

I am Canadian but I want to look American

Many Canadian companies, particularly technology ventures, are focused on the U.S., both as a market for their products and as a source for further financing. In fact, the U.S. is so important that some Canadian companies bend over backwards to make themselves look like U.S. companies.

Take for instance, Entrust Technologies, a security and encryption company that was a spinoff of Nortel (the former equipment branch of Bell Canada). Entrust is recognized as a leading innovator in its field, is a recipient of numerous industry awards, has over 90 patents and pending patent applications, and has captured an industry-leading 39 per cent of the PKI software market.

Entrust was born in Canada, developed its technology in Canada, and the bulk of its employees are located in Canada. In fact, last year, the company built a spiffy \$18-million, five-storey

building in Ottawa to house 500 of its employees.

However, Entrust insists it is based in Plano, Tex., where it has a smaller building that houses about 30 of its employees and is designated as its "worldwide headquarters." Press releases are not issued from Ottawa, but rather from Dallas.

Consider PMC Sierra, a leading manufacturer of high-speed, high-density broadband communications semiconductor architectural solutions. PMC Sierra, which also trades on Nasdaq and was recently added to the S&P 500 Index, is officially based out of Santa Clara, Calif., where it maintains a few dozen employees.

However, the company's "operational headquarters" is in Burnaby, B.C., a facility that houses more than 700 employees including its CEO and CFO. The company has even been identified as the largest tech company in British Columbia.

Bits and Bytes

By Alan Gahtan



Another example is Certicom, an e-commerce security company. Founded in 1985 by cryptographers from the University of Waterloo's computer science department, Certicom switched its "worldwide sales and marketing headquarters" from Mississauga, Ont., to Hayward, Calif., a month before it listed on Nasdaq and secured over US\$50 million in its IPO from investors. The Mississauga location is identified as Certicom's cryptographic research and product development center.

Entrust, PMC Sierra and Certicom are not alone in moving their "headquarters" south of the border. A number of other Canadian high-tech firms listed on Nasdaq have also set up nominal headquarters in the U.S. to primarily house their marketing

and sales staff, plus a few executives. The objective is simple — catering to the bias among Americans investors to favour American companies.

It is thought by some that this strategy can yield share prices that are 20- to 40-per-cent higher than going public in the U.S. with a Canadian headquarters. Companies such as Entrust, PMC Sierra and Certicom can then secure American-sized market caps while continuing to benefit from Canada's lower wage rates and generous government research and development tax subsidies.

While the IPO frenzy appears to have subsided, at least temporarily, a number of other Canadian companies are also making plans to "move" to the U.S. in anticipation of an improvement in the financing climate.

Is this a bad thing for Canada? Probably not since it keeps jobs and management control here.

However, not everyone is buying into this strategy. Some Canadian companies simply cross-list their shares on both a

Canadian exchange and either the Nasdaq or New York Stock Exchange. The hope, in this case, is that their domestic profile may result in better analyst coverage and better liquidity in secondary trading.

An example of a high-profile Canadian company that has retained its Canadian identity is JDS Uniphase. The company maintains dual corporate headquarters — one in Ottawa and another in San Jose, Calif. Its stocks trade on both the TSE and Nasdaq. Another is Celestica, a world leader in electronics manufacturing services with over 32,000 employees and 2000 revenues of US\$9.8 billion. Celestica, whose stock trades on both the TSE and NYSE, boldly identifies its headquarters as being located in Toronto.

Alan Gahtan is a partner with Mann & Gahtan LLP and with Brown Raysman Millstein Felder & Steiner LLP where he practices merger law. His e-mail is agah-tan@manngahtan.com

Partnership's Ades Tadaad