdings. Neither changes the percentage ownership, but seeing the number of shares held diminish because of a reverse split is still hard on employee morale.

Because of the great demand for engineers during the Internet bubble, many corporations used a multiple of this 1X model in order to have more equity units available for employees. The immediate need for employees to increase the possibility of business success outweighed the potential consequence of a later reverse stock split. Currently, this is not a problem and most startups use a 1X or 2X model to avoid excessive dilution.

2. Minimum Capital

Neither Delaware nor California law require a minimum amount of money to be invested in a corporation at the time of founding. The initial amount of capital, however, must be adequate to accomplish the purpose of the startup business in order for shareholders not to have personal liability. For example, a corporation which will serve only as a sales representative for products or a consulting operation requires less capital than a distributor or dealer who will stock an inventory of products. A dealership or distributorship will require less capital than a manufacturing operation.

3. Legal Consideration

A corporation must sell its shares for legal consideration, i.e., cash, property, past services or promissory notes under some circumstances. A founder who transfers technology or other property (but not services) to a corporation in exchange for stock does not recognize income at the time of the transfer (as a sale of such property) under IRC Section 35l the parties acquiring shares at the same time for property (as opposed to services) own at least 80% of the shares of the corporation after the transfer. Because of this limitation, Section 351 is generally available at the time of founding but not later. Since a party who exchanges past or future services for stock must recognize income in the amount of the value of the stock in the tax year in which the stock is received, it is preferable to issue the shares at a low valuation for cash or property.

4. Valuation

The per share value at the time of founding is determined by the cash purchases of stock and the number of shares issued. For example, if one founder buys stock in exchange for technology and the other founder buys a 50% interest for cash, the value of the technology and the fair market value per share is dictated by the cash purchase since its monetary value is certain. Sales of the same class of stock made at or about the same time must be at the same price or the party purchasing at the lower price may have to recognize income on the difference.

Thereafter, value is determined by sales between a willing seller and buyer or by the Board of Directors based on events and financial condition. Value must be established by the Board at the time of each sale of stock or grant of a stock option. Successful events cause value to increase. Such determinations are subjective and there is no single methodology for determining current fair market value. There are pitfalls of hedging on the timing of forming corporation to save on expenses. The longer the delay in incorporating, the more difficult it is to keep the founders price at a nominal level if a financing or other value event is imminent.

A general objective is to keep the value of common stock as low as possible as long as possible to provide greater stock incentives to attract and keep key employees. Tax and state corporate laws generally require option grants to be made at current fair market value.

5. Use of Debt

Loans may also be used to fund a corporation. For example, if a consulting business is initially capitalized with $20,000, half of it could be a loan and the remaining $10,000 used to purchase common stock. Using debt enables the corporation to deduct the interest payments on the debt, makes the repayment of the investment tax free and gives creditor status to the holder of the debt. If a corporation is too heavily capitalized with shareholder's loans, as opposed to equity (usually up to a 3-1 debt/equity ratio is acceptable), however, these loans may be treated as additional equity for tax and other purposes. Debts owed to shareholders may be treated as contributions to capital or a second class of shares and subordinated to debts of other creditors. Eligibility for S corporation status is lost if a loan is characterized as a second class of shares.

6. Vesting and Rights of First Refusal

Shares sold to founders are usually subject to vesting and rights of first refusal in order to keep founders on the corporate team and to maintain control over ownership of the corporation. Grants of options under an equity incentive plan also have such "stickiness" restrictions. Such safeguards are essential to securing a venture capital investment. By designing and implementing a reasonable vesting scheme themselves, founders may forestall an investor from doing so on the investor's terms. Vesting also assures investors that the founders and others are committed to the corporation and not just looking for a quick pay day. The corporation typically retains the option to repurchase unvested shares at the initial purchase price at the time of termination of a shareholder's employment. Vesting usually occurs over 4 years, i.e., if the employee remains employed by the corporation for the entire period, all shares become "vested" and the repurchase option ends. A common pattern is for 25% of the shares to vest after 12 months and the remainder to vest monthly over the next 36 months. Vesting is implemented by stock purchase agreements. An IRC Section 83(b) election must be filed with the Internal Revenue Service by a party buying unvested shares within 30 days of the date of purchase in order to prevent taxable income at the times such shares vest.

A right of first refusal is the corporation's option to repurchase shares when a third party makes an offer to purchase shares. This type of restriction can be used by itself or as a backup to the repurchase option to maintain control over stock ownership once vesting occurs. The corporation may repurchase the shares on the same terms as the offer by the third party. Rights of first refusal are implemented by stock purchase agreements, including under stock option plans, or in the corporation's bylaws. Rights of first refusal (but not rights of repurchase on termination of employment) terminate upon an IPO or acquisition.

G. Sales of Securities

Offers and sales of stock in a corporation, certain promissory notes and loans, certain partnership interests and other securities are subject to the requirements of the Securities Act of 1933, a federal law, and of state securities laws, so-called "Blue Sky" laws. An offer or sale of securities in multiple states requires compliance with each state's law. The general rule under these laws is that full disclosure must be made to a prospective investor and that registration or qualification of the transaction with appropriate governmental authorities must occur prior to an offer or sale. An investor can demand its money back if securities laws are not followed. There are also severe civil and criminal penalties for material false statements and omissions made by a business or its promoters in offering or selling securities. Legal opinions regarding exemptions are not possible if securities are sold without regard for such laws. An opinion may be required in venture capital investments or an acquisition.

Exemptions from the registration and qualification requirements are usually available for offers and sales to founders, venture capitalists and foreign parties but offers and sales to other potential investors, even employees, are not legally possible without time consuming and expensive compliance with such laws. State laws have relatively simple exemptions for option grants and stock issuances under a formal equity incentive plan, which is why a plan should be the source of equity for employees and consultants.

The stock purchased in a sale exempt from federal registration and state qualification requirements will not be freely transferable. In addition to contractual restrictions, resales must satisfy federal and state law requirements. Shareholder liquidity occurs through Securities and Exchange Commission Rules 144 or 701, an IPO, other public offerings or other exempt sales.

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An Updated Guide to Establishing a Subsidiary in India

BY FRED M. GREGURAS, S.R. GOPALAN AND STEVEN S. LEVINE

Businesses in the U.S. continue to move a portion of their development, support and other operations offshore to India, primarily for cost-saving reasons. Venture capital investors may require such outsourcing in order to reduce a company's burn rate. While a U.S. company may initially contract for services with a third party in India, many companies establish their operations in India through incorporation of a subsidiary, a private limited company under the India Companies Act of 1956, as amended (the "*Companies Act*"). This memorandum summarizes certain of the legal and administrative issues that a U.S. company (the "*U.S. company*") should consider in establishing an Indian subsidiary.

Where to Locate the Subsidiary

A key factor is the availability of a reliable employee pool with required skill sets for the services. Many U.S. software companies have established a subsidiary in Bangalore in the State of Karnataka because of its skilled work force, communications infrastructure and business friendly environment. On the other hand, Hyderabad is the center of life sciences activity in India. U.S. companies are increasingly considering establishing operations in locations other than Bangalore, such as in the cities of Pune and Chennai, that have lower costs, less competition for employees and a less mobile workforce. Employee benefits and other indirect and direct expenses are likely to be higher in Bangalore than other places in India. Bangalore still has a pool of junior employees available but senior employees are at a premium.

Another important factor is where the potential local managing director lives in India. As discussed below, a pre-existing relationship with a potential managing director for the India subsidiary is an important practical consideration. The place of residence of this person may drive the decision of where to locate the subsidiary.

Hiring of Local Service Provider

The U.S. company will often hire a accountant, lawyer or other service provider in India to establish the subsidiary and complete the necessary administrative and legal requirements, such as applying for name availability, preparing the memorandum and articles of association, and tax and labor registrations. The most effective service provider tends to be in the same city where the subsidiary will be located. Some of these service providers also offer payroll, benefits and human resources support similar to what TriNet or Administaff provides in the U.S. These service providers vary significantly in terms of pricing and services and it is useful to compare cost, quality and scope of services. References should also be checked. In most cases, the U.S. company will want a written agreement with the service provider. Depending on the individual circumstances and needs of the U.S. company, there are local Indian law firms that can assist with the incorporation process. However, many U.S. companies complete the incorporation process through an accountant or similar service provider, without obtaining local India legal counsel.

The Incorporation Process and Approximate Cost

Exhibit A contains the list of actions and estimated time schedule involved in the incorporation process. Time frames for completion of tasks may vary slightly from state-to-state in India. In our experience, the cost for establishing an Indian subsidiary through a local service provider ranges from approximately U.S. $7,500 to U.S. $20,000, including incorporation, registration and service fees, but excluding any initial capitalization provided to the subsidiary by the U.S. company. The high end of the fees would apply when one of the major U.S. accounting firms is used. As discussed above, pricing and scope of services provided by the service providers vary significantly and references should be checked by the U.S. company.

Corporate Structure: Initial Directors and Shareholders

A private limited company must have at least two directors and two shareholders. While it is not legally required that such directors and shareholders be residents of India, many service providers will recommend that the subsidiary initially have at least one local director and two local shareholders in order to efficiently complete the incorporation process. This structure avoids administrative time-delays, such as requirements that non-India residents have incorporation documents notarized in an Indian consulate in the United States, and enables the U.S. company to establish the subsidiary more quickly.

If the U.S. company does not have any relationships with persons in India, the initial director and shareholders will often be the service provider or persons referred by the service provider. The practical necessity of having an initial director and two initial shareholders be residents of India presents corporate control issues for the U.S. company. The U.S. company will want to ensure that the local director and shareholders do not make expenditures or bind the subsidiary to any commitments that are inconsistent with the expectations of the U.S. company. The U.S. company also should purchase the shares of the nominal Indian shareholder(s) as soon as practicable.

In order to maintain adequate corporate control over the subsidiary and ensure the service provider, the initial local director and the initial shareholders act in accordance with the interests of the U.S. company, the U.S. company should enter into a written agreement with such parties providing for the following structure:

Initial Board of Directors Structure

- The subsidiary will often initially authorize at least three directors. One of the three directors will be a local Indian resident to serve for an initial designated time period for purposes of establishing the subsidiary and/or as the managing director of the subsidiary (as discussed below). All other directors will be representatives designated by the U.S. company. The U.S. company may require that the local director is removable by the U.S. company at any time in its discretion.
- The directors designated by the U.S. company will often be executive officers of the U.S. company.
- Only individuals may be directors and a director is not required to be a shareholder.
- The agreement between the U.S. company, the local service provider and the initial local director may also require the local director (as well as the local initial shareholders) to (i) comply with all budgetary guidelines and other written instructions provided by the U.S. company and (ii) not make any expenditures inconsistent with such guidelines or incur any other obligations without the prior written approval of the U.S. company.

Initial Shareholders

- For administrative efficiency reasons, the subsidiary will often initially have two local Indian nominal shareholders. These persons would be nominal shareholders for an initial designated time period for purposes of establishing the subsidiary, and such shares should be subject to the right of purchase by the U.S. company.
- The U.S. company will also be issued shares from the subsidiary once governmental approvals are obtained. The U.S. company should consult with the service provider to ensure there will be sufficient authorized share capital of the subsidiary for the U.S. company to capitalize the subsidiary.
- The service provider should agree to not issue any other shares or ownership rights in the subsidiary except as approved in writing by the U.S. company.
- The initial local Indian shareholders should also agree to comply with all written instructions and budgetary guidelines provided by the U.S. company.

Selection of Managing Director

Selection of the managing director is an important business decision. The Companies Act provides that the Board may appoint one of the directors as the managing director of the subsidiary. The managing director is a full-time director and is typically delegated powers similar to that of a President and CEO of a U.S. corporation. The managing director is the operational head of the subsidiary and will run the day-to-day affairs. Due to administrative practicalities, the managing director typically resides in India. The person in this position must be carefully chosen because the managing director may bind the subsidiary with third parties based on the legal theory of apparent authority, notwithstanding restrictions that may be placed on the managing director by the subsidiary's board of directors and/or in the managing director's underlying employment agreement. In some cases, the managing director is a current employee of the U.S. company who desires to go back to India to live.

Corporate Control of Subsidiary

Funding of Subsidiary and Budgetary Guidelines

One of the most effective means to maintain financial oversight is to fund the subsidiary on a monthly basis (or other relatively short time period) based on written budgetary guidelines approved by the U.S. company.

Funding the subsidiary within such monthly guidelines will ensure the subsidiary acts within the U.S. company's expectations when building out its infrastructure and otherwise. It is useful for a finance officer of the U.S. company to have open communication channels with the subsidiary, such as having weekly telephone calls with the managing director or finance officer of the subsidiary, to monitor the subsidiary's expenses.

Limit of Delegation of Authority

The U.S. company may also limit the amount of authority that is delegated to the local managing director of the India subsidiary. For example, certain types of decisions may be required to be made by the full board of directors, such as any material expenditures or agreements with third parties that bind the subsidiary.

Operational Implications and Related Issues

The India subsidiary is a separate legal entity from the U.S. company. The operational relationship must be carefully documented and monitored in order to maintain the separate legal status of each company. There must be inter-company and other agreements between the companies in order to have the intended effect for tax, isolation of liability and other business purposes. One example is the research and development agreement discussed below under Intellectual Property. Another example would be a support service agreement if the subsidiary provides such services. The relationship between the companies must be "arms-length" and the U.S. Internal Revenue Service and the India Income Tax authorities may scrutinize transfer pricing among the companies. The agreements are usually cost plus arrangements, often cost plus 10%. To be arms length, such agreements must contain provisions normally found in such agreements such as how the scope of services will be specified, not just tax provisions.

U.S. companies also face the issue of currency exchange restrictions. The government of India regulates the movement of funds out of India and approval may be required before cash may be transferred out of India. This is another business reason why a U.S. company may capitalize the subsidiary with cash on a monthly or quarterly basis (or other relatively short time period), so that the U.S. company would not be in a position of being restricted from moving excess cash out of India if so desired. There is an exemption from the Indian currency restrictions for the exercise of stock options for employees based in India. For further information on this exemption, see Stock Options for Employees in India discussed below.

Intellectual Property Ownership

Intellectual Property Infrastructure

Intellectual property protection is implemented in India both by statutory compliance and by written agreement. Copyright and patent protection are the primary types of statutory protection. Trademark and service mark statutory protections also exist. Statutory protection is important because it provides certain protection even if there is no agreement in place so long as statutory requirements are met. Trade secret protection is implemented by agreement. Patent protection is the strongest intellectual property protection because independent development is not a defense to a claim of infringement. Patent protection will be available in India for drug products beginning January 1, 2005.

India and the United States are both members of the Berne, UCC and Paris intellectual property international conventions. Thus, intellectual property protection is available for the U.S. company's work in India to the extent an Indian national's work would be protected. Copyright protection requires no action for implementation but patent protection requires a patent to be issued. Copyright protection for software is available in India but patent protection for software is uncertain there.

Enforcement of statutory and contractual intellectual property protection is a practical problem both in the U.S. and India. Therefore, practical means of protection may be important such as appointing trusted management, keeping certain components of the core technology in the U.S., careful management of the development environment in India, software fingerprints, watermarks and other measures. Injunctive relief is the most practical type of legal remedy in India. Suits for damages take years to complete and the amount of damage awards is small.

Moral Rights Issues

The scope of moral rights of an author are construed more broadly in India than in the United States, as such rights are expressly provided under Indian statutory copyright law unlike in the United States. As a practical matter, such rights have not been exercised even if not formally waived. An author's moral rights include the right to (i) retain the integrity of the work and (ii) claim authorship of the work. The integrity of a work is infringed if the work is either distorted, mutilated or otherwise modified to the prejudice of the honor or reputation of the author.

The moral rights belong to the author even if a work is created pursuant to an author's employment so that the employer owns copyright in the work, the moral rights belong to the author. Moral rights may not be assigned by an author but may be waived in whole or in part. An assignment does not alone constitute a waiver of moral rights. Agreements with employees (and contractors) need to contain an irrevocable waiver of moral rights and an obligation not to assert such moral rights.

One way to manage the issue is have development done only by employees of the subsidiary and not subcontractors. Each additional tier of relationships makes management of agreements and development more difficult.

R&D Agreement Provisions

Intellectual property developed by the India subsidiary is usually assigned to the U.S. company since the U.S. company is the primary liquidity vehicle and customer relationships are directly with the U.S. company. The subsidiary is a captive service supplier. The assignment of IP ownership to the U.S. company is done primarily through arms-length research and development agreements, which provide that the U.S. company owns the results. These agreements must be backed up by employee invention assignment and confidentiality agreements between the subsidiary and its employees.

The subsidiary should use employees rather than contractors to the extent feasible to keep the IP ownership issue clearer. Under both the U.S. and India copyright laws, an independent contractor doing development owns the work unless there is a written assignment of ownership to the customer. Most copyright laws provide that an employer owns a work created by an employee without any further action but not by an independent contractor.

The assignment requirements under India's copyright law are materially different from those in the U.S. Under India's copyright law, to be fully effective, an assignment of ownership must be made after the completion of the subject matter of the assignment, the assignment must specify the geographical scope as worldwide or it will be India only, that there is no obligation to exercise the subject matter of the assignment and that the duration of the assignment is perpetual or the duration will be only five years.

Note that other types of service agreements may also be appropriate depending on the nature of work being performed by the subsidiary, such as technical support, business process outsourcing, drug research and testing, and customer relationship management.

The key points of a typical research and development agreement between the U.S. company and the subsidiary are as follows:

- The subsidiary will agree to provide services as directed by the U.S. company. It is preferable that the subsidiary also agrees not to subcontract or otherwise use any non-employee service providers to perform the services, without the written consent of the U.S. company.
- The subsidiary will agree to keep all information provided by the U.S. company as confidential, including any intellectual property and business information as well as the service results of the subsidiary, and will agree to use such information only for purposes of providing the services.
- The subsidiary will assign ownership of all intellectual property developed or created by the subsidiary to the U.S. company. The India copyright law requirements must be satisfied in order for the assignment to have its intended effect. In addition, the agreement should contain an irrevocable waiver and agreement to never assert moral rights, which should also be included in each employee's invention assignment agreement with the subsidiary.
- The agreement will often include a cost-plus provision, as discussed above, in which the U.S. company agrees to pay fees to the subsidiary equal to the subsidiary's costs and expenses plus an additional margin, such as 10%. Prior to payment by the U.S. company, the subsidiary should provide detailed reports (on a monthly basis or some other short time period) of the subsidiary's costs and expenses incurred in performing the services.
- Both parties should agree to comply with all applicable laws and regulations, including any currency exchange and export control restrictions.

Employment Issues

Benefits for India employees should be competitive but not excessive. This needs to be carefully considered when the subsidiary is established or an employee benefits infrastructure can be implemented that may not be easily changed.

Compensation for employees is divided into five parts: (1) Base Compensation; (2) Flexible Expense Plan (FEP); (3) Variable Pay (incentive and performance based pay); (4) Pension Plan Contribution; and (5) Corporate Paid Expenses such as providing a corporate car and mortgage interest subsidies. Base compensation is usually kept relatively low since both the employee and the corporation must each pay 12% of the base compensation into a pension plan trust. The subsidiary and the employee tend to allocate as much as possible to the FEP. Receipts must be submitted for payments under FEP and any remaining amount is paid at the end of the fiscal year March 31. Some of these expenses are taxed to the employee and some are not. The Indian tax authorities have been giving closer scrutiny to both the relative size of the FEP compensation component and what type of expenses should be taxed. The range of percentages between categories 1 to 4 is usually: (1) Base Compensation 40% to 70%; (2) FEP 5% to 15%; (3) Variable Pay 0% to 30%; and (4) Pension Plan 12%. The FEP unused amounts should be part of the subsidiaries budget and recorded as a deferred liability to avoid surprises when unused amounts are paid on March 31.

Employees are usually on probation status for at least 3 months after being hired. The probation period may be extended in the company's discretion. During the probationary period, the employee may be terminated at the sole discretion of the company, often without severance. Employees may be terminated following the probationary period but with a notice or severance period of 30 to 90 days, depending on the seniority of the employee and the length of service.

Stock Options for Employees in India

As an incentive to attract and retain employees, the U.S. company usually wants to grant stock options to key employees of the subsidiary to purchase common stock of the U.S. company. Indian employees are familiar with this type of compensation and at least higher level employees view it favorably. Lower level employees may prefer cash. Generally, these stock options are granted to the Indian employees from the equity incentive plan of the U.S. company. The U.S. company sometimes has an India supplement to its plan for India grants. If the plan complies with certain guidelines promulgated by the government of India on October 9, 2001 and the plan is registered in India with the Chief Commissioner of Income-tax, the options will have the same beneficial tax treatment as federal tax treatment of incentive stock options in the United States. Taxation is deferred until sale of the stock rather than taxed upon exercise (there is no minimum alternative tax for individuals). The U.S. company needs to review its equity incentive plan to ensure it conforms to the Indian government guidelines and file the plan in India. India's currency exchange controls applicable to stock option exercises by employees have been liberalized and there is presently no limit on the amount that employees are allowed to remit for this purpose. However, a purchase of U.S. company shares by persons other than employees under an equity incentive plan or otherwise is subject to monetary limits under the exchange control regulations – presently $25,000 per year.

Use of Mauritius Intermediate Subsidiary

A tax planning consideration is whether to have a Mauritius subsidiary actually own the Indian subsidiary in order to reduce capital gains taxes if the subsidiary is sold. In this case, the U.S. company owns the Mauritius subsidiary which then owns the India subsidiary. India taxes sales of stock of an Indian company whether or not the seller is an India tax resident. However, no capital gains tax is presently payable on shares held for over a year and sold through a stock exchange, *i.e.*, India public company shares. The applicable tax rate is 10% for shares listed on a stock exchange which are held for less than a year. An India-Mauritius tax treaty eliminates capital gains tax if the seller is a certain type of Mauritius entity. Since the India subsidiary is a captive service supplier for the U.S. company, a sale of the subsidiary is unlikely. Rather, the subsidiary would only be sold as part of the sale of the U.S. company. Therefore, in most cases, adding the additional infrastructure of an intermediate subsidiary would not likely ever provide any tax benefit to the U.S. company.

Conclusion

Careful planning and implementation of an Indian subsidiary will avoid economic and other surprises. The U.S. parent company should be fully involved and informed in working with a service provider in India to establish a subsidiary, including ongoing oversight of the incorporation process, careful delegation of responsibility, and entering into appropriate agreements with the service provider, initial shareholders and the managing director. The selection of the managing director is an important business decision because of the authority of the position. Inter-company agreements must also be prepared, which document the business relationship between the parent and its subsidiary, particularly with respect to assignments of intellectual property ownership.

If you have any questions about this memorandum, please contact Fred M. Greguras (fgreguras@fenwick.com) or Steven S. Levine (slevine@fenwick.com) of Fenwick & West LLP (telephone: 650.988.8500) or S. R. Gopalan of Dawn Consulting in Bangalore, India (srg@dawnconsulting.com).

EXHIBIT A

Incorporation Tasks and Schedule

Incorporation Task

A number of the tasks can be done in parallel after incorporation occurs.
Acting in parallel will keep the total time as short as possible.

Incorporation, including: ■ Engage service provider to complete incorporation process ■ Enter into agreement between parent company, service provider and initial Indian directors and shareholders ■ Checking of name availability and name reservation ■ Prepare and file charter documents (Memorandum of Association and Articles of Association), with registration fee and stamp duty ■ Appointment of initial directors ■ Issuance of shares to initial shareholders ■ Print share certificates and prepare minute book ■ Register company and pay registration and filing fees	Start - 30 days
Open bank account	Within 15-30 days of start
Tax Registrations, including application for permanent account number and tax deduction number	Within 45 days of start
Registrations under professional tax, sales tax and Shops and Establishment laws	Within 30 days of start
Register with Software Technology *Park (STP)*	Within 45 to 90 days of start
Approval of Customs Dept. for bond and facility license, and import/export codes	Within 60-90 days of star
Transfer of shares held by initial Indian shareholders to the parent company/nominees	Within 45 days of start
	Total Time = 60-90 days

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INDIA UPDATE

Stock Options for Employees of India Subsidiaries of U.S. Companies

In early May the Reserve Bank of India ("***RBI***") eliminated the requirement of granting options at a "concessional" price to employees in India subsidiaries of U.S. companies. The elimination of this requirement will provide employees in India subsidiaries of U.S. companies with more certainty on favorable tax treatment on stock option grants received from those companies.

Employees of India subsidiaries of U.S. companies are familiar with stock option compensation and view it favorably. Generally, stock options are granted to employees of the Indian subsidiary from the equity incentive plan of the U.S. company. The U.S. company sometimes has an India plan supplement for option grants in India. If the plan complies with certain RBI guidelines and the plan is registered in India with the Chief Commissioner of income-tax, the options will have the same tax treatment as federal tax treatment of incentive stock options in the United States. Taxation is deferred until sale of the stock rather than being taxed upon exercise of the options.

Last year, India's currency exchange controls were relaxed for payments for stock option exercises. Employees were allowed to remit for the exercise of an option under a plan, so long as the exercise price is at a "concessional" price. There was no guidance on determining a concessional price. Eliminating the concessional price requirement simplifies company compliance and provides greater certainty for employees to receive favorable tax treatment.

If you have any questions on this or other matters involving India, please contact Montu Bashambu (mbashambu@fenwick.com), Tahir Naim (tnaim@fenwick.com), Rajiv Patel (rpatel@fenwick.com) or Fred Greguras (fgreguras@fenwick.com) of Fenwick & West LLP (telephone: 650.988.8500).

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FENWICK & WEST LLP

Legal Structures for Outsourcing

BY FRED GREGURAS, STEVEN LEVINE AND S.R. GOPALAN

FENWICK & WEST LLP

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Legal Structures for Outsourcing

Businesses in the U.S. continue to shift a portion of their development, support and other operations offshore to countries, such as India or China, that offer a lower cost structure and a qualified labor pool. This memorandum briefly summarizes the three major legal structures that have been used by U.S. businesses for offshore outsourcing operations. Specific issues are then addressed for India and China.

I. Major Legal Structures

The three major legal structures for establishing offshore operations are: (i) contracting for services with a third party, (ii) establishing a subsidiary in the country where the services will be performed and contracting for services with the subsidiary, and (iii) the "build, operate and transfer" model, *i.e.*, contracting for services with a third party with an option to acquire the services operation.

A. Contract for services with a third party

In this structure, the U.S. company contracts with a third party to provide services. The third party is an independent contractor, using its own infrastructure and employees, to perform the services. This is usually the structure to start with in outsourcing rather than prematurely creating the infrastructure of a subsidiary.

1. Due Diligence

One of the major considerations under this structure is the track record of the service provider. There are enough recent newspaper stories about failed offshore outsourcing projects that due diligence should be taken very seriously. Careful due diligence must be done on potential service providers in terms of financial stability, employee mobility, intellectual property protection and performance on similar projects. Useful areas to evaluate are:

Financial Status:

- What is the financial condition of the service provider?
- Is there risk of it ceasing business operations?

Performance Record:

- What similar projects has the service provider performed? For example, is this type of service within the providers "sweet spot"?
- Does the service provider have a specialty or "niche" that is hard to find?
- What do customer references say about quality of work, protection of intellectual property and employee mobility issues?

- What metrics will be used to measure the performance of the service provider (*e.g.*, conformance with statement of work, time to implement, customer evaluations)?

- Does the service provider have quality process certifications such as SEI CMM certification for software (Level 3 or better)?

- What is the size of the company in terms of number of employees (companies with less than 200 employees may not have mature processes)?

- What is the service provider's process for protecting the intellectual property of its customers?

- What are the service provider's operational procedures and technical safeguards for handling confidential information and/or intellectual property (*e.g.*, firewalls, other physical and electronic security)? The U.S. company's CIO (or equivalent) should be involved in this evaluation.

- Is English language capability required for the service delivery? What is the service providers' track record on English language?

- Does the service provider use subcontractors or only employees?

Location/Infrastructure:

- Does the location where the work will be performed have adequate infrastructure for phone services, data communication bandwidth, *etc.*?

- Does the location have a qualified labor pool and what is the workforce mobility rate?

2. Comparison to other legal structures

Advantages:

- Time to implement. This structure is the fastest of the three major structures to implement as the third party usually has pre-existing personnel and infrastucture which can be quickly engaged. The U.S. company does not have to establish the legal formalities of a subsidiary or build local infrastructure.

- Cost. Both startup and recurring costs need to be considered. This structure is likely to appear to be the most expensive of the three major legal structures but the costs of establishing and operating a subsidiary are often underestimated. Larger service providers with substantial revenues and well-established reputations may be more expensive than smaller suppliers but provide the advantage of greater performance reliability.

- Flexibility. This structure provides a way to quickly ramp up or ramp down without needing to keep a "bench."

Disadvantages/Risks:

- Control. The U.S. company will have less control than in the subsidiary structure as the services will be performed by an independent third party. The degree of control may be a valuation consideration if an acquiror targets the U.S. company for an acquisition. Under the subsidiary structure, the employees performing the services would be employed directly by the subsidiary. The U.S. company would have more ability to oversee performance of the services. In the third party provider structure, the U.S. company has less ability to (i) measure performance in real-time and quickly take corrective actions, (ii) implement its own policies to protect intellectual property and confidential information and (iii) closely monitor employee performance.

- Intellectual property. The U.S. company will also have less control over intellectual property protection procedures. The service provider's track record for protecting intellectual property is very important as a practical matter. It is also important to understand the country's legal framework for intellectual property protection (such as moral rights and ownership assignment requirements) including the adequacy of the enforceability mechanisms. The intellectual property risks are increased to the extent the service provider uses contractors (non-employees) to perform services. Ownership of work performed by contractors may be more difficult to obtain under the country's intellectual property legal framework.

  In software development projects, this intellectual property risk can be partially managed by having core development done in the U.S. and dividing up responsibility among different service providers for other development. However, the U.S. company may then need to increase internal resources (and cost) to integrate the work product of the different service providers.

- Business risk. This is evaluated by the quality of the track record of the service provider, its performance on similar projects and financial condition.

  The U.S. company will need to supervise performance closely to ensure timely delivery of work product or services. Metrics need to be established and used to measure performance for services other than development. The U.S. company has more ability to monitor and directly manage employees in the subsidiary structure.

- Crime/privacy issues. The U.S. company may be providing the service provider sensitive data (or having sensitive information developed/prepared by the service provider), such as medical records, tax returns, *etc*. Under this legal structure, there may be a greater risk of misappropriation or theft as the U.S. company has less ability to monitor, directly supervise and establish its own procedures for the handling of confidential information. These risks can be minimized, though not completely eliminated, by retaining sensitive data in U.S. servers and providing limited (no-download) access to the service provider.

B. Establish a subsidiary and then contract for services with the subsidiary
In this structure the U.S. company establishes an offshore subsidiary that is wholly-owned or at least controlled by the U.S. company. The subsidiary is a separate legal entity in the country where it is incorporated. This approach makes the most business sense as the U.S. company matures and gains experience with outsourcing under the third party service provider approach. The greater degree of control from having a subsidiary may be a valuation element in an acquisition of the U.S. Company. This structure generally provides a greater ability to manage the day-to-day operations of the offshore services, but will require more time and resources to be devoted by the U.S. company. The U.S. company should not assume that the subsidiary will perform without oversight. The U.S. company has greater control over the employees providing the services and implementing procedures for the handling of intellectual property and confidential information. The due diligence for this structure is primarily on the management team of the subsidiary and the legal and other infrastructure where the subsidiary will be located.

1. Key considerations
Some of the key considerations of this approach are:

- Subsidiary location. The availability of a reliable employee pool with required skill sets for the services is an important factor. The ability to implement necessary technical network and other security should also be considered.

- Local management. The subsidiary will usually have a local manager to run day-to-day operations as a practical matter. The managing director, general manager (or similar title) plays an important role in managing operations and a pre-existing relationship with this person is an important practical consideration. This person must be carefully chosen because the managing director may bind the subsidiary with third parties based on the legal theory of apparent authority, notwithstanding restrictions that may be placed on his authority by the subsidiary's board of directors and/or in his employment agreement. The place of residence of this key person may in part drive the decision of where to locate the subsidiary.

- Costs and time involved in the incorporation process. This varies significantly by country and by geographic location within a country. There are more governmental approvals needed for the incorporation process in countries outside the U.S. than in the U.S. The process of winding down a company is also more difficult and time consuming in countries outside the U.S.

2. Comparison to other legal structures

Advantages:

- Control. The U.S. company has more ability to closely manage the subsidiary operations but should not assume more effective management will occur without careful oversight. The management of the U.S. company must communicate regularly and effectively with the management of the subsidiary and needs to visit the subsidiary operations on a regular basis. This greater degree of control enables the U.S. company to monitor the performance of the subsidiary and assure alignment of performance objectives with the U.S. company. Having a subsidiary with more control (rather than a third party service provider relationship) may increase the value of the U.S. company in an acquisition.

- Intellectual property. The U.S. company will have greater flexibility to implement its own procedures for the handling of sensitive data and intellectual property. It also has greater control over whether any subcontractors are used by the subsidiary.

Disadvantages/Risks:

- Time to implement. The subsidiary structure will usually take the longest time to implement. The amount of time necessary to complete the administrative and legal formalities to establish the subsidiaries varies by country and by region within each country.

- Cost. Both startup and recurring costs need to be carefully calculated to have a true cost comparison with the third party provider structure. There are startup costs involved in terms of both (i) completing the legal and administrative formalities in establishing the subsidiary and (ii) locating office space and building out the subsidiary's infrastructure. If the subsidiary is a small operation, it will not have the benefits of economy of scale that a large service provider enjoys. Hence, recurring cost savings may not be easy to achieve for small operations.

- Flexibility. The subsidiary has the cost and risk of maintaining a "bench" of people who may only be needed on projects from time-to-time rather than on a daily basis.

- Management resources. The management of the subsidiary usually requires a significant amount of time and resources of the U.S. company. U.S. management will need to devote substantial attention to oversight of the subsidiary in order to ensure it performs to the U.S. company's expectations. U.S. company management should not assume basic physical and technical security or intellectual property protection safeguards will "automatically" be implemented because it is a subsidiary.

- Local management. The local managing director must be carefully chosen because he will be responsible for running the daily operations of the subsidiary and may bind the subsidiary with third parties.

C. Build-Operate-Transfer ("BOT") Structure

The BOT structure is a hybrid of the first two structures. The third party service provider, an independent contractor, initially establishes a team to provide services to the U.S. company. The team is usually dedicated to the U.S. company and may be segregated on a floor of the service provider's facility or in a separate facility. The operation may have "perimeter" security such as restricted access to the floor or floors on which the team works. Some persons on the dedicated team, such as management level, accounting and other administrative type employees, may not be solely dedicated to the team in order to reduce overhead costs. In addition, the U.S. company will have an option built into the agreement by which it can elect to purchase the business unit represented by the dedicated team. Prior to the transfer, this structure is basically the same as the third party service provider structure and is the subsidiary structure following the option exercise.

In our experience, this structure is not often used and can involve a complicated transition process. The option price will usually be a multiple of months of service fees for the team plus the cost for the infrastructure. Typically, the option price will decline over time as the U.S. company continues to engage the services of the dedicated team as a third party service provider.

A subset of the BOT structure is when the U.S. company has the right to solicit and hire certain employees of the third party service provider. The price is often a multiple of months of service fees for the employee and is usually based on the length of time the third party provider has provided services to the U.S. company.

1. Due Diligence

The due diligence investigation on the possible service provider is generally the same as under the third party service provider structure with the added element of the transition phase. The provider's track record in other transitions should be reviewed.

2. Comparison to other legal structures

Advantages:

- Time to implement. The initial services phase can be quickly implemented since the third party usually has pre-existing personnel and infrastructure which can be quickly engaged. The negotiation of the transfer price and specification of the transfer process are likely the pacing items.

- Cost. Costs will be higher the more dedicated and segregated the service provider's team will be during the third party service provider phase. The U.S. company may be required to pay certain start-up costs in their entirety at the outset of the agreement. There could be additional oversight costs as compared to a non-BOT arrangement.

Disadvantages/Risks:

- The risks are the same as in the third party service provider structure with the addition of the transition risk. The transition needs to be carefully planned and executed in order to avoid a business disruption. The transitional needs should be thought through at the time of entering into the BOT agreement. This includes questions such as – will the employees move willingly? Compensation to employees for ESOP and retirement benefits earned prior to transfer? Is the team complete or are senior managers retained by the service provider? What is the incentive to the service provider to minimize team turnover? Is the infrastructure really transferable? Are the processes portable and self contained?

II. Agreement Considerations

Agreement provisions will differ based on whether the transaction is for the development of software or design of an integrated circuit, pre-clinical trial animal testing or some form of business processing such as insurance claim processing or tax return preparation. Intellectual property will be involved in all of these services. Technical support scripts, protocols for pre-clinical animal testing and other intellectual property needs to be protected. One often overlooked agreement provision is detailed physical and technical security safeguards. While the U.S. company should address these safeguards in every agreement, it is even more important when the service provider will have access to sensitive personal or business information. A master agreement is often used when there will be multiple transactions among the parties. For more information on service agreement provisions see Key Service Agreement Issues: Service Providers Checklist, http://www.fenwick.com/docstore/Publications/Corporate/Key_Service_Agreement.pdf.

A. Contract for services with a third party

A master agreement may be entered into between the U.S. company and the service provider when a multiple project relationship is contemplated. Each project to be performed for the U.S. company can then be described on an exhibit attached to the master agreement (the "***statement of work exhibit***"). Many of the provisions of the agreement will depend on the type of services being produced.

- The statement of work exhibit will include a detailed description of the services to be performed, including: detailed specifications of the work product; deliverables, delivery schedule and milestones for completing the work product; schedule of project meetings and reports to be provided by the service provider; and pricing. A statement of work will be used in the case of software development, integrated circuit design services and other situations where work product will be delivered.

- Acceptance. The U.S. company should have a specified acceptance period following delivery of the work product to evaluate quality and to require the service provider to make additional modifications to the work product if it does not conform to the specifications.

- Warranties. The U.S. company will want a performance warranty that the work product is free from defect for a period following acceptance. The service provider should also warrant that the work product will not infringe the intellectual property rights of third parties. The service provider will seek to limit the amount of potential liability under the warranties and to limit the performance warranty to a limited specified time period.

- Service Level Agreement. There will be service level performance requirements tailored to the type of service where no work product will be delivered, such as tax return preparation or financial services.

- Payment terms. Pricing may be fixed price, time and materials or by unit of production such as per tax return. Payment timing is often tied to performance milestones when software or other development is involved.

- Ownership of work product. Ownership of all work product must be assigned to the U.S. company (or whomever it designates), including all intellectual property developed or created by the service provider. The service provider may seek to retain ownership of any pre-existing "base software" or core "IP", in which case the U.S. company should obtain a world-wide fully-paid perpetual license to any intellectual property rights of the service provider that the U.S. company needs to conduct its business.

- Employee invention assignment and confidentiality. The service provider should be required to have each employee and contractor of the service provider assign all of its intellectual property rights to the service provider and enter into confidentiality obligations at least as restrictive as the agreement between the service provider and the U.S. company. The third party should agree not to subcontract or otherwise use any non-employee service providers to perform the services, without the written consent of the U.S. company. The assignment of intellectual property rights should address “moral rights” ownership under the laws of the country where the services will be provided.

- Liability for infringement of third party intellectual rights. The service provider should agree to indemnify the U.S. company if it breaches third party intellectual property rights. Often the service provider will want a cap on the amount of exposure but the U.S. company should negotiate an unlimited indemnity right at least for copyright and trade secret claims.

- Confidentiality provisions. The service provider must not disclose any confidential information of the U.S. company or use any confidential information except as required to perform the services. The service provider may try to limit the period of the confidentiality obligation following the end of the engagement. The obligation should continue for at least three (3) years.

- Non-competition/Non-solicitation provisions. The service provider should agree that it will not seek to take away or interfere with any customers of the U.S. company, or solicit or hire the employees or contractors of the U.S. company during the agreement and for a period of at least one (1) year.

- No assignment by service provider. The service provider should be prohibited from assigning its obligations under the agreement without the prior written consent of the U.S. company and any attempt to do so should be void.

- Taxes. The agreement should provide that the service provider will be responsible for all taxes due on payments received under the agreement. There should not be any local country withholding taxes on a services transaction as long as there is no license involved.

- Governing law/jurisdiction. The U.S. company will want the parties to agree to settle any dispute in a U.S. jurisdiction (state) based on U.S. governing law. The governing law provision should expressly exclude the application of conflicts of law principles.

The intellectual property laws of the jurisdiction where the work is performed will apply regardless of what the agreement provides. Accordingly, the U.S. company must understand the "work for hire," moral rights, assignment of ownership and other statutory framework applicable to intellectual property in the country where the work will be done.

- Compliance with law. Both parties should agree to comply with all applicable laws and regulations, including any currency exchange and export control restrictions and agreement registration requirements.

B. Contract for services with a subsidiary

The relationship between the parent and subsidiary must be "arms-length" for tax purposes. This means the agreement must contain provisions that would be normally found in agreements between two unaffiliated parties. Thus, many of the provisions described under the third party service provider structure are also in the agreement with a subsidiary. Some of the key agreement provisions with a subsidiary that are different from or in addition to those in the third party service provider structure are as follows:

- Payment. The U.S. Internal Revenue Service and the local income tax authorities may scrutinize transfer pricing among the companies. The agreement will usually include a cost-plus provision, in which the U.S. company agrees to pay service fees to the subsidiary equal to the subsidiary's costs and expenses plus a profit, such as 10%. The subsidiary should provide detailed reports (on a monthly basis or some other short time period) of the subsidiary's costs and expenses incurred in performing the services.

- Work direction and quality. The subsidiary will agree to provide services as directed by the U.S. company. The agreement with a subsidiary is usually a more general services agreement rather than pursuant to a detailed "statement of work" or project oriented.

- Confidentiality. Since the subsidiary is a separate legal entity, it must agree to keep all information provided by the U.S. company as confidential, including any intellectual property and business information, and agree to use such information only for purposes of providing the services. This obligation also must be implemented with the subsidiaries employees.

- Intellectual property ownership. The parent corporation does not have ownership of intellectual property developed by the subsidiary merely because it owns the subsidiary corporation. The subsidiary will usually assign ownership of all intellectual property developed or created by the subsidiary to the U.S. company (or its designee). Exceptions are when the U.S. company has an off-shore intellectual property holding corporation for tax purposes or there are favorable tax consequences for holding the intellectual property at the subsidiary level. This obligation must be implemented with the subsidiaries employees.

C. Build Corporate Transfer Structure

The agreement provisions described for the third party service provider structure are applicable with the addition of provisions covering the option to buy and transfer the operation. The additional agreement provisions are the option process and pricing and transition process. The transition should be carefully covered in the agreement so that operational disruptions are minimized. Following the transfer, the subsidiary structure agreement provisions would apply.

D. Assignments

Contractual requirements for obtaining ownership of results of outsourcing services differ for contractors and employees. A subsidiary is treated as an independent contractor service provider not an "employee." Unless these requirements are met, the U.S. company may not own the results of the work even if it paid for them. The following chart summarizes ownership assignment requirements in China, India and the U.S. for both employee and independent contractor relationships. The factors in the columns from left to right address these issues:

(1) whether a written assignment made prior to the completion of the results is effective or if a second written assignment is needed after completion of the results;

(2) the geographical scope of the assignment;

(3) if there is any obligation to exercise the rights assigned; and

(4) the duration or time period of the assignment.

Employee		Contractor			
		Following Completion of Work (1)	**Geographical Scope (2)**	**Obligation to Exercise (3)**	**Duration (4)**
China	Copyright – Yes Patent – No unless assigned in writing	Not Required Not Required	Worldwide Worldwide	Not Required Not Required	Perpetual Perpetual
India	Copyright – Yes Patent – No unless assigned in writing	Yes Patent – Recommended	India only unless world-wide is expressly stated Patent – Worldwide but recommend that this be expressly stated	Must be exercised within one year unless otherwise agreed in writing Patent – No	5 years unless otherwise agreed in writing Perpetual
U.S.	Copyright – Yes Patent – No unless assigned in writing	Not required Not required	Worldwide Worldwide	Not required Not required	Perpetual Perpetual

India's assignment requirements are materially different from those in the U.S. and China. Assignment requirements in China are more like the U.S. requirements. The U.S. company must assure that the contractor's agreements with its employees and subcontractors also have the proper assignment provisions.

III. Other Country Specific Issues

A. India

India's outsourcing strengths include software development and BPO. Integrated circuit design and some drug discovery process services are also done in India. English is a primary language in India and is a strength particularly for BPO services.

1. Establishing a Subsidiary

Many U.S. companies have established operations in Bangalore, India because of its skilled work force, communications infrastructure and business friendly environment. Bangalore has, however, become an expensive place to do business. Employee mobility is also an issue. Office leases, office and communications infrastructure and personnel costs are higher in Bangalore than in other places in India. U.S. companies are increasingly considering establishing operations in other areas of India, such as in the cities of Pune, Chennai and Hyderabad that have lower costs, less competition for employees and a less mobile workforce.

India, in contrast to China, is not considered a major market so the subsidiary will likely only have a services fulfillment function.

For more detailed information on establishing a subsidiary in India, see An Updated Guide to Establishing a Subsidiary in India, http://www.fenwick.com/docstore/Publications/Corporate/Establishing_Subsidiary in_India.pdf.

2. Intellectual Property

As a practical matter, intellectual property is respected in India by most service vendors. The practical consequences for their business and the country of not protecting intellectual property is too severe.

India is a member country of the Berne Convention and Universal Copyright Convention, the Paris Convention, Patent Cooperation Treaty ("PCT") and World Trade Organization ("WTO"). The Berne Convention and UCC provide for national treatment of an author of a member state. The India copyright law provides moral rights to an author of a work. In practice, however, the risk of an author asserting moral rights can be minimized if the assignment agreement with the author contains an irrevocable waiver and agreement to never assert moral rights. This should be included in each employee's invention assignment agreement and in agreements with consultants.

3. Tax Issues

The Indian subsidiary that only provides backend fulfillment services for the U.S. parent company is usually not a "permanent establishment" of the parent for tax purposes in India. The actions of the Indian subsidiary may sometimes constitute a permanent establishment. For example, if the India subsidiary exercises authority to conclude contracts, secure orders or deliver goods on behalf of the parent.

B. China

China's outsourcing strength is manufacturing. Integrated circuit design, software development and some drug discovery process services are also done in China. BPO services which require an English language capability are not generally offered.

1. Establishing a Subsidiary

In contrast with India, a Chinese subsidiary might play some role in developing and supporting the local China market for the U.S. company.

A Cayman Islands company is often used as the holding company when the entire business group is being formed. The China operations are a subsidiary of the Caymans Company. This structure provides a more flexible exit strategy. For more detailed information on this approach, see An Updated Look at Doing Business in China via the Cayman Islands, http://www.fenwick.com/docstore/Publications/Corporate/Doing_Business_in_China.pdf.

2. Intellectual Property

China has the same intellectual property infrastructure as India. China is a member of the Berne and Universal Copyright Conventions, Paris Convention, PCT and WTO. Intellectual property is at a greater risk in China. Enforcement of intellectual property rights, both legally and practically, is still a significant problem in China.

IV. Summary

This memorandum has briefly summarized the major structures used by U.S. companies for offshore outsourcing operations. The advantages, disadvantages and risks of each structure have been described. Obtaining ownership of intellectual property is key business objective in each structure. In considering the alternatives, a U.S. company should focus on getting business results and build infrastructure only when clearly needed.

If you have any questions about this memorandum, please contact Fred M. Greguras (fgreguras@fenwick.com) or Steven S. Levine (slevine@fenwick.com) of Fenwick & West LLP (telephone: 650.988.8500) or S. R. Gopalan of Dawn Consulting in Banglore, India (srg@dawnconsulting.com).

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Key Service Agreement Issues: Service Providers Checklist

BY FRED M. GREGURAS AND DAVID J. BARRY

Outsourcing of technology-related services continues to grow. Many service engagements now include an offshore component. These overseas arrangements can reduce the cost of the business activity but they also present different issues for both parties, which need to be addressed in the agreement. Further, there is intense competition among service providers which leads to considerable pressure on pricing and on negotiating the other business and legal terms of the transaction. Many service providers may promise anything to get the deal. You need to try to avoid every deal being a “bet the company” deal. There will always be some risk-taking but the challenge is to balance risk allocation among the parties with the need to stand behind the quality of services. A provider’s credibility and business acumen is visible in its agreements and negotiation positions. A welldrafted and negotiated agreement can lead to a stronger long-term business relationship.

This paper addresses the key agreement provisions from the service provider’s vantage point and identifies the risks and consequences of such provisions. It highlights areas that a service provider should include in its standard agreements to speed up revenue generation and avoid problem situations.

1. Master Agreements. The best business practice is to use a master agreement so additional services or projects can be performed for the same customer simply by adding an agreed-upon statement of work which is signed by both parties. This will lower the cost and reduce the time to document additional deals with the same customer. Any changes in the allocation of risk for a specific project can be made in the applicable statement of work.

2. Revenue Recognition. Avoid broad customer remedies that postpone revenue recognition. For example, if the customer may receive a full refund upon a breach of a performance warranty at any time during the agreement, recognition of the revenue from the agreement may be delayed until the end of the agreement. Another example is a provision that provides a full refund if a software deliverable is not accepted by a customer even if interim deliverables have been accepted and payments made upon such deliveries.

3. Agreement Signing. Make sure the agreement or statement of work is signed by the customer before beginning work. While there are legal theories (quasi contract, quantum meruit) that may provide a means of recovery in the absence of a signed agreement, the best business practice is to have a signed agreement in place. Ignoring the temptation to begin work before an agreement is signed may be difficult but you will be at risk if you start work prematurely.

4. Customer Credit Risk. You may need to do fundamental financial due diligence on the credit risk of a potential customer. Some potential customers may represent they have funding when they do not. While you may need to take some credit risk, do so on an informed basis by having access to basic financial information (such as a D&B report, balance sheet or bank statement) to evaluate this risk.

5. Termination Rights; Payment. Relatedly, be sure the agreement can be terminated or at least work can be suspended within a reasonable time if the customer fails to pay you in accordance with the payment schedule. For example, if payment terms are net 30 days and there is a 30-day notice and cure period before termination is effective, you will have to continue work through at least a 60-day period before termination is effective. At a minimum, this means you have to keep working and have a high risk receivable for the 60-day period before termination can be effective. This period should be shortened to reduce your exposure. Sometimes a customer proposes a provision that provides there is no right to terminate if the payment obligation is disputed by the customer. Such a provision means you have no leverage to be paid and could be obligated to keep working indefinitely. To provide leverage to be paid, assignment of IP ownership to the customer should be conditioned on receiving full payment.

6. Operational Coverage. Ensure the agreement permits delivery of the services in the manner that you operate. For example, if an offshore subsidiary corporation will actually deliver all or part of the services to the customer, the agreement must permit subcontracts so delivery can be accomplished that way. Subsidiaries are separate legal entities and you must have a subcontract in place to cover their responsibilities. Confidentiality provisions are another example. They must permit disclosure of the customers' confidential information to the extent needed to protect all parties in the delivery cycle. The agreement would be breached if confidential information is released to a subcontractor when disclosure is permitted only between the parties to the agreement. Unless expressly allowed, only the parties and their employees (but not subcontractors or consultants) are covered.

7. Service Level/Performance Warranties. Define the level of service performance and schedule as clearly and realistically as possible. The performance level is sometimes referred to as an express performance warranty. Delivery metrics such as response time, service results, network or application downtime percentages, etc. should be defined as objectively as possible to reduce disputes over measurement. Exaggerated claims of performance will be quickly discovered and will destroy the ongoing relationship, so be realistic and precise. When using a master agreement, performance levels can be addressed in the applicable statement of work since requirements may vary by service engagement even for the same customer.

8. Implied Performance Warranties. Disclaim implied performance warranties of merchantability and fitness for a particular purpose to avoid the possibility that there are performance requirements beyond the express warranties. The Uniform Commercial Code ("UCC") is intended to apply to products but you should assume it will apply to a services agreement at least when software or other technology is being developed. For example: "EXCEPT AS OTHERWISE EXPRESSLY PROVIDED IN THIS AGREEMENT, SERVICE PROVIDER HEREBY DISCLAIMS ALLWARRANTIES, OF ANY KIND, EXPRESS OR IMPLIED INCLUDING, WITHOUT LIMITATION, ANY IMPLIED WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE." The capitalized wording should satisfy the conspicuousness requirement of the UCC.

9. Intellectual Property. Make sure you continue to own all pre-existing patents, copyrights, trade secrets and other intellectual property ("IP") before entering into the agreement and also, to the extent feasible, (1) any improvements or derivative works to such pre-existing IP and (2) other IP developed that may be repeatedly used in your business. In addition, to provide leverage to be paid, any assignment of IP ownership to the customer should be conditioned on being fully paid. Sometimes "joint ownership" with the customer without any duty of accounting to the other is an acceptable compromise at least as to the improvements to pre-existing IP. As a practical matter, there will be intense pressure from the customer to own IP. The best practice may be to allocate IP ownership in the applicable statement of work since it may vary by service engagement. The service provider will likely have to bear the risk of any claims of IP infringement or misappropriation in its deliverables.

Service businesses must not ignore their IP. Most service businesses have IP of some type. For example, IP includes the copyright and possible trade secrets in a database of domain knowledge in a technical support business and script in a call center business. It also includes the copyrights, possible trade secrets and patents in software routines that are incorporated into a software deliverable and software tools used in a network support business.

10. Damages Exclusions and Limitations. Economic exposure varies widely depending on the type of service. For example, the exposure from a tax return preparation service is considerably different from a call center business doing outbound sales calls. In all cases, exclude consequential, special, indirect and incidental type damages and, to the extent feasible, cap direct damages. Try to cap direct damages at the amounts paid in a payment period (month, quarter) rather than the total payments made under the agreement. Otherwise, the economic effect is that you have not been paid even for the good service you provided. Following are sample provisions: "In no event will either party be liable for any form of special, incidental, indirect or consequential damages of any kind, even if aware of the possibility of such damages. Service Provider's total liability under this Agreement will not exceed the amounts paid by customer during the three (3) months immediately preceding the date of the applicable claim." The UCC does not contain the conspicuousness requirement for these provisions.

11. Insurance Requirement. Comply with the workmen's compensation and liability insurance requirements of your customer. Work with an insurance broker who fully understands your business. Make sure your insurance covers all parties in the delivery process. For example, a special rider may be needed to cover the exposure of employees of a subsidiary corporation particularly if they are offshore. The named insured on a policy may not extend to these separate legal entities or the actions of their employees.

12. Force Majeure. Use a force majeure provision, particularly for service offerings involving delivery over a network. For example, if you are using overseas affiliates to provide services and there is a disruption in service caused by an earthquake, the agreement should not be terminated. The agreement should provide an opportunity for recovery within a specified period. Termination may occur only if recovery doesn't occur within the period.

13. Governing Law. Choose a governing law to provide more certainty to the interpretation of the agreement and, to be sure it will apply, use the clause: "excluding that body of law known as conflicts of law", following the choice of law. For example: "This Agreement will be governed by the laws of California excluding that body of law known as conflicts of law." The chosen law must have a relationship to the parties or the transaction such as being the state of their principal office or incorporation.

14. Dispute Resolution. Adopt a dispute resolution procedure that elevates the resolution process in an orderly, timely way. The first step could be a discussion between CEOs and the next step, non-binding mediation. Use binding arbitration as the ultimate mechanism to resolve disputes in order to increase the chances of maintaining the relationship. To avoid frivolous claims by either party, designate the arbitration site to be the customer's business location when you request arbitration and your business location if the customer requests arbitration.

15. Entire Agreement. Include an entire agreement provision so that verbal agreements do not become part of the agreement and amendments may only be implemented in writing. The following provisions do so: "This Agreement and the exhibits hereto constitute the entire agreement and understanding of the parties with respect to the subject matter of this Agreement, and supersede all prior understandings and agreements, whether oral or written, between or among the parties hereto with respect to the specific subject matter hereof. This Agreement may be amended only in a writing signed by both parties."

A service provider's credibility and business acumen is visible in its agreements and negotiation positions. Because of the competitive environment there may be a great temptation to accept almost any terms or credit risk in order to get a deal. You need to make sure risk allocation is balanced. Securing a deal on any terms may mean you work for free.

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FENWICK & WEST LLP

2006 Update to Structuring Venture Capital and Other Investments in India

BY FRED M. GREGURAS, BLAKE STAFFORD AND S.R. GOPALAN

Many U.S. and other foreign investors are evaluating alternatives for investments into software development, business process outsourcing, drug discovery and other services companies based in India. In the IT, life sciences and related sectors, both U.S. and India venture capitalists still tend to make early stage investments into a U.S. company which has a subsidiary in India for fulfillment. This structure is likely to change at least for services companies if the Bombay Stock Exchange continues to perform well because services companies usually have higher valuations in India than the U.S. Private equity investments and investments in infrastructure and business segments other than IT and biotech services companies tend to be direct investments into India. U.S. venture capitalists are more willing to directly invest into later stage Indian companies regardless of the business segment because there is less risk. A number of mezzanine stage investments have been made directly into India when the IPO was near.

The primary structures for investing in India are:

- Investment in a U.S. company with a services fulfillment subsidiary in India;
- Direct investment in an India company from outside India (usually through a Mauritius or a Cyprus subsidiary for tax reasons);
- Direct investment in an India company from outside India through a venture capital fund registered with the Securities and Exchange Board of India.

The primary business considerations in determining how to structure such an investment are:

- Relative valuations in the U.S. and India capital. markets for the type of investment, particularly a services business;
- Ease of IPO exit including any currency exchange restrictions and the impact of Sarbanes-Oxley in the U.S.;
- Ease of acquisition by the likely set of acquirors as an exit strategy;
- Investor "comfort" with the limitations on preference shares under the India Companies Act of 1956, as amended (the "***Companies Act***"); and
- Location of "market pull" for the investee company.

Exit valuation and ease of exit for investors are the most important considerations. Many early stage India-related investments by U.S. investors in the high tech related services spaces have been structured as an investment in a U.S. corporation, the "front end," which then establishes and capitalizes a subsidiary in India, which is the "back end" for fulfillment for the operations of the U.S. company. The U.S. "front end" is the marketing and sales engine. This approach has been used because of the ease of being acquired in the U.S. and because the company's primary market is the U.S. Other reasons include the comfort of U.S. investors with such a structure and concern over having all of the investment proceeds be in India subject to the India currency exchange controls.

Companies Act Factor

One often overlooked factor by investors is the lack of certainty regarding investor protections under the Companies Act. Unlike under Delaware law, there is uncertainty as to enforceability of preference share and other financing provisions. In addition, minority shareholder rights are much stronger in India. Even a strong majority ownership by an investor may not be enough to control actions and avoid disputes.

There are two basic alternatives for early stage direct investments in India; structuring the investment by use of preferred shares which requires taking a risk on the enforceability of voting rights or using common shares with enforceable voting rights but with a risk on the enforceability of a liquidation preference. Voting rights are usually not an issue in a mezzanine financing when IPO liquidity is near.

A preference share by definition receives a preference over the common shares as to dividends and in the event of a "winding up". "Winding up" is dissolution of the company in a specific manner which does not necessarily include an acquisition. The Companies Act permits a preference to the proceeds of an acquisition. Other investor protection rights, including participation rights, may be provided to the preference shareholders by incorporating them in the articles of association and in a shareholder agreement. There is no simple and clearly enforceable way to implement antidilution protection for investors because the Companies Act may treat a change in the conversion ratio for preference shares as an issuance of shares at less than par value.

Under statutory provisions, preference shareholders have voting rights only on actions that "directly affect" their rights. There are no recent court decisions which interpret "directly affect" but older decisions held that the preference right itself must be altered rather than an indirect change that affects the enjoyment of the rights. Section 90(2) of the Companies Act provides that the statutory limitations on preference share voting rights do not apply to a private company unless it is a subsidiary of a public company. The definition of public company in Section 3 of the Companies Act, is, however, broader than a company listed on a stock exchange. It includes a company that does not have any restrictions on transfer of its shares in its articles of association. The narrow interpretation of "directly affect" could also be applied by analogy in the case where investor protections are not precisely defined in a private company financing.

As an alternative to purchasing preference shares, voting control can be established by purchasing a majority of common shares. While investors' common shares can be provided a liquidation preference in a shareholders agreement, there are no court decisions that confirm that such provisions are enforceable.

The articles of association may designate a number of directors to be elected by each class of shares so an investor may establish control at the Board level if it has the leverage to do so.

Investment Through Mauritius

Presently, in India there is no capital gains tax on sales of shares of an Indian company held over one year and sold through a stock exchange and a 10% capital gains tax on such sales if the shares in an Indian company are held for less than a year. Sales of shares in a private company, i.e., a company not listed on a stock exchange, are taxed at a 20% rate for shares held for more than a year and at 30% for shares held for less than a year. The Mauritius approach to investing in India, detailed below, is therefore most advantageous when the Indian company is the primary exit vehicle for investor liquidity and such exit is a sale when the company is private.

Thanks to the India-Mauritius tax treaty (the "***Treaty***") the India tax on sales of shares of an Indian company can be avoided if the seller is a Mauritius company so long as the Mauritius company does not have a "permanent establishment" in India. In other words, there is no Indian tax on sales of shares in an Indian company by a Mauritius company that does not have a permanent establishment in India regardless of whether the shares are of a company listed on a stock exchange or of a private company and regardless of the holding period. Otherwise, the proceeds of a sale of shares in an Indian company are taxed in India unless the shares are sold through a stock exchange and have been held for at least one year.

While there is a lower tax rate on dividends for Mauritius tax residents under the Treaty, corporate dividends declared by an Indian company are presently not taxed in the hands of the recipient upon payment of a dividend tax (presently 14.03%) by the Indian company that declares the dividend.

Under the Mauritius approach, a Global Business Company Category 1 (formerly known as an Offshore Company), regulated by the Mauritius Financial Services Development Act 2001, is formed to make the investment(s).

Certain requirements must be met in order to receive a Mauritius tax residency certificate for purposes of the Treaty including:

- Two local directors approved by the Mauritius Financial Services Commission;
- Bank account in Mauritius; and
- Compliance with Mauritius corporate formalities.

The tax residency certificate is sufficient evidence for India tax authorities to accept the status of residence as well as beneficial ownership according to *Union of India vs. Azadi Bachao Andolan*, 2003 SOL 619.

A U.S. investor should not underestimate the legal and operating requirements of the Mauritius structure. For example, funds to be invested in or loaned to the India subsidiary should be wired first to the Mauritius company prior to investment in India as opposed to a wire transfer of funds directly from the U.S. investor to the India company. A wire transfer directly from the U.S. to India is an investment in the India company by the U.S. company not the Mauritius company. The Board of Directors of the Mauritius company should approve the investment and funds should be wired to the Indian company from the Mauritius company. All such actions take time and documentation in order to comply with corporate governance requirements.

Business income of any non-Indian company is taxed in India if such non-Indian company has a "permanent establishment" in India which generates such income. This result obtains regardless of where the non-Indian company is formed, ***i.e.***, Mauritius, Cyprus, Singapore or the United States. Having an India subsidiary is a necessary but not sufficient condition for a Mauritius company (as well as any other non-Indian company) to avoid permanent establishment status. If a Mauritius company is deemed to have a permanent establishment in India because its activities are determined to be the business of investing/trading in securities within India, then the profits arising from the sale of such securities will be treated as business income in India (not as capital gains). There are several recent tax rulings that need to be considered in avoiding permanent establishment status. Under Rulings 442 and 566 of the India Tax Authority for Advance Rulings, activities such as the Mauritius company engaging an Indian firm for providing custodial services for securities or being an investment adviser that has no decision making authority will not by themselves constitute having a permanent establishment. Investment decisions must, however, be made outside of India. In addition, the effective management of the Mauritius company must not be from India. Whether the effective management of a company is in India or Mauritius or elsewhere is a question of fact. If there is no permanent establishment in India, income on the sale of the securities of India investments by the Mauritius company would not be taxable in India.

The U.S. parent company of an Indian subsidiary that provides only backend fulfillment services for the U.S. parent is usually not deemed to have a permanent establishment in India. However, the Indian subsidiary's activities may sometimes cause the parent to be a permanent establishment. For example, if the India subsidiary exercises authority to conclude contracts, secure orders or deliver goods on behalf of the parent. Currently, there is no income tax in India on export revenues from software and BPO activities rendered from a "Software Technology Park Unit," which means there is no tax even if the parent corporation is a permanent establishment.

Investment Through Cyprus

Another alternative would be to route investment into India through Cyprus rather than through Mauritius. India and Cyprus are also parties to a tax treaty. The tax treatment for capital gains from the sale of shares in an Indian company held by a Cyprus holding company is the same as through Mauritius so long as the Cyprus company does not have a "permanent establishment" in India. There is no capital gains tax in either India or Cyprus on the sale of the shares. Cyprus has a slight economic advantage over Mauritius when an investment is by way of a mix of equity and debt. The interest payable to the Cyprus company is subject to a withholding tax of 10% instead of the normal rate of 20% for interest paid out of India. The withholding tax in India on interest payable to a Mauritius company is 15% so there is a slight economic advantage to using Cyprus if there is a major debt component of the investment. The disadvantage of using a Cyprus holding company is there is less precedent on the requirements for tax residency.

A Cyprus company will be deemed to be a tax resident only if its management and control is in Cyprus. Companies managed and controlled from outside of Cyprus do not receive any benefits under the Cyprus-India tax treaty. Whether the effective management of a company is in India or Cyprus or elsewhere is a question of fact.

Investment Through Singapore

As with Mauritius and Cyprus, the primary benefit under the India-Singapore Double Taxation Agreement (the "***Agreement***"); which became effective on August 1, 2005, is no capital gains tax in either India or Singapore on the sale of the shares of the Indian company by a Singapore company so long as the Singapore company does not have a "permanent establishment" in India. The requirements for Singapore tax residency are much greater than in Mauritius or Cyprus. The Singapore company must satisfy expenditure requirements and likely have sustainable and continuous business operations in Singapore. Annual expenditures on operations in Singapore must be at least S$200,000 in the 24 months immediately prior to when the gains are realized.

Investment Through a Venture Capital Fund

A venture capital fund, which registers in accordance with the Securities and Exchange Board of India ("***SEBI***") guidelines and complies with specified investment restrictions will receive pass through tax benefits (no capital gains or withholding tax on dividends). The permitted activities of a fund, however, are limited. No services such as incubation services may be provided. A separate entity would be needed in order to provide such services. There may also be restrictions on where the fund can raise money.

There are two additional advantages of investment through a SEBI registered fund. Upon an IPO in India all shares held pre-IPO are locked in for one year. This lock in does not apply to shares held by SEBI registered VC funds. Secondly, there is a proposal to treat nominee directors of SEBI registered funds as independent directors under the corporate governance guidelines for listed companies which could help in complying with the guidelines.

GOI and Other Investment Approvals

Registration as a foreign venture capital fund in India with SEBI can take up to eight weeks.

Government of India ("***GOI***") approval for direct investments from Mauritius or elsewhere is required in the following situations:

- When the investment is by way of purchase of outstanding shares of an Indian company from shareholders as opposed to purchasing newly issued shares of the issuer (the purchase of shares that meet pricing and other guidelines specified by the GOI would not need prior approval if the investment is otherwise freely permitted);
- When the investing company has a joint venture in India in the same line of business; or
- When the investment falls within a list of industries (such as real estate, banking, insurance, telecom) in which overseas investments are subject to some restrictions and guidelines. Real estate investments that meet the guidelines can be made without prior approval. Software, integrated circuit design, biotech (other than the manufacture of certain types of drugs) and BPO services are not on the restricted list.

GOI approvals for investment proposals for the first two categories above can take up to eight weeks. No time estimates are possible for proposed investments in the third category.

Conclusion

The primary considerations in selecting an investment structure for India are exit valuation and ease of exit for investors. Many early stage India-related investments by U.S. investors in the high tech related services spaces have been structured as an investment in a U.S. corporation, the "front end," which then establishes and capitalizes a subsidiary in India, which is the "back end" for fulfillment for the operations of the U.S. company. This structure is likely to change at least for services companies if the Bombay Stock Exchange continues to perform well because service companies tend to have higher valuations in India than the U.S. Investment in a company with an exit strategy in India can be made via Mauritius or Cyprus to take advantage of the tax benefits described above.

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FENWICK & WEST LLP

Fenwick & West Firm Overview

FENWICK & WEST LLP PROVIDES COMPREHENSIVE LEGAL SERVICES TO HIGH TECHNOLOGY AND LIFE SCIENCES COMPANIES OF NATIONAL AND INTERNATIONAL PROMINENCE. MORE THAN 250 ATTORNEYS OFFER CORPORATE, INTELLECTUAL PROPERTY, LITIGATION AND TAX SERVICES FROM OUR OFFICES IN MOUNTAIN VIEW AND SAN FRANCISCO, CALIFORNIA.

Corporate Group

We service high technology and life sciences companies, from early start-ups to mature public companies.

Start-Up Companies. We have represented hundreds of growth-oriented companies from inception through maturity. Our attorneys understand what it takes to start with only an idea, build a team, found a company, raise venture capital funding and grow a business. We have represented many of the nation's leading venture capital firms and do multiple deals each year with companies financed by these market leaders.

Mergers and Acquisitions. We are ranked by *MergerMarket* as the #1 most active legal advisor in the U.S. for technology sector M&A. We understand the problems that arise in technology company acquisitions and focus our efforts on issues that are of the most value to the client. Our expertise spans the entire spectrum of high technology, from life sciences to semiconductors, and our lawyers are equally adept at small private company transactions and multi-billion dollar public transactions. Of particular importance to our high technology client base is the extraordinary acumen of our due diligence mergers and acquisitions teams in locating and documenting intellectual property holdings of buyers and sellers. For clients involved in larger deals, our antitrust lawyers are experienced in working with the Department of Justice and Federal Trade Commission in the pre-merger clearance process. We understand the many issues that can mean the difference between a successful transaction and a broken promise.

Public Offerings and Securities Law Compliance. Our extensive representation of emerging companies has given us substantial depth of experience in public offerings. In recent years, we have represented companies or investment banks in more than 100 initial public offerings, which, combined, have raised over $6 billion dollars. We have helped our clients raise billions more in follow-on debt and equity offerings. Our counseling practice for technology companies regarding ongoing public securities law issues includes extensive Sarbanes-Oxley compliance and board or audit committee counseling.

Strategic Alliances. For many high technology companies, the path to financing and commercialization begins with their first collaboration or joint venture with an industry partner. These agreements can often make or break a young technology company. We help clients think through the business, intellectual property, tax and other legal issues that arise in their corporate partnering transactions and joint ventures.

Executive Compensation. As an integral part of the corporate practice, we counsel clients on a wide range of employee benefits and compensation matters. We assist companies in establishing and administering employee benefit arrangements. Our lawyers help define and structure stock or other equity plans and arrangements, as well as tax qualified and fringe benefit plans, that meet the companies' needs and comply with ever-changing regulatory requirements. In the context of public offerings and acquisitions, our attorneys handle the issues that regularly arise with equity plans or other employment benefit arrangements.

Intellectual Property Group

We deliver comprehensive, integrated advice regarding all aspects of intellectual property protection and exploitation. Fenwick & West has been consistently ranked as one of the top five West Coast firms in intellectual property litigation and protection for the past 10 years by Euromoney's Managing Intellectual Property publication. From providing sophisticated legal defense in precedent-setting lawsuits, to crafting unique license arrangements and implementing penetrating intellectual property audits, our intellectual property attorneys have pioneered and remain at the forefront of legal innovation. We are continually in sync with our clients' technological advances in order to protect their positions in this fiercely competitive marketplace.

The Intellectual Property Group is comprised of approximately 80 lawyers and other professionals. A significant number of the lawyers in the group and other practice groups in the Firm have technical degrees, including advanced degrees, and substantial industry work experience. More than 40 attorneys are licensed to practice before the U.S. Patent and Trademark Office. Our lawyers' technical skills and industry experience help us render sophisticated advice with respect to novel technologies and related intellectual property rights issues. Attorneys in the group have lectured and published widely on emerging issues raised by the development, application and commercialization of technology.

Litigation Group

Litigation is an unfortunate fact of life in business today. Our Litigation Group has the range of experience and critical mass to protect our clients' interests in virtually any type of dispute, large or small. We are experienced in all methods of alternative dispute resolution and find creative ways to resolve cases short of trial. However, we are trial lawyers first and foremost; and the presence of our lawyers in a case signals to the other side that we are ready and willing to try the case aggressively and well, a message that itself often leads to a satisfactory settlement. While we have extensive litigation experience in a wide range of industries, we have exceptional depth and breadth in the areas of the law critical to our high technology clients. Those clients are leaders in such sectors as software and programming; Internet and entertainment; computer hardware; semiconductors and life sciences. We are regularly involved in significant cases involving intellectual property (patents, copyright, trademarks and trade secrets), employment disputes, corporate governance, securities, antitrust and general commercial litigation. In addition to civil litigation, our attorneys are experienced in representing clients in civil and criminal government investigations. Using a network of experienced local counsel, we routinely represent clients in cases throughout the United States. To support our lawyers, we have created a first-class litigation infrastructure of experienced legal assistants and computerized litigation support systems capable of handling everything from relatively small and simple cases to the largest and most complex "bet-the-company" mega-cases.

Tax Group

Fenwick & West has one of the nation's leading domestic and international tax practices. The Tax Group's unusually exciting and sophisticated practice stems from a client base that is represented in every geographic region of the United States, as well as a number of foreign countries, and has included approximately 100 Fortune 500 companies, 34 of which are in the Fortune 100. In recent surveys of 1,500 companies published in International Tax Review, Fenwick & West was selected as the top tax adviser in the Western United States.

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Emphasis:

Start-Up/Venture-Backed Companies

Equity and Debt Financings

Mergers & Acquisitions

Securities Matters

Intellectual Property Licensing

Samuel B. Angus is a partner in the Corporate Group of Fenwick & West LLP, a law firm specializing in high technology matters. Mr. Angus is resident in the San Francisco office and his practice concentrates on the formation of start-up companies, venture capital and debt financings, mergers and acquisitions, intellectual property licensing, joint ventures and general corporate matters.

Mr. Angus represents a broad range of companies from privately held start-up companies to publicly traded corporations. His practice also includes advising entrepreneurs and investors.

Mr. Angus served as counsel for In-System Design, Inc. in connection with its acquisition by Cypress Semiconductor Corporation. He also counseled Naxon Corporation (Wineshopper.com) on its acquisition of Wine.com, Inc., Micro Focus Group on its $500 million merger with Intersolve, Inc., Junglee Corp. on its $300 million acquisition by Amazon.com, Inc., and Blue Lava Wireless on its $140 million acquisition by JAMDAT Mobile. Among the clients Mr. Angus has represented are:

- Ingenio, Inc.
  (formerly Keen, Inc.)
- Adaptec, Inc.
- Revver, Inc.
- JotSpot, Inc.
- Vibrant Media
- @Home Corporation
- Blue Lava Wireless
  (acquired by JAMDAT Mobile)
- Junglee Corp.
  (acquired by Amazon.com)
- Sapias, Inc.
- Merant plc
  (formerly Micro Focus plc)

Mr. Angus received a Bachelor of Arts degree in law and society from the University of California at Santa Barbara. He received a J. D. from University of California Hastings College of the Law in 1993. At Hastings, he was the Executive Articles Editor for the *Hastings International and Comparative Law Review*. Mr. Angus is a member of The Bar Association of San Francisco, the State Bar of California and the American Bar Association. Prior to joining Fenwick & West, Mr. Angus practiced commercial lending law at the law firm of Lillick & Charles. Prior to becoming a lawyer, Mr. Angus was a founder and the chief executive officer of Design Look Publications, Inc., an international publisher of fine art calendars and other published gift products.

Mr. Angus sits on the advisory board of the Lester Center for Entrepreneurship & Innovation at the University of California, Berkeley. He is also a frequently lecturer at the HAAS School of Business and the Stanford Technology Ventures Program.

Narinder S. Banait, Ph.D.

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Emphasis:

Patent Prosecution

Patent Analysis

Patent Counseling

Patent Litigation

Intellectual Property Due Diligence

Narinder S. Banait is an associate in the Intellectual Property Group of Fenwick & West LLP, a law firm specializing in high technology and bioscience matters. Fenwick & West is headquartered in Mountain View and San Francisco, California.

Dr. Banait has legal, and technical experience representing companies in pharmaceutical, biotechnology, and high technology areas that include pharmaceuticals, polymer based inks, photomasks, nanotechnology, chip manufacture, microfluidics, microarray, and genomics. Dr. Banait has represented clients including:

- AGY Therapeutics
- Admunex Therapeutics
- Agilent Lifesciences
- Granite Global Ventures
- Incyte Genomics
- Iconix
- Quantum Dots
- Vanguard Ventures

Dr. Banait has published over a dozen scientific papers in peer reviewed journals. In addition, he has written and prosecuted patent applications related to polymers, peptides, carbon nanotubes, photochemistry, chemical processes and method of manufacture, small molecule and oligonucleotide drug candidates for the treatment of CNS disorders, telomerase inhibitors, treatment for cancer and osteoporosis, and applications on synthetic methods.

Organization and Community Participation

- American Bar Association
- California Bar Association
- EPPIC

Dr. Banait received his undergraduate education at University of Toronto, graduating with a B.S. in chemistry and biochemistry. He received a M.S. in synthetic chemistry and a Ph.D. in organic chemistry, both from the University of Toronto. Dr. Banait was a Post-doctoral fellow at Brandeis University, and at University of California. In addition, he worked as a research scientist at Syntex Research, a pharmaceutical company that was acquired by Roche, where he primarily focused on 5-HT3 antagonists for the treatment of emesis and anxiety disorders. He received his J.D. from the Santa Clara University in 1997.

Dr. Banait is a member of the State Bar of California and is registered to practice before the U.S. Patent and Trademark Office.

David Barry

Associate

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Emphasis:

Start-up Counseling
Venture Capital Financing
Mergers and Acquisitions
Intellectual Property Licensing

David Barry is an associate in the Corporate Group of Fenwick & West LLP, a law firm specializing in high technology matters. Mr. Barry practices out of the firm's Mountain View, California, office.

Mr. Barry's practice concentrates on representation of start-up companies from incorporation through an initial public offering or acquisition and representation of public companies in acquisitions. Mr. Barry also assists clients in their intellectual property licensing transactions and joint venture matters. Mr. Barry's clients range from privately-financed start-up companies to publicly-traded companies.

Mr. Barry has represented numerous private companies, primarily in communication, software, networking and life science technologies including:

- Acsera
- Aprio Technologies
- BioMarker
- Db4objects
- Devicescape Software
- Fiber Tower
- Good Technology
- Keyhole (acquired by Google)
- LightSand Communications
- Motif
- NeoPath Networks
- Trovix

He has also represented several venture capital firms, including:

- Benchmark Capital
- Kleiner Perkins Claufield & Byers
- Palo Alto Venture Partners
- Siemens Technology Business Center

Mr. Barry received his undergraduate education at Bucknell University, graduating *cum laude* with a B.A. in History and Political Science in 1994. He received a Masters of Business Administration from I.E.S.E, in Barcelona, Spain in 1997. Prior to attending law school, Mr. Barry consulted in the logistics and supply chain management. He attended law school at Vanderbilt University Law School, graduating with a J.D. in 2001.

Fred M. Greguras

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Corporate, Internet and
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Emphasis:

Startups and Venture Capital Financings

Licensing

Intellectual Property Protection

Fred M. Greguras is of counsel in the corporate, Internet and licensing practice groups at Fenwick & West LLP, a law firm specializing in high technology matters. He practices out of the firm's Mountain View, California, office. Mr. Greguras focuses on strategic legal issues for software, semiconductor-related and life sciences companies. His practice includes start-up issues and financings in both domestic and international transactions. He has represented a wide range of companies in financing, M&A, licensing and other commercial transactions, from privately held start-ups to publicly traded companies. Mr. Greguras has also been a venture capitalist and a general counsel and CFO for a startup. Some of the clients he has represented are:

- BioMarker Pharmaceuticals, Inc.
- Excite@Home
- Exodus Communications, Inc.
- Kintana, Inc.
- Speedera Networks, Inc.

Mr. Greguras has authored many articles on start-up, financing, outsourcing, Internet and international legal issues, which are available at www.fenwick.com.

He received a Bachelor of Arts in mathematics from University of Omaha in 1966, a Masters of Science in mathematics and computer science in 1968, and his J.D. in 1975 from the University of Nebraska. Mr. Greguras is a member of the State Bar of California.

Rajiv P. Patel

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Intellectual Property Group

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Emphasis:

Patent Counseling

Patent Analysis

Patent Prosecution

Patent Litigation

Intellectual Property Counseling

Intellectual Property Licensing

Intellectual Property Audits

Intellectual Property Due Diligence

Rajiv P. Patel is a partner in the Intellectual Property Group of Fenwick & West LLP. His practice includes patent portfolio development and management, patent enforcement, and patent and high technology transactions. His practice also includes intellectual property ("IP") audits and strategies to help companies identify, evaluate and protect key intellectual assets.

In patent portfolio development and management, Mr. Patel has counseled, prepared and prosecuted patents in a wide range of technology areas including wireless communications, electronics, network processors, complex hardware architecture, complex software architecture, electro-mechanical devices, and business methods. He has advised and initiated patent reissue and reexamination strategies and proceedings. He has also partaken in appeals before the Board of Patent Appeals and Interferences. In addition, Mr. Patel is active in developing and overseeing strategies involving foreign patent prosecution and procurement, including for Europe, Japan, China, Taiwan, and India.

In patent enforcement, Mr. Patel litigated in technology areas that include solid-state memories, electronic gaming, Internet delivery networks, and interactive television. In patent and IP transactions, he has negotiating large patent and other IP portfolios, evaluated IP portfolios for acquisition, and conducted diligence for venture funding, mergers & acquisitions, and initial public offerings.

Among the clients Mr. Patel has represented are:

- Logitech, Inc.
- Compuware Corporation
- Fujitsu Ltd.
- Magma Design Automation
- Plaxo, Inc.
- Canon Research Americas, Inc.

Mr. Patel is an Adjunct Professor of Law at the University of California, Hastings College of the Law where he teaches a course on patents. Mr. Patel is also on the faculty of Practising Law Institute and Law Seminars International. In addition, Mr. Patel has authored articles in the field of patent and IP portfolio development and management strategies.

Mr. Patel received his Bachelor of Science (with high honors) in Electrical Engineering from Rutgers University (NJ). He received his Juris Doctor and Master of Intellectual Property from Franklin Pierce Law Center (NH). He is a member of the California Bar and is registered to practice before the U.S. Patent and Trademark Office.

Rajiv P. Patel

Highlighted Legal Experience:

Patent Strategy and Portfolio Development

- Created patent strategy and developing patent portfolio for $500 million plus product line of a computer peripheral manufacturer.
- Created patent strategy and advised on patent portfolio for on-line auction company. Patent portfolio sold for over $750,000.
- Evaluated patent portfolio for nanotechnology company in conjunction with industry trends and directions in new technology space where company was shifting focus to and advise on new patent strategy.
- Developing patent strategy and foundational patent portfolio for start-up and early stage and start-up companies in technology fields such as network storage, business process software, and web services.
- Developing and managing patent portfolio for emerging mid-size and large companies in technologies fields such as electronic design automation, processor technology, wireless data communications, optical data processing, and enterprise software tools.
- Sample Patents:
  - U.S. Patent No. 6,246,294 Supply Noise Immunity Low-Jitter Voltage-Controlled Oscillator Design
  - U.S. Patent No. 5,909,151 Ring Oscillator Circuit
  - U.S. Patent No. 5,948,083 System and Method for Self-Adjusting Data Strobe
  - U.S. Patent No. 5,748,126 Sigma-Delta D/A Conversion System and Process Through Reconstruction and Resampling
  - U.S. Patent No. 5,991,296 Crossbar Switch with Reduced Voltage Swing and No Internal Blocking Path
  - U.S. Patent No. 6,055,629 Predicting Branch Instructions in a Bunch Based on History Register Updated Once
  - U.S. Patent No. 6,052,033 Radio Frequency Amplifier System and Method
  - U.S. Patent No. 5,835,852 Integrated Electronic Communication Device and Clip
  - U.S. Patent No. 6,389,405 Processing System for Identifying Relationships Between Concepts
  - U.S. Patent No. 5,995,955 System and Method for Expert System Analysis Using Quiescent and Parallel Reasoning and Set Structured Knowledge Representation
  - U.S. Patent No. 6,275,622 Image Rotation System
  - U.S. Patent No. 6,246,016 Optical Detection System, Device, and Method Utilizing Optical Matching

Highlighted Legal Experience:

Patent and Intellectual Property Transactions

- Led intellectual property audit for Fortune 500 communication company's intellectual property in wireless technology and advised on intellectual property issues in context of tax framework.
- Led intellectual property audit for electronic gaming company and developed intellectual property management structure for company.
- Conducted numerous intellectual property due diligence for high-technology investments by venture capital companies.
- Conducted numerous intellectual property due diligence on behalf of target companies or acquirer companies in high-technology merger and acquisition matters.

Patent Litigation

- *ICTV, Inc. v. Worldgate Communications, Inc.* – advised on patent litigation strategy in interactive television market.
- *SanDisk Corporation v. Lexar Media, Inc.* – patent litigation involving flash memory consumer products.
- *GameTech International, Inc. v. Bettina Corporation* – patent litigation involving electronic gaming.
- *Planet Bingo, LLC v. GameTech International, Inc.* – patent litigation involving casino style games on electronic devices.
- *Akamai Technologies, Inc. v. Speedera Networks, Inc.* – patent litigation involving Internet content delivery services.

Teaching Experience

- Adjunct Professor of Law for "Patent Practice" at University of California, Hastings College of the Law (2001 to present).
- Faculty Member for Practising Law Institute for "Advanced Patent Prosecution," "Fundamentals of Patent Prosecution," and "Patent Law for the Non-Specialist" courses (2002 to present).
- Faculty Member for Law Seminars International for "Defending Against Patent Infringement Claims" (2004).
- Course Instructor in "Laws and Emerging Technology" for O'Reilly Emerging Technologies Conference (April 2003).
- Course Instructor in "Intellectual Property Strategies and Management for Federal Publication Seminars (May 2002).

Publications

- Software Escrows as Part of an Intellectual Property Strategy," Computer Law Association First Asian Conference, Bangalore, India, 2005.
- "Underutilized Patent Reexaminations Can Improve Business Strategy," Daily Journal, Vol. 110, No. 75, April 19, 2004.
- "Software Outsourcing Offshore – Business and Legal Issues Checklist," SHG Software 2004 Conference, 2004.
- "A Strategic Look at the Final Rejection," Advanced Patent Prosecution Workshop, Practising Law Institute, No. G0-10A8, 2003 - 2005.
- "Understanding After Final and After Allowance Patent Practice," Fundamentals of Patent Prosecution, Practising Law Institute, No. G0-01EV, 2003 -2005.
- "Think Value, Not Cheap, For Long-Term Success," Succeeding with New Realities, TiEcon 2003, Published by TiE Silicon Valley 2003.
- "The Intellectual Property Audit," Building and Enforcing Intellectual Property Value, An International Guide for the Boardroom 2003, Published by Globe White Page 2002.
- "Patent Portfolio Strategy for Start-Up Companies: A Primer," Patent Strategy and Management, Vol. 3, No. 7, Nov. 2002.
- "Potent Portfolio," Daily Journal, Vol. 106, No. 244, Dec. 15, 2000.
- "Own Idea," Daily Journal, Vol. 105, No. 10, Jan. 15, 1999.
- "Disclose Lite," Daily Journal, Vol. 103, No. 55, Mar. 21, 1997.

Organization and Community Participation

- American Bar Association
- American Intellectual Property Law Association
- TiE ("The Indus Entrepreneurs" / "Talent, Ideas, Enterprise")
- Computer Law Association
- Dean's Leadership Council for Franklin Pierce Law Center
- Dean's Committee for Rutgers University, School of Engineering

Notes: