



UK Trade
& Investment



Establishing a business presence in the USA

UKTI Trade Services

Contents

- 01 About the Editors
- 03 Exporting and selling: Contracts with American distributors and sales agents
- 05 Creating a USA subsidiary to sell or manufacture
- 10 Buying an existing USA company or part ownership thereof
- 11 Joint Ventures
- 13 An overview of USA taxation
- 17 Dealing with employees: Key features of USA law and practice
- 19 Product Liability
- 21 Intellectual Property in the USA
- 25 Licensing and technology transfer to and within the USA
- 29 Internet business: An overview of USA cyberlaw
- 30 USA business-related Visas for UK Nationals
- 32 Litigation and arbitration
- 34 Errors frequently made by companies new to the USA market
- 36 Other sources of information

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About the Editors

Mr. Milner's practice is focused on assisting clients plan their financial lives from an income, gift and estate tax perspective. This often includes helping clients structure complicated business relationships in a manner calculated to reduce income tax consequences. Mr. Milner also helps families develop strategies which will permit them to accumulate wealth and then pass this wealth down to future generations in a practical, tax efficient manner. Mr. Milner represents clients in tax controversies before the Internal Revenue Service and state and local taxing authorities and provides guidance to families in administration of estates and trusts. Prior to starting his legal career, Mr. Milner, who is also a CPA, had a ten year career in the accounting profession. This experience, which included working in the tax practice of both a "Big 4" and a well respected regional accounting firm, enables him to offer his clients uncommon insight into a wide variety of legal and business matters.

Mr. Ziegler heads Gallet Dreyer & Berkey LLP's International Business section. His experience and practice includes commercial law and business transactions, both international and domestic. He represents a wide range of mostly foreign companies and individuals in connection with, for example, the formation of corporate entities, product liability, sales agency, joint ventures and cooperation arrangements, corporate structuring, trademarks, licensing requirements and commercial contracts of all types. Mr. Ziegler also has extensive experience in representing business and individual clients in all aspects of real estate work, including transactional work, mortgage financing and real estate development work. In addition to his legal education in the United States, Mr. Ziegler holds law degrees from Germany and France, and he is fluent in the languages of both countries.

This guide was originally authored by the late **Aaron N. Wise, Esq.**, a partner of Gallet Dreyer & Berkey, LLP. Mr. Wise had extensive experience in representing non-USA companies doing business in the United States. Mr. Wise's areas of expertise included corporate, commercial and contract law, taxation, intellectual property law, and litigation and arbitration. Mr. Wise held law degrees from Boston College Law School, New York University Law School and the University of Paris (France). He was a frequent lecturer inside and outside the United States and was listed in *Who's Who in the World* and *Who's Who in American Law*. Mr. Wise was proficient in French, German Italian, Spanish, Portuguese, Russian and Japanese, and had a working knowledge of several other languages.

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Services of Gallet Dreyer & Berkey, LLP

Gallet Dreyer & Berkey, LLP (GDB), based in the heart of New York City, offers a full array of legal and tax services. GDB is capable of handling client matters throughout the USA, as well as clients' international legal and tax matters. Examples of GDB's fields of expertise include: direct investments in the USA of all kinds, including acquisitions and mergers, joint ventures, setting up of companies and manufacturing facilities; contracts of all kinds; commercial law; bank law and regulation; bank transactional matters; finance law, financing transactions and contracts; law and contracts regarding construction and engineering projects; real estate; technology transfer and licensing; industrial and intellectual property; computer law and contracts; internet law and contracts; tax law and tax planning; visas and immigration; litigation, mediation and arbitration (including product liability cases); trusts and estates, probate, wills (domestic and international); white collar criminal litigation; sports and entertainment law; other areas of USA and international law dealt with in this guide.

List of other publications relating to the USA by Gallet, Dreyer & Berkey, LLP:

- A UK Business Person's Guide to American Law – Business Practices - Taxation
- American Product Liability: 'Good News for Business!' Recent Trends and Developments – A Guide for UK Companies
- General Terms of Sale for Exports to the USA, the Western Hemisphere Generally, and Worldwide: A Guide for the Foreign (Non-US) Exporter
- Placing Your Goods 'On Consignment' with Your American Business Partner: What the Foreign Exporter and its Financing Bank or Factor Should Know
- Debt Collection: Will United States Courts Recognize and Enforce Foreign Country Judgments?
- The Acquisition of an Existing American Company or an Ownership Interest Therein: A Short Practical Guide for the Foreign Business Person and Foreign Lawyer
- Purchase and Leasing of Real Property in the United States (authored by Aaron N. Wise, Esq. and David L. Berkey, Esq., the head of Gallet, Dreyer & Berkey, LLP's real estate department)

How to obtain these publications:

Most of the above guides, and various others, can be printed and downloaded from the Gallet, Dreyer & Berkey LLP website, www.gdblaw.com. On the home page, click on 'Practice Areas'; on the next screen, click on 'International' and right under it, click on 'Publications'. They can also be obtained upon request.

Exporting and selling:

Contracts with American distributors and sales agents

Your products and services

Ensure your products can be lawfully imported into the USA, that all legal requirements of USA customs and import laws are met, that you have all required licenses and permits to import and sell the products, and that your export and import documentation complies with USA law. Also, there is USA legislation relating to particular types of products, what they can and cannot contain, labelling, etc. Failure to comply can, in some instances, subject the manufacturer, seller and possibly others to fines and penalties. It can also be ammunition for product liability lawsuits for persons harmed by the products.

Two specific examples:

- The Consumer Product Safety Improvement Act, a federal law passed in the summer of 2008, makes it illegal for anyone to sell children's toys, books, clothing, jewellery, and certain other goods if the items contain more than trace levels of lead or phthalates. Penalties are stiff with violators facing potential prison terms and fines of up to US\$100,000 per violation. The Act applies not only to new items but existing stock as well.
- Federal legislation referred to as the 'Bioterrorism Act' applies to exporters of food and beverage products intended for humans and animals. It requires registration with the USA Food and Drug Administration (FDA), the appointment of a USA representative, certain document filing with regard to each shipment, and certain record retention by the exporter. The consequences for violations can be severe.

Certain products destined for the USA market can be tested and certified by a private industry organization (eg, Underwriters Laboratories being). Companies will typically want to obtain certification for their relevant products for several reasons, two being: difficulty in marketing them in the USA without it; and, to reduce to some degree the company's product liability exposure.

Trademarks and other intellectual property

If you intend to sell goods or services to the USA under a particular trademark, brand name, promotional slogan etc, have your USA lawyer search, before you start business, whether the use of the mark, name, slogan, etc. might infringe any existing, third party trademark. If it does not, consider applying for USA trademark protection covering that mark, name, slogan, etc. The same points apply to other types of intellectual property you may have and should protect (e.g., patents, copyrights and designs), though the search and application procedures for each type, and the nature of the rights conferred are different.

Filing your copyrighted works with the USA Copyright Office

If you own items that are or may be protected by copyright, you need to protect them in the USA. That is done principally by filing an application for registration with the USA Copyright Office. Doing this in a proper and timely way is a must; failure to do so can result in serious problems for the copyright owner.

What are distributors and sales agents?

Be sure you understand the differences between a 'distributor' or 'dealer', and a 'sales agent' or 'sales rep'. Decide carefully which you want for the USA market.

How many?

Think through carefully whether you want to have one exclusive distributor, dealer, sales agent or rep for the USA market, or several of them. If several is the answer, should each have exclusivity for a particular part of the USA or should they all be non-exclusive for the entire USA? There is no one pattern that will suit each and every company. A good market study may be a worthwhile expense.

'Due Diligence'

Check out your prospective USA distributor(s), dealer(s), sales agent(s) and sales rep(s) in advance. There are several areas you should check, including their legal status, financial situation, and banking information/ references. Your USA lawyer can obtain for you, at a relatively low cost, valuable information about your prospects.

The drafting initiative: a critical point

You, the UK party, should take and keep the initiative in drafting contracts and non-binding summaries of key terms (NB- SOTs). Insist that the USA side comment on your NB-SOTs and contract drafts rather than submit its own drafts. The 'drafting initiative' is critical in arriving at a good contract. The distributor, dealer, sales agent or rep will want a short contract favourable to him. You, the supplier, will want different things, and you should insist on it. After all, they are your products. See below regarding the NB-SOT.

Importance of well-drafted contracts: reducing risks of lawsuits.

A well-drafted contract for the USA market will help you attain what you want, and avoid pitfalls, potential claims and lawsuits. Many lawsuits arise in the USA because of poorly drafted contracts, oral contracts, contracts established by letters or memos, or 'de facto' contracts, particularly where non-USA parties are involved. It is better to incur legal fees to prepare contracts and related documents properly, than to pay the much higher litigation costs (plus the potential damages and losses).

'NB-SOT'

Very often, it makes sense to begin formal negotiations not with a contract draft, but with a non-binding summary of key terms (NB-SOT) prepared by your side (with the aid of competent counsel). This document is also known as a 'letter of intent'. There are important strategic and tactical advantages of commencing with a NB-SOT.



Creating a USA subsidiary to sell or manufacture

There are many reasons to set up a wholly-owned USA company: to have a presence in the market; to satisfy existing customers and prospects; to manufacture, process or assemble products in the States; to protect against liability claims; and to minimise certain tax or customs duty-related costs.

Legal form

The legal form most UK business people should select for their American business is a corporation. There is no such thing as a USA corporation per se. Each of the 50 states has its own laws governing the creation of legal entities, corporations included. A USA corporation offers the feature of limited liability to its shareholders (limited to their respective capital contribution). The limited liability company (LLC), while offering the limited liability feature, is, for legal, tax, and cost reasons, usually not the appropriate vehicle for UK parties.

What's wrong with just setting up a branch office of my UK company?

For the overwhelming majority of UK companies, a branch in the USA of your UK company (or any other company in your group) is not the way to go. A branch of a UK company is just an extension of that company within the USA. It subjects the company to (1) being a more visible target for lawsuits and claims in the States; and (2) being liable for USA federal, state, and possible local income and other taxes. This applies to both unregistered and registered branches. An unregistered branch is any USA place of business or the like of a foreign company that is not registered to do business in the USA state in which it conducts its business. A registered branch is one that is formally registered to do business in that USA state. If under the laws of a particular USA state, the foreign company's business activities through its operations in that state are sufficient to require it to register there, it must do so or run the risk of penalties. This does not mean just establishing a sales office in that state, it can also mean: having an employee there; having a stock of goods there, including on consignment; and other 'links' with that state. One could loosely say that any type of business activities within the USA involving some sort of presence of the foreign company can be viewed as a 'branch'. The same is true if one or more individuals establish an unincorporated (in the USA) business operation in the States.

In many European countries it is common, without inordinate risk, for a company to establish a branch in the USA. There are a few exceptions, but very few. For example, some banks in the USA operate as branches or representative offices. For the majority of companies, the best option is to form a USA legal entity offering limited liability to its owner(s). The entity of choice will typically be the 'corporation.'

Which USA state?

Under which USA state's laws shall I form my corporation? The answer will vary depending on the particular company's needs. In most cases, the choice, will come down to: (1) A Delaware corporation; or (2) A corporation formed under the laws of the USA state in which the corporation will have its centre of operations (e.g., main office).

Registering in another state or states

If I form my corporation in one USA state, then operate my business in one or more other USA states by accepting orders for goods and services within that or those other states, do I have to register my corporation to do business in that or those other states? The answer is generally, yes. Certain other activities that your corporation performs in USA states other than the one in which it is formed may require its registration to do business there. That registration process is not difficult, time consuming or expensive. However, the mere fact your corporation sells its goods from one American state to a customer in another American state does not normally require the corporation to register to do business in the customer's state.

Corporate name and trademark

A company name is not the same thing as a trademark. A registered USA federal trademark will provide protection throughout the entire USA for the particular goods or services for which it is registered. The name of your USA corporation will give you (weak) protection within the state in which the corporation is formed, and in those other states in which the corporation is registered to do business. The protection offered by a corporate name is different, and much weaker, than the protection accorded by a USA federal trademark. Thus, a UK enterprise will normally want to obtain USA federal trademark protection for the name, brand, logo, or other designation used in connection with the products or services it will be marketing in the States.

Can your use of a corporate or company name infringe a third party's trademark rights?

Yes. Before selecting a corporate or company name and forming a USA entity, your USA lawyer should research whether the key word(s) in it are protected in the USA by third party trademark rights, particularly if the third party's business is somewhat similar to what yours will be. If legally possible, you should also give serious consideration to applying for trademark protection for the key word(s) in the selected USA entity's name.

Minimum capital

Is there any 'minimum amount' of capital I have to put into a USA corporation? In most states, there is none, and the minimum is very low in those states that specify one.

Nationality or residency requirements

Non-USA nationals can own all of the shares of a USA corporation. There is no requirement that a USA citizen or permanent resident own shares, nor must a member of the corporation's Board of Directors or corporate officers own any shares. Similarly, all of the members of the USA corporation's Board of Directors and all of its officers can, if so desired, be non-USA nationals and USA non-residents.



One shareholder

There is no problem with a USA corporation being owned by just one shareholder.

Board members' powers and related points

Members of the Board of Directors (called 'directors') are not directors in the UK sense of the term. In the USA, directors are simply members of the Board. The Board acts and decides as a body; individual directors have no power to act or to bind the corporation individually (unless, exceptionally, by resolution or power of attorney, the corporation grants a particular director certain powers). Under the laws of many USA states, a one person Board is possible. Some states have a different rule when a corporation has two or more shareholders. Directors can be officers and officers can be directors.

Required and optional officers

Many USA state laws require a corporation to have a President, a Treasurer, and a Secretary. Other officer posts are optional (e.g., one or more Vice Presidents or an Assistant Treasurer). The officers' respective powers (and limitations thereon) will typically be contained in the corporation's bylaws and/or in a Board resolution.

Restricting the power of corporate officers

The power of corporate officers can be restricted or expanded in the corporation's bylaws, by contract, or by special Board (or shareholder) resolution. However, a third party without knowledge of restrictions on the officers' powers may not be bound by them.

Is a corporate officer or director of a USA corporation its employee?

No. If it is clearly agreed that the officer or director is an employee of the corporation and he/she is on the corporation's payroll, then yes. But, for example, it is not unusual to have a President, Vice President, Treasurer, Secretary or other corporate officer who is not an employee of the corporation. Often, a USA lawyer will serve as the corporation's Secretary, but he or she will normally not be its employee.

Tax returns if a corporation is inactive

Yes, a corporation must file tax returns even if it generates no income or is inactive.



A lawyer in one state forming a corporation outside that state

An experienced corporate lawyer located in one USA state will have no difficulty forming a corporation (or any other type of USA legal entity) in another USA state.

Time

It takes only a short time to form a one shareholder USA corporation in any USA state from the time your lawyer has received all of the information required. But it does take time to do the preparatory paperwork properly.

Corporate bank account(s)

The set-up of one or more bank accounts for the corporation is often done by its USA lawyer. This can often be a lengthy, complicated procedure.

Office leases; other premises leases; warehouse leases; Foreign Trade Zones

1. Office leases. You can lease office space in many different ways: leasing of real office space in a building; leasing space from business incubators or 'baby-sitting' firms; leasing via an office-sharing arrangement; leasing a 'virtual office,' etc. There are various types of pre-printed office leases, and most of those are pro-landlord.

If USA work visas are needed for key employees of your USA entity, the type of office space lease you conclude will be important. USA immigration will want to see a genuine lease of office space (typically not a virtual one or home office of an employee) sufficient to house the number of employees you anticipate having, and for a term sufficient to match the number of years requested in the visa application(s). You are well advised to have a USA lawyer counsel you on the above, and review and negotiate the landlord's lease draft.

2. Other premises leases. These might include set up of a restaurant, school, academy, museum, hair salon, or other service business requiring a particular type of premises in terms of location, size, configuration etc. The corresponding leases will often be more complicated and difficult to negotiate to suit the investor's needs.

3. Warehouse leases. Many warehouses offer a variety of services to choose from, ranging from mere warehousing, to that plus invoicing customers, shipping, etc.

4. Foreign Trade Zones (FTZ). FTZs are secured areas within the USA but legally outside of USA Customs. Any foreign or domestic merchandise not prohibited by law, whether or not subject to USA customs duty, can be placed in a FTZ. In general, merchandise in a FTZ can be stored, sold, exhibited, broken up, repacked, assembled, graded, cleaned, mixed with foreign or domestic merchandise, otherwise manipulated, or destroyed. No retail trade can be conducted there. Some advantages are: (i) customs duties or, if applicable, federal excise tax, are paid only when merchandise is transferred from a FTZ to USA customs territory for consumption or use; (ii) goods can be exported out of the USA from a FTZ free of USA customs duty and tax; (iii) procedural requirements for using a FTZ are minimal; (iv) goods can remain indefinitely in a FTZ.

Manufacturing in the USA

Among other considerations, a few things that have to be decided:

1. Where in the USA to manufacture. Negotiate with the state and local authorities for incentives and benefits (eg, tax breaks, reduced power costs).
2. Whether to buy a new or existing building for the plant or to lease it, and how these operations will be financed.
3. What equipment will be needed for the plant, whether it should be purchased or leased, and how to finance the operations.
4. How to hire and train employees.

Government investment incentives

At the federal level these do not exist. USA states offer various investment incentives, as do many local government units. No significant investment incentives are available unless the investment will produce a large number of jobs for American citizens or residents, or involve setting up in a particular area targeted for development. However, the state and local economic development authorities will typically provide considerable useful information, contacts, facilities, etc.

Insurance

You will need certain types of insurance for USA operations. Examples in the commercial insurance area are: general liability; product liability (which may or may not be part of the general liability insurance); business property; directors and officers liability; employer's practices liability; intellectual property infringement; professional liability (errors and omissions); and workers compensation. In the personal insurance area, medical, disability and life insurance are examples. You will probably want to (and have to) contract all or most of these from an insurance broker located in the States.

Accountant

You will need one. An accountant can perform a variety of services including advice in tax planning (often, together with your USA lawyer), bookkeeping, preparing financial statements, and preparing tax returns. It is beneficial if your USA lawyer and accountant already have or establish a good working relationship.



Due diligence is a must

For any acquisition of a USA company, a considerable amount of preliminary homework is required. All aspects of the acquisition target company will have to be carefully examined and evaluated. This process is called due diligence. A due diligence review by your USA lawyers is standard practice in the USA. Other types of experts will often be involved in the due diligence process such as an accounting firm, an environmental study firm, or a construction engineer.

Stock purchase; assets purchase

Most acquisitions of privately owned companies will be by way of either a stock purchase or a purchase of assets. Each has its particular advantage and disadvantage for the buyer and the seller.

Drafting initiative

Through your USA counsel, you should do your best to prepare the first draft of the acquisition agreement (and any non-binding summary of terms or letter of intent that might precede it), and thereafter, to maintain the 'drafting initiative'.

Do your own homework and be patient

You should not underestimate the time it may take to finalise an acquisition. Although the parties may have reached agreement in principle, it takes time to complete the due diligence, obtain the financing (where applicable), negotiate, prepare and revise the necessary contractual and other documents and get them signed, and do all of the other legal and non-legal tasks.

The antitrust law aspects

Where the acquisition is fairly sizeable, USA antitrust law should be evaluated before proceeding too far with the negotiations. Also, for fairly sizeable acquisitions, a pre-notification filing with a USA government antitrust watchdog agency is required.

The tax aspects

Before proceeding with negotiations, the buyer's experts should study the tax aspects of the proposed target company.



Joint Ventures

The right partner

JVs for the USA market work only if you have the right partner(s). Check out each JV candidate carefully in advance of any deal. Your USA lawyer can obtain valuable data about the candidates that you probably cannot obtain elsewhere.

Most USA JVs are not permanent

Circumstances, people, and mentalities change. Try to arrange your USA JV and your planning so that if the JV breaks up you can continue the USA operation.

USA corporation as JV vehicle

Rarely should a UK company participate directly in a USA JV or 'co-operation agreement'. Direct participation in an 'unincorporated JV' or 'co-operation arrangement' will expose the foreign party to potential liability for the venture's debts and liabilities, lawsuits in the States, and negative tax consequences. From the UK partner's standpoint, a new USA corporation should be the JV vehicle.

Three typical types of USA JV

1. **Distribution JV:** UK and USA parties form a corporation under the laws of a USA state (very often Delaware), each owning an agreed percentage (the JV Corp). Typically, it will be the UK side's products that the JV will sell, and a distributorship contract will be among the JV documents to negotiate/sign. If the USA side will also be selling goods or products to the JV Corp, the terms will normally be embodied in a separate agreement. The USA side will often contribute USA marketing knowledge, a sales force (its own or independent agents/ reps), technical knowledge about the JV products, and other things like administrative assistance and the use of its physical facilities. The JV Corp will sell the products to customers in its agreed territory.
2. **Production JV:** It is similar to the distribution JV except that the JV Corp will manufacture (in whole or part) and/or assemble the products emanating from the UK side (and, where applicable, those coming from the USA side), and resell them. The USA side may have a production facility that will be used to make the JV Corp's products, or the JV Corp may buy or lease an existing one or build a new one. Manufacture may take place in the USA, or even in Canada, Mexico or elsewhere in the Western Hemisphere. Among the contract documents to conclude is a 'license agreement' from the appropriate JV partner to the JV Corp allowing it to manufacture its products with the partner's technology or other intellectual property.
3. **R&D JV:** A UK and a USA party form a USA entity to engage in research and development or similar activities.

Importance of first class JV contract documents.

To the extent possible, all the transaction documents should be signed at essentially the same time.

'NB-SOT'

Rather than proceeding directly to contract drafts, it is usually advantageous to commence negotiations by preparing and working to the signature of, 'a nonbinding summary of key terms' (NB-SOT) of the deal.

Drafting initiative

You should do your utmost to seize and retain the drafting initiative throughout, regarding both NB-SOTs and contract drafts. Let the USA side comment on your documents.

Tax planning

Proper tax planning for a USA JV, with the assistance of experts, is important. It may affect the JV structure negotiated and implemented.

Input of UK client

The UK partner and its UK solicitor will have to work closely with its USA lawyers to put together and close a USA JV.

USA corporation with more than one shareholder

Whether or not called a JV, if there will be more than one shareholder in a USA corporation, what will be needed (at a minimum) is: (i) a shareholders' agreement between the parties; and (ii) special Bylaws of the USA corporation tailored to the shareholders' agreement's provisions.

Costs

It will normally cost considerably more in legal fees to create a JV than to form a wholly owned USA subsidiary.



An overview of USA taxation

The United States is a federal republic; the national government, each state, and the local governments within each state make their own laws and have their own courts. Each government has its own tax administration, its own tax laws, and its own tax forms. At the federal level, there is income tax, including corporate and personal income tax, capital gains tax, income tax on dividends, interest and royalties, and on partnership profits; and employee payroll taxes. At the state level, there are, in most states, similar taxes as the above federal ones; and sales and use taxes. Some counties and cities have their own tax regimes, e.g., income and business taxes and property taxes.

The more important American taxes and the authorities that impose them are shown in annex 1. The USA federal income tax rates on corporations are in annex 2.

The USA enters into separate international agreements with many countries for the purpose of avoiding double taxation and preventing fiscal evasion with respect to taxes on income (they are often called 'income tax treaties'). Some of these treaties are complicated, one example being the rather intricate provisions determining which activities will or will not result in a foreign resident company or individual to have a 'permanent establishment' in the USA. An income tax treaty of this type is in force between the UK and the USA. Its provisions are often an important tool in tax planning and determination. Because of the USA's size and the diversity of local laws, the total amount of taxes may differ significantly from one location to another. Before entering into a venture in the USA, a UK exporter or investor should determine which taxes may be due to states and municipalities. These are not covered by income tax treaties.

Permanent Establishments (PE) in the USA

USA law seeks to impose tax on every company that is considered to be doing business in the USA. The UK-USA income tax treaty exempts UK resident companies and individuals from USA federal income taxes on business profits if they do not have a PE in the United States. Without analysing and referring specifically to the UK-USA Treaty, a PE in the USA under many of the USA tax treaties typically includes a fixed place of business such as a seat of management, branch, an office, a factory, a workshop or a warehouse, used to conduct business in the USA. It also frequently includes a mine, quarry or other place of natural resource extraction in the USA maintained by the foreign resident party; and a building site or construction or installation project of the foreign resident existing in the USA for more than a certain number of months.

If a foreign exporter appoints an American company as its exclusive distributor and delivers all goods ex works, the profits from its sales to the distributor will normally not be subject to USA income tax. If, however, a foreign company believes that it can sell its products better by having its own marketing group in the USA or at least having its trained personnel in the USA to assist in the marketing, the company may be considered to have a PE in the USA and be subject to American income tax on the income resulting from the PE and any other USA source income effectively connected to the PE.

USA income tax treaties typically list certain activities which will not result in the foreign resident company having a PE in the USA. These may include: (1) exporting to the USA without any fixed place of business in the USA or without a USA agent that regularly accepts orders for goods to be sold; (2) utilising a USA corporation, that is, one incorporated under the laws of a USA state, to conduct the USA business (e.g., manufacture or purchase of goods from the foreign parent and sale or resale thereof to USA distributors, dealers and customers; or sale of services); (3) use of USA facilities for, or the maintenance in the USA of, a stock of goods belonging to the foreign enterprise for storage, display or delivery of such goods for their processing by a third party; (4) maintaining a fixed place of business in the USA for purchasing goods, collecting information for the foreign enterprise, or for activities of a preparatory or auxiliary character (e.g., advertising or scientific research); and (5) the maintenance by the foreign enterprise or individual of a building site or construction, assembly or installation project in the USA which does not exist for more than the number of months specified in the relevant tax treaty..

Claiming tax treaty benefits

UK companies and individuals that claim the benefits of particular provisions of a tax treaty to override provisions in domestic USA federal income tax law must disclose the treaty-based provision in a federal income tax return. This applies whether or not the foreign party was otherwise required to file a USA federal income tax return. Non-compliance can involve very large penalties.

Branch, LLC or corporation

If a UK company decides to have its own USA operation, it must also decide whether it should function as a USA branch of the UK company or as a separate USA legal entity (like a corporation or LLC) organised in one of the states in the USA. If you expect the early years of the USA operation to show losses, you might give consideration to operating a branch. This may be advantageous from a foreign income tax standpoint. However, the USA imposes a branch profits tax on the deemed repatriated earnings of the branch. This, in effect, equalises the tax treatment of a USA branch and a USA subsidiary corporation or LLC.

Taxation of corporations: USA Federal Income Tax

A corporation formed under the laws of a USA state is subject to USA federal income tax on its worldwide income. The tax is levied on its net taxable income, which is essentially its gross income minus allowable deductions. A corporation's taxable income and federal income tax are computed essentially as follows: book gross income +/- adjustments and deductions

= taxable income x applicable corporate tax rate

= amount of tax - applicable credits

= final tax liability

The annual accounting period selected by a USA corporation is generally its taxable year, and is normally the same as its financial year.

Interest and royalties between related companies

Royalty and interest payments from a USA resident payer to a foreign payee will, as a rule, be subject to a flat 30 percent USA withholding tax. Tax treaties to which the USA is a party either reduce the rate or eliminate it altogether, which is the case for the UK-USA income tax treaty. Normally, a USA corporation will be entitled to deduct interest payments from its income as a business expense. Under USA federal income tax rules, a corporation's ability to deduct interest paid to a related party can, under certain circumstances, be curtailed if the related corporation is not subject to USA income tax on the interest income.



Debt/equity ratio

Care must be taken to assure that a proper and acceptable relationship between debt and equity for UK-owned USA corporations is maintained. If the tax authorities can establish that the debt is too high in relation to the stockholders' equity, they can treat the interest payments as dividends and can also consider the principal repayments as dividends. The result of this determination has the effect of increasing the taxable income of the USA corporation by the disallowance of the interest expense and application of income and/or withholding tax on both the interest and principal repayments.

Real estate (immovable property)

If a foreign company or individual sells real property located in the United States, a USA withholding tax equal to 10 percent of the sales price applies. The seller has to effect the withholding and pay the money to the IRS. The purpose is to assure that the income tax due on the gain from the sale will be collected.

Accumulated earnings tax (AET)

This is a penalty tax applicable if the authorities believe that a USA corporation is not sufficiently distributing its earnings to its shareholders (thus avoiding their being taxed on dividends), but rather keeping the funds in the business beyond its reasonable needs.

Dividends

Shareholders are normally subject to USA income tax on dividends. Non-USA shareholders are subject to USA withholding tax on dividends received from a USA company (the normal rate is 30 percent) which may be reduced by tax treaty. The UK-USA Tax Treaty does that. Dividend payments are not a deductible expense for the paying USA corporation.

Financial statements

There are differences between a financial statement prepared on the basis of generally accepted accounting principles (GAAP) and tax returns prepared in accordance with the USA Internal Revenue Code. Some items that may cause these differences are depreciation, foreign exchange gain or loss, and intangible drilling costs. Reserves for future expenses and other contingencies are not allowed for income tax purposes, nor are valuation reserves. A reserve fund for bad debts is permitted, both for financial statement purposes and, to a limited degree, for income tax purposes. The affairs of a company are considered private and, therefore, there is normally no requirement to publish financial statements, unless the shares of the company are publicly held and are thereby subject to the rules and regulations of the USA Securities and Exchange Commission.

State corporate income tax

Nearly all USA states impose income tax on corporations, normally applicable to income attributable to that particular state. The rates range per state from 1 percent to 10 percent.

Payroll taxes; voluntary expenses

Most companies pay certain payroll-type taxes, which often will total around 10 percent of their employees' salaries and wages. In addition, they may incur voluntary expenses for medical care, disability insurance, life insurance and retirement plans for their employees. In total these costs will probably range from around 15 percent to 25 percent of salary and wage payments.

State sales taxes

Many states and municipalities collect sales taxes on retail sales with different rates in effect from one location to the next. Each tax authority establishes which goods and services are subject to sales tax, and the procedures to be used for registration, collection and payment of the taxes. If a company is not doing business in a particular USA state, it is usually not obligated to collect sales tax on sales within that state. But, if the state laws consider your activity as doing business in the state and your company sells and delivers a product to the final user within the state, you must collect the sales tax, file the required tax returns, and pay the tax to the state or municipal tax authority.

ANNEX 1:

The more important taxes and similar costs imposed in the USA

Type	Federal	State	Municipalities
Income tax	X	X	X
Wealth tax	None	None	None
Value added tax	None	None	None
Turnover/sales tax	None	X	X
Estate and gift taxes	X	X	–
Old Age Benefits tax	X	–	–
Unemployment insurance tax	X	X	X
Disability	–	X	–
Real property tax	–	–	X
Personal property tax	–	X	X

ANNEX 2:

Current USA Federal Income Tax Rates on Corporations

(as of the date of this publication)

Taxable income over	But not over	The tax is	Of the amount over
\$ 0	\$ 50,000	15%	\$ 0
50,000	75,000	\$7,500 + 25%	50,000
75,000	100,000	\$13,750 + 34%	75,000
100,000	335,000	\$22,250 + 39%	100,000
335,000	10,000,000	\$113,900 + 34%	335,000
10,000,000	15,000,000	\$3,400,000 + 35%	10,000,000
15,000,000	18,333,333	\$5,150,000 + 38%	15,000,000
18,333,333	—	35%	0

Dealing with employees:

Key features of USA law and practice

Employment contracts, employee secrecy and non-competition agreements

It is advisable to have written employment contracts with key employees of your USA subsidiary or JV company (e.g., executives, officers and key technical managers). One reason is to define the terms and conditions applicable to their employment, and to limit their capacity to act and bind the employer. Another important reason is to protect the USA company and its UK parent company against claims (e.g., 'improper termination' claims) by the employee. A good employment contract prepared by experienced USA counsel, in combination with proper conduct by the employer, will substantially reduce the risks of such claims. The employment contract should contain either an arbitration clause providing for arbitration in the USA (typically, under the American Arbitration Association's pertinent rules) or a clause specifying a particular USA court to resolve disputes and claims. Some USA states' laws will not permit arbitration of certain employment disputes, and a point to be checked before preparing the agreement.

Termination without cause and termination for cause

Some USA states follow the common law 'at will' rule that in the absence of an agreement to the contrary, an employee can be terminated at will by the employer without cause, and without liability for improper termination. Contrarily, some USA states virtually prohibit an employer from terminating an employee without cause except where parties reach written agreement at the time of termination or thereafter on additional compensation to the employee.

All employment agreements should state the grounds for termination for cause

Prior to concluding any employment contract with a key employee, the employment law of the particular USA state(s) concerned must be taken into account for purposes of how the agreement should be drafted. Moreover, prior to the employer's termination of any employee, with or without cause, USA counsel should be consulted.

Employee confidentiality and employee invention agreements

The USA employer company should consider having essentially all of its officers and employees sign secrecy agreements.

Post-employment non-compete clauses

Most employment contracts will prohibit the employee from working for any other person or firm while in the employer's employ. Normally, such clauses will pose no significant legal problem. More problematic are 'post-employment non-compete clauses,' a prohibition upon the employee, once his/her employment ends, from working in a particular field whether for a third party or for his/her own account. The enforceability of post-employment non-compete clauses will vary from in the USA from state to state.

Discrimination and other unlawful acts by an employer

USA state and federal law prohibit essentially any form of discrimination by the employer against the employee. That includes discrimination based on race, colour, national origin, religion, age, gender, disability, marital and veteran status. Also prohibited more or less throughout the USA is sexual harassment in the workplace, and retaliatory firing or demotion by the employer. There is American legislation requiring the employer to retain a woman's job while she is on maternity leave, and while a person is serving in the military.

Employer retaliation against employee(s) wishing to unionise

Not only can employer retaliation of this sort violate state law, it may also constitute an 'unfair labour practice' under USA federal labour law.

Employer handbook or similar document

It is a good procedure for the USA subsidiary or JV corporation to have an employee handbook or similar document stating its policies and procedures applicable to employees and employment, and to update it regularly. Competent USA counsel can assist in preparing it.

Proper payment of USA taxes and withholdings, workers compensation insurance

The employer should be sure that all amounts required to be paid to the USA tax authorities by the employer (eg, by way of withholding) are paid on time. A bookkeeper or a commercial payroll company can take care of this.

Workers compensation insurance is mandatory. It insures the employer from its employee's claims for job-related injury and illness. You can use your lawyer, accountant or insurance broker to contract it, or have your payroll company do it.

Employee pensions and profit sharing plans and certain other employee benefits and incentives

USA law does not require enterprises to offer pension plans, profit sharing plans, medical, disability or life insurance coverage to employees. But often, the employer will want to obtain and establish various one or more of such benefits, and/or others, for its employees.

Getting the employee benefits package and commercial insurance into place: start early

Compiling employee benefit packages and obtaining the desired commercial insurance is not an easy job and takes time. Working and co-ordinating with an insurance brokerage firm is often the best solution. This process should normally start before a new USA enterprise is set up.

Employees of the foreign parent or foreign JV owner(s) working in the USA

For legal and tax reasons UK companies should, as a rule, not have employees of their own working in the United States. There may be some exceptions to this general rule where such employees function in the USA for a short time on a project basis, or perform limited services.



Product Liability

Proper perspective of risk

While there is a product liability risk for many UK firms, it will normally be manageable if you adopt certain measures. If you are concerned about product liability, educate yourself about the risk and what you can do to reduce and manage it. An unwarranted 'knee-jerk' reaction shouldn't frighten you away from the USA market. It is important to keep in mind that American product liability judgements awarding irrational, exorbitant damages – including ones that seem to impose liability for no good reason – are very rare. These rarities are, however, fodder for the media.

Who can be sued?

Who can be liable? Anyone who designs, manufactures, sells, distributes, or renders services in connection with a product, component, or part thereof, can incur product liability in the USA. This may include a licensor of technology used to produce the item or a licensor of a trademark or brand name (if the product is marketed with that mark or name). A plaintiff often tries to sue all parties in the distribution chain. This does not mean, however, that the plaintiff will succeed against all of them, or succeed at all.

Your company may not be subject to the jurisdictional reach of the particular USA court in which a product liability suit is, or may, be brought. You may at least have a good legal argument supporting that point and that in itself may deter the plaintiff from suing or continuing suit. This may apply even if you have a USA subsidiary or affiliate engaged in the sales or distribution process.

Passing and reducing risk by contract

A significant part of product liability risk can, by contract, be passed on to your USA customer, distributor, dealer, licensee or joint venture partner. Even properly drafted and implemented 'General Terms of Sale' tailored to the USA market can reduce risk.

Another liability area

Liability can arise when a buyer, typically a legal entity, allegedly sustains losses and damages as a result of defects in or deficiencies of your products, equipment, etc. Damages due to unexcused late delivery might also come into play. The alleged damages might include your customer's plant down time, lost profits, other economic damages, penalties the buyer might incur to third parties, and other possible direct and consequential damages. The plaintiff might also attempt to claim punitive damages. The risks associated with this type of liability can be substantially reduced by including or not including certain provisions in the contract with your buyer. The term 'contract' can also include 'General Terms of Sale.'

UK contract documents probably won't do the trick

You should not assume that contract documents prepared according to UK law, or in any manner other than by competent USA counsel, will accomplish the goal of reducing and helping manage USA product liability risk. The likelihood is they will not.

Product liability insurance

You should explore the possibility of purchasing product liability insurance and commercial risk insurance for the USA market in appropriate amounts. In addition, you should normally require a USA contract partner (e.g., distributor, licensee) to carry and maintain an acceptable level of product liability insurance covering the goods sold to that partner. Sometimes it makes sense to try to convince your USA contract partner to include you as a co-insured under its policy or policies, with you reimbursing the USA side for the additional premiums. Even with reasonably good insurance coverage it is prudent to consider implementing other measures designed to reduce risk.

If you are sued or suit is threatened

If you are contacted by a plaintiff (actual or potential) or a lawyer regarding an actual or potential product liability suit, do not reply orally or in writing. Contact a USA lawyer. Sometimes your lawyer will prepare a reply for you to make. The fact that the plaintiff may have filed a complaint with a particular American court does not mean the court has obtained jurisdiction over you. The plaintiff must effect a legally valid service of process against you and file proof of that with the court.



Intellectual Property in the USA

Intellectual property

Patents

A USA patent confers an exclusive right upon its owner to use the patented invention preventing anyone else from using the invention for the patent's duration. The invention must be a new, novel and non-obvious product (manufactured article), process, machine, chemical composition, or a distinct, new variety of plant. The patent's term is generally 20 years from the USA application filing date or, in special cases, from the filing date of an earlier related USA application. A design patent, valid for 14 years, applies to a new, non-obvious ornamental design of a manufactured article, not its structural or functional features. A foreign (non-US) patent does not protect the patented invention in the USA or in any country other than the one that granted it. Under USA law, a patentee that makes or sells patented articles, or its licensee, must mark the articles with the word 'Patent' and the patent number. Not doing that precludes the patentee or its licensee from recovering damages from an infringer unless the infringer was duly notified of the infringement and continued to infringe after the notice.

Some types of computer software can qualify for USA patent protection, and where that applies, the protection will usually be stronger than by copyright. You may wish to explore that potential option.

Trademarks

A USA federal trademark registration is an exclusive right of the owner to use a specific word or words, name, design or logo, or other designation of source of origin, or combination thereof, in connection with specified goods and/or services. It is valid for 10 years, and is renewable if certain requirements are met. Trademark rights can be used to prevent others from using a confusingly similar mark. Certain USA trademark rights may accrue to the holder of an 'unregistered mark' used commercially in the USA (a 'common law trademark') but they are normally less extensive and more tenuous than those conferred by a USA federal trademark registration. A federal trademark applies throughout the USA. USA states have their own separate trademark system, thus, a trademark can, upon meeting the requirements, be registered in one or more particular states. It is possible for the owner to register to obtain both a USA federal and one or more state registrations for the same mark. A foreign registered trademark does not confer trademark protection upon its owner in the USA or in any other country than the one in which it is registered.

Domain names

A registered domain name confers upon the registrant the exclusive right to use it for its website and on the Internet. It is not to be confused with a registered USA federal or state trademark. It is possible that use of your domain name may infringe the trademark rights of a third party; or that a third party's domain name use can infringe your trademark rights. Also, often there are a number of domain names that are very similar or even identical, except for its TLD (.com, .org, .biz, .edu etc), so that the scope of domain name exclusivity is narrowly circumscribed. There are a great number of domain name registrars accredited by The Internet Corporation for Assigned Names and Numbers (ICANN or InterNIC). It is possible to lose one's domain name to another holding a federally registered trademark or superior rights to the mark. Holding a federally registered USA trademark for the same name as your domain name is typically the best solution for the UK company or business person.

Copyrights

A copyright under USA law provides protection to an author of an original, copyrightable work of authorship, including literary, dramatic, musical, artistic, architectural, and a broad range of other works, both published and unpublished. The work must be fixed in a tangible medium of expression. It confers on the owner the exclusive right to reproduce the work, to prepare derivative works, to distribute copies of the work, and to perform it and display it publicly. Copyright protects the work's form of expression rather than the subject matter. For example, an original description of a machine could be copyrighted, but that would only prevent others from copying that description; it would not preclude others from writing their own description or making or using the machine. Under USA law, a copyright's duration depends on when the work was created, published and /or registered with the USA Copyright Office; whether it was created by an individual, more than one individual, or an employee or at the direction of another person or company; and if the work was created before or after January 1, 1978. While copyright arises upon creation of the original work (when it is fixed in a copy for the first time), filing with the USA Copyright Office is necessary to properly protect the owner.

'Trade secrets'

These are well protected in the USA. A 'trade secret' can be any type of information of an industrial, technical or commercial nature, known to one or a limited number of enterprises or interested persons, which has some value to the holder and which the holder treats as being secret or proprietary. Examples of trade secrets include: a process, method, formula, device, manufacturing procedure, method of construction, or a customer list. If 'know-how' (which has no precise, legal definition) is secret, it can be protected in the USA as a trade secret.



'Right of Publicity' and 'Right of Privacy'

There are certain other rights that might be considered to fall within the general scope of intellectual property, for example, rights of publicity and rights of privacy. Generally speaking, the former protects an individual's right against unauthorised use of his persona, personal image, personal characteristics etc, and the latter against unauthorised invasions of his or her right of privacy. These are matters of USA state law, and the extent to which one or the other or both are recognised varies from state to state.

The trademark application process in the USA

The process of getting a trademark registered in the USA can be complicated and time consuming. First, your lawyer has to do a 'trademark search' to determine whether there are existing third party registrations, pending applications, common law marks etc. that might present a problem. This can be done in two ways: ordering from a search company and analysing a formal search report; or by searching the USA Patent & Trademark Office (USPTO) website. The former is the more comprehensive way. Assuming that the search reveals no significant problems, and that the decision is made to apply for trademark protection, prepare and file an application.

The United States and the UK are both parties to an international trademark protocol. If the UK party has a UK or European trademark registration for the mark it wishes to protect in the USA, covering the same general types of goods and services it wishes to protect there, it can use that registration to generate an 'international application' and file that in the USA. Generally speaking, that is not advisable, at least if the international applications are not reviewed and sanitised by USA counsel before filing. The typical UK registration will set forth the goods and services in a very broad way, and the USPTO examiner will not accept that. The USPTO requires that the goods and services be very specifically described. Also, sometimes, goods and services that appear in a foreign registration under one class, will not correspond to the same class in the USA. The result can be a tedious and expensive procedure to adapt the goods and services description to one that the USPTO examiner will accept. Additionally, it typically takes longer for an international application to reach the USPTO and an examiner. Either have your USA lawyer prepare the USA trademark application (not using an international application), or if the decision is to proceed with an international application, then have your USA lawyer review and adapt it before it is filed with the USPTO.

The USA is a 'use country.' A USA trademark registration will not be granted unless and until the applicant states and presents evidence to the USPTO that it has used the mark commercially in USA interstate or international commerce, for at least one item shown in the particular trademark class concerned. The USA application can, if that is the case, be based on such 'actual use' having been made. For the class(es) regarding which the applicant has not yet made actual use, it may be based on 'future intent to use,' and at a later point in the process, the applicant will have to file a declaration and evidence of the 'actual use' to obtain a registration for that class. The international application mentioned above offers the advantage that one does not have to claim and demonstrate 'actual use' at any point in order to obtain a USA registration.

Trademark work is among the very first things a UK business entering the USA should undertake. Likewise for the patent and copyright work.

Filing with the USA copyright office (copyright applications)

While nearly universally copyright arises on creation of a copyrightable work, the USA requires registration of the work with the USA Copyright Office to obtain the full scope of protection and legal remedies against infringers. Among other benefits, registration:

- Is necessary before a copyright infringement suit can be filed in a USA court for works of USA origin.
- If done within three months after publication of the work or before an infringement of the work, enables the copyright owner to claim 'statutory damages' and an award of its attorney fees in court actions. Otherwise, only an award of actual damages and profits is available to the owner.
- Allows the copyright owner to record that document with the USA Customs Service to protect against the importation of infringing copies of the work. Among the types of items that can typically be protected and filed : (i) computer software; (ii) designs of a machine, product, or the like; (iii) publications and manuals; and (iv) your website text. A proper copyright notice should be put on your copyrighted items. If you have copyrightable items, you should have your USA lawyer file applications for them with the USA Copyright Office. This should be a priority item.

Among the types of items that can typically be protected and filed : (i) computer software; (ii) designs of a machine, product, or the like; (iii) publications and manuals; and (iv) your website text. A proper copyright notice should be put on your copyrighted items. If you have copyrightable items, you should have your USA lawyer file applications for them with the USA Copyright Office. This should be a priority item.



Licensing and technology transfer to and within the USA

The meaning, pros and cons of licensing

In practical, non-legal terms, licensing means granting someone the right to use, normally for commercial purposes, certain intellectual property. A non-exhaustive list of the types of intellectual property that can be licensed are: patents and patent applications, trademarks (whether or not registered) and trademark applications, Internet domain names, copyrights (including to computer software), trade secrets, and know-how. Except for computer software, the license will normally permit the licensee to produce or manufacture or have produced or manufactured (in whole or in part) particular products or components; to assemble them (where applicable); and to sell them in an agreed territory. In most instances, the licensee is granted the agreed rights for a specified time period, or the agreement will have no fixed term but can be terminated by the licensor (or both parties) for specified causes or without cause. Typically, the licensee will agree to make certain payments for the rights granted (and possibly for services the licensor will render).

Protecting your intellectual property

You should register, file, or at least apply for protection (e.g., copyright, trademark, patent, etc.) for your intellectual property in the USA. This should be done prior to negotiating the license agreement. You are likely to negotiate a better deal in that posture. Trade secrets and know-how cannot be filed or registered with any governmental agency.

'Due diligence' review of licensee candidates

You should conduct careful due diligence review of each licensee candidate. This should include reviewing the prospect's financial and legal condition, its capability to produce the licensed products, and its ability to market them expeditiously in the contractual territory. Your USA lawyer can assist in obtaining important information regarding licensee candidates and evaluating them.

License agreements for the USA market

For the licensor's protection and benefit, there is no substitute for a carefully drafted license agreement prepared by an American lawyer experienced in that field. Most properly prepared license agreements for the USA market will be detailed, complicated, lengthy, and not easy to negotiate.

The NB-SOT

As with any other contract, it is often useful not to start with a draft license agreement, but with a nonbinding summary of key terms (NB-SOT) as the first negotiation document. Your USA lawyer, with your input, will bring an NB-SOT to the point where both of you are satisfied with it and are ready to submit it to the licensee.

The drafting initiative

You should do your utmost to seize and retain the drafting initiative both for NB-SOTs and contract drafts. Losing the drafting initiative can make it difficult to conclude a binding license agreement on terms that are advantageous to you.

Competitive restrictions on a licensee: potential illegal or dangerous terms

Certain competitive restrictions imposed on a licensee and certain other contractual terms may: (1) Violate the USA federal or state antitrust or analogous laws and/or (2) If you are licensing USA patent rights, be a patent misuse and put your patent at risk. Whether there is an actual violation or misuse, a poorly drafted or inappropriate restriction can lead a licensee to bring or threaten to bring a legal claim or counterclaim against

you, typically to retaliate when you sue or try to terminate the license. A party who successfully pursues an antitrust claim can collect treble-damages (actual damages times three). Also, the court can award the winner its legal fees and costs. Experienced USA counsel will know how to draft the agreement to minimise this type of risk.

Exclusive licenses and non-exclusive licenses

Nothing prohibits an exclusive license from covering all of the USA. There are a few exceptions, but this general rule will apply to most UK companies. Sales by a licensee outside of its territory can lead to problems that, while thorny, can be solved. The granting of one or more non-exclusive licenses will not normally pose any problem under USA law.

Clauses protecting licensed trademarks

Under USA law, an agreement licensing or permitting a third party to use a trademark should contain certain clauses designed to protect the licensor's rights in the mark. Without such clauses, the licensor's trademark may be jeopardised.

Royalties, up-front payments, etc

With few exceptions, the licensor and licensee can freely agree on the royalties, including where applicable, an up-front payment (payment upon the license agreement being signed or very shortly thereafter). The same applies for minimum royalties, which the licensor will often want.

Trade secret and know-how licensing and protection

These can be licensed. With a clear contract, even technology or knowledge that is not secret at the time of contracting, or ceases to be, can be the subject to royalty or similar payments. With concise drafting the licensee will not usually be able to convince a court that it can stop paying because the licensed technology or data is in the public domain or is known to all competitors. As in the UK, USA courts grant strong protection to trade secrets and proprietary data. In appropriate circumstances, USA courts will issue injunctions to protect trade secrets and other proprietary information.



Sale of intellectual property

Instead of licensing the right to use for a limited time period, it is possible to sell intellectual property. In the case of trade secrets and know-how, the sale can be confined to the rights for a particular country or territory. The tax aspects of intellectual property sales should be examined carefully.

Choice of tribunal and choice of law

These points are not just legal points for the lawyers and of secondary importance to the economics of the license deal. They are very often critical business-legal points. What the agreement states on these points can be crucial for the licensor if it wishes to consider attacking, for example, if the licensee does not pay the agreed royalties, abuses or steals the licensor's intellectual property or engages in some other wrongdoing. When the licensor may be defending a claim by the licensee, what tribunal, located where, will decide the claim under which law is of paramount importance.

Tax aspects

The UK licensor should, with the aid of experts, examine in advance the tax ramifications of a particular license or other intellectual property deal. Among other sources, the UK-USA income tax convention should be consulted. A UK party should do everything possible to avoid having what that tax convention defines as a 'permanent establishment' in the USA or a 'fixed base' used for the rendering of services in the USA. USA state and local taxes, such as sales and use taxes, may also be relevant.

Computer software licenses and authorised reseller agreements

A great many of the points made in this section apply, either directly or with some adaptation, to computer software licenses and authorised software reseller agreements.

Here are a few points pertinent to such agreements for the USA.

1. USA franchise laws: There are applicable federal regulations, as well as USA state legislation governing 'franchises.' Frequently, a software license even more so, a software reseller's agreement can constitute a 'franchise' for purposes under the federal and certain state franchise legislation. The consequences thereof can be negative for the licensor. Many of the franchise statutes define quite broadly what a 'franchise' is.
2. Improper termination by licensor: Even if the software license or reseller's agreement does not constitute a 'franchise' under state franchise legislation, some USA states will require 'good cause' for franchiser termination; and/or will require a sufficient notice period to the licensee especially where the termination is without cause.
3. Poorly drafted software licenses and reseller agreements: It occurs rather frequently that software licenses and authorised reseller agreements drafted by foreign (non-US) companies and their local advisers are not suitable for the USA or risk violating USA law. Often they also do not offer sufficient protection to the licensor. Preparing the agreements properly for the USA market may involve some costs to the licensor (including legal research by USA counsel), but the risk of not doing so will normally outweigh those costs.

Policing the agreement

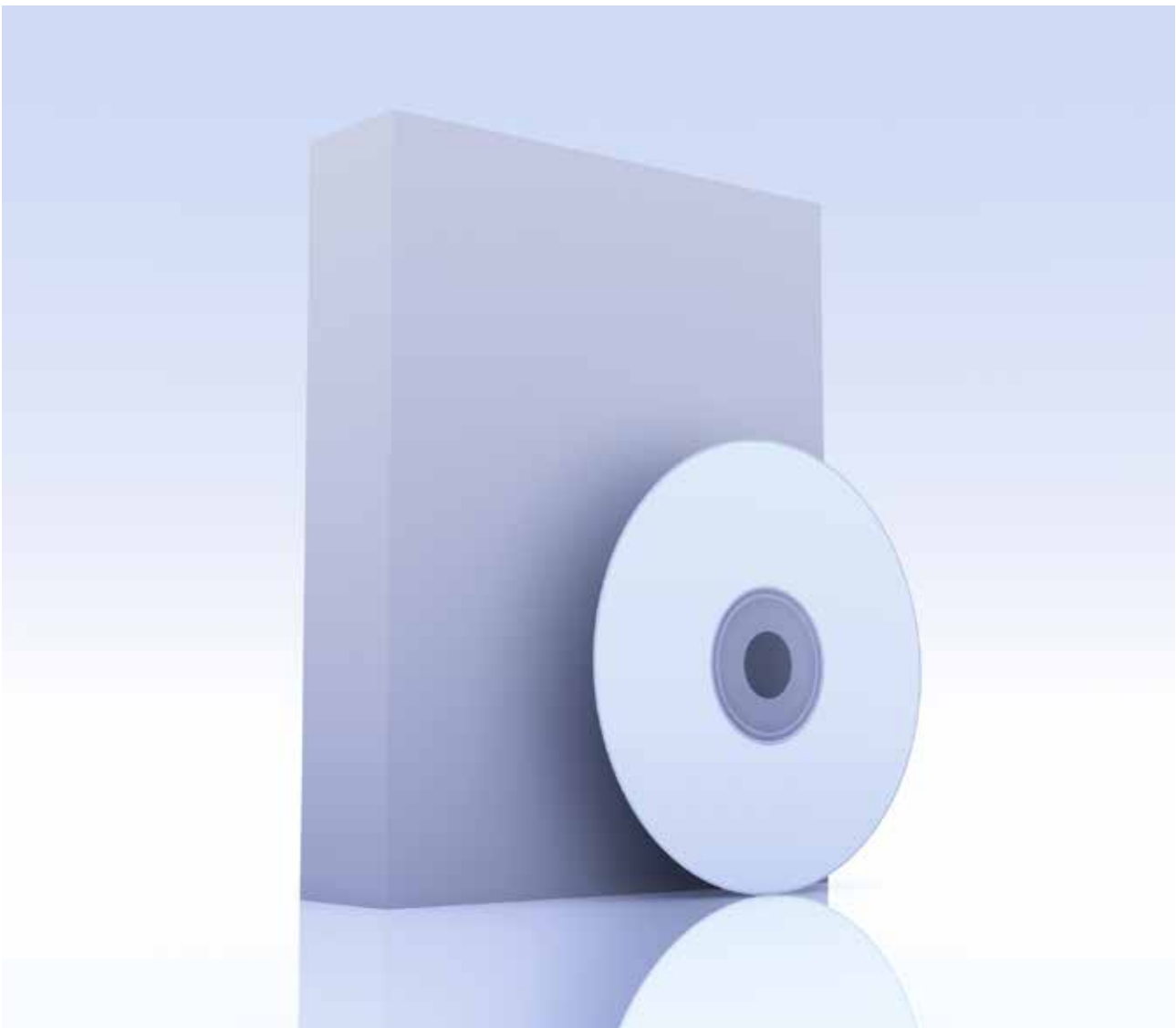
Often, the licensor does not require the licensee or reseller to comply with certain of its contractual obligations, or the licensor itself does not comply with certain of its own obligations. When the time comes that the licensor wants to terminate the agreement, such non-compliance can pose a potential problem or obstacle.

Trademark protection

Sometimes the licensor does not register its trademark(s) in the USA. The licensee can become aware of this and decide to register one or more of those marks in its own name, without informing the licensor. The licensee then has an important bargaining chip to ward off a potential licensor termination, or to obtain better contract terms, or a payout on licensor's termination, for the licensor to get back its trademark rights. The licensor might be able to challenge, at the trademark office level or in court, the licensee's application or registration, but may be reluctant due to the costs.

UK style license, reseller and other computer software agreements

UK software agreements should not be used in the USA, at least not without adaptation. Many legal and practical business points of substance contained in UK agreements of this type will not be suitable for the USA market.



Internet business:

An overview of USA cyberlaw

You are strongly advised to begin by perusing the sections on Intellectual Property and Licensing & Technology Transfer. They deal with intellectual property in the USA, licensing in general, licensing of computer software, and related topics.

Protecting your own intellectual property used in cyberspace

This will typically be your domain name(s), trademark(s), copyrighted items, and computer software. On your website, you should insert the proper legends to indicate that you are the owner of the particular intellectual property items (e.g., patents, trademarks and copyrights). If a third party infringes on your copyright, you should notify the site owner in writing, demanding removal of the infringing items pursuant to the 1998 USA Digital Millennium Copyright Act (DMCA).

Not infringing third party intellectual property rights

You should take care not to infringe anyone else's intellectual property or similar rights, by use in cyberspace. For example, using without permission another's trademark or copyrighted item on the internet is usually not a good idea and it can, depending on the circumstances, result in an infringement under USA law. The use of a person's name or likeness without permission (whether or not that person is a celebrity) can infringe his/her 'right of publicity' and/or 'right of privacy' under USA law.

Certain other cyberspace illegalities

Many actions on the Internet are subject to conventional American legislation and legal principals, both with respect to transactions conducted on the Internet and images and text posted there.

Privacy policy and terms of use on one's own website and other website concerns

Care should be taken to see to it that (i) your website Privacy Policy and Terms of Use comply with applicable American law; (ii) both accomplish the particular purposes and goals of the website owner; (iii) the rest of the site otherwise is legally in order; and (iv) the language used in the site is good, American English. Terms of Use are similar to pre-printed 'General Terms of Sale' used off-line. If you are selling goods or services via your website, your Terms of Use will be a contract documenting the transaction. You will normally want them to contain certain provisions that properly protect you.



USA business-related Visas for UK Nationals

Your USA visa requirements should be part of the planning process in structuring your USA operation.

USA visas that may be needed by your key employees can affect the structure of the USA operation you are planning or already have in place. A non-USA national cannot be paid from a USA source for services rendered unless he/she has a USA visa so permitting.

Temporary USA visas and the permanent residence visa (Green Card)

There are several different types of 'temporary' visas available to UK residents meeting the corresponding requirements, among them (for example only): B-1 Visitors Visa (and the somewhat similar B-2 Tourist Visa); L-1 Intra-Company Transferee Visa; H-1, H-2 or H-3 Visa; E-1 Treaty Trader Visa; E-2 Treaty Investor Visa; O-1 and O-1(a) Visas for athletes and entertainers; 'A' Visa for diplomats. The permanent residence visa or 'green card' is a permanent or 'immigrant' visa, whereas the above listed ones are temporary. Below is a brief summary of most of the above visa types. In any particular situation, the details and specifics of both that situation and the visa type(s) being considered must be closely examined to determine which is appropriate.

The B-1

With a B-1, a non-USA national cannot work for or be paid by any USA source. However, he/she can negotiate contracts, consult with business associates, litigate or arbitrate, participate in conventions and seminars, do research, and engage in certain other permitted activities in the United States. With a B-1 Visa, each USA stay will be limited to a short period (six months is the maximum but may not necessarily be granted for a particular stay).

L-1

This visa is for a foreign (e.g., UK national) 'executive', 'manager' or 'person of specialised knowledge' (all defined terms in the USA immigration law) who has worked for an enterprise outside the USA for at least one year within the past three years in one of those capacities and is being transferred to that enterprise's USA subsidiary, branch office or affiliate temporarily in a comparable capacity. With an L-1, the holder can be paid for his/her services by the USA sub, branch or affiliate. Extensive documentation is usually required for L-1 applications. The person seeking an L-1 does not have to be a national of the same country as the country in which the foreign enterprise is formed. Thus, the person can be a Swedish, Japanese, etc. national and the foreign enterprise, for example, one formed in the UK. The L-1 is tied to the particular USA employer (subsidiary, branch or affiliate of the foreign, e.g., UK, company), meaning that the holder cannot work for another USA employer. By filing a special application, the spouse of an L-1 visa holder can receive a visa permitting the spouse to work in the USA.

The 'H' category visas: the H-1B

Among the requirements, the applicant must have professional level qualifications for a professional level position in the USA. This means that the position typically requires a baccalaureate (university) degree or an equivalent combination of education and experience. Applying for and receiving labour certification from the USA Department of Labour is also required for the H-1B. That means convincing the Department that the USA employer will be paying the applicant a fair wage, that his/her employment will not displace other USA workers, and that there is no strike, lockout or work stoppage in that occupation. The H-1B visa is tied to the particular employer seeking the visa for the individual; the visa holder cannot work for another USA employer. Members of the immediate family of the visa holder (spouse and children under 21 years of age) receive H-4 visas but cannot work in the USA.

The H-2

The H-2 is for non-USA national workers or technicians needed to perform specific tasks in the States. One example might be to install and teach other workers of a USA company how to operate certain machinery. That USA company may pay the H-2 holder for his/her services. As with the H-1, labour certification is required.

The H-3

The H-3 is for an alien coming to the USA to receiving training from a USA employer. Stringent requirements must be met.

E-1 (Treaty Trader)

The E-1 is predicated on a UK company having a USA subsidiary, affiliate or branch USA operation). The UK person seeking an E-1 must show that he/she will hold an executive or supervisory position in the USA operation and has the requisite skill for the post. At least 50 percent of the USA operation's total volume of trade, which must be 'substantial,' must be with the UK. UK nationals must own at least 50 percent of the UK company (and, if the 50 percent or more ownership is through one or more legal entities, one looks to the nationality of its or their owners). Generally, the USA operation will have to have been in business for about a year. The E-1 holder can be paid for his/her services from the USA operation's payroll.

E-2 (Treaty Investor)

The key for the E-2 is the amount of 'capital' the UK company or individual has invested in its USA operation. The applicant can be, but need not be, an owner of the UK company, but he/she must be employed by it. He/she must be a manager or highly trained or specially qualified employee who is needed to develop and direct the USA operation. As with the E-1 (Treaty Trader) visa, UK nationals must own at least 50 percent of the UK company.

Permanent resident visa (Green Card)

A UK national may not be able to obtain a green card straight away. He/she may have to apply for and obtain, as a first step, one of the types of temporary visas described above. Later (but before the temporary visa expires), it may be possible to apply for and obtain a green card. Once a person has a green card, the holder must meet certain criteria (e.g., presence in the USA for minimum periods), failing which it can be revoked. A green card holder becomes a permanent USA resident for American income tax purposes. This causes the holder to be taxable in the USA on his/her worldwide income.

Permanent resident visa based on a substantial USA investment (visa EB-5)

This is a special type of permanent resident visa. It is for all foreign nationals that make a major investment in a 'new USA enterprise'. The USA enterprise can be a newly created one, the expansion of an existing one, or one resulting from the purchase of a USA business and its restructuring or reorganisation. The applicant must invest at least US\$ 1 million in the new USA enterprise (US\$500,000 in certain exceptional cases). He/she must show a benefit to the USA economy and satisfy certain other requirements and criteria regarding employment, new job creation and certain other areas.

Litigation and arbitration

Americans' proclivity to start lawsuits or threaten to do so

Americans are, in general, inclined to start litigation or to threaten it – probably more so than the British. It is not just American lawyers that exhibit this tendency, but also American business people. Americans often sue or threaten suit as a strategic device to obtain some sort of amicable settlement (e.g., a money payment, a new contract, an agreement by the other side to abandon its claim). The great majority of commercial litigation started is never decided by the court or an arbitration panel. It is settled by the parties after the legal proceeding has begun; sometimes, the threat of legal action is sufficient to bring about a settlement.

Litigation in USA courts

Commercial lawsuits in USA courts are typically expensive and time consuming. It is not a swift method for resolving disputes. Unless there is a contract between the disputing parties stating that your legal fees connected with the litigation can be recovered, USA law generally does not permit this. The lawyers for both sides can use various procedures to delay the day of final decision of the case by the USA court. A good example is 'pre-trial discovery mechanisms.' This discovery can produce high legal fees for both sides, and can be used as a delaying tactic. It is often not feasible to prosecute commercial lawsuits in the USA where the plaintiff is claiming less than around \$100,000 in damages. This is because the costs, particularly legal fees, will normally be too high in comparison with the relatively small amount of damages. If, however, the parties have agreed to arbitrate their disputes and claims, and the arbitration clause is properly drafted, then it might be cost effective to sue in arbitration for the small (or larger) claims.

General suggestions

At the time of contracting with a USA party, you should keep the following in mind:

- If possible, stay out of the USA courts
- Provide for arbitration of all claims and disputes in its contracts with USA parties (including in your General Terms of Sale), typically in the USA
- Be sure that contracts with USA parties are drafted, or at the least carefully reviewed, by USA legal counsel with experience in the area



The Arbitration clause: Applicable Law

General considerations

Although arbitration has its pros and cons, it is usually the best solution for transactions with the USA and with USA parties. In the USA, the most well known and used arbitral institution is the American Arbitration Association (AAA) with its headquarters in New York City. It is capable of handling arbitration anywhere within the USA and anywhere in the world. The AAA's International Arbitration Rules and its Commercial Arbitration Rules are frequently used in commercial and international commercial disputes.

A properly drafted arbitration clause will usually be the best solution for a UK party. From the offensive viewpoint (claims of the UK side against a USA party) a USA arbitration will normally be quicker and less costly than a lawsuit in a USA court. That also applies for smaller claim amounts. In a USA arbitration, the permissible scope of 'discovery' (compared with pre-trial discovery in a USA court) is reduced. From a defensive standpoint (the USA side has claims/counterclaims against the UK party), arbitrators are often inclined to award lesser amounts of monetary damages than a USA court, particularly if a jury is deciding.

Most USA parties will not agree to arbitrate disputes and claims in the UK or anywhere other than the USA, and will not agree to any law other than the law of a USA state being applicable to disputes and claims. They will agree to arbitrate disputes in a USA city according to the AAA's International or Commercial Arbitration Rules.

The USA city in which the arbitration proceedings will occur does not have to be the city where the USA side has its headquarters or place of business. In fact, from the UK party's standpoint, that should be avoided. Where possible, the arbitration clause should provide for arbitration in a USA city not too close to the American side's location. Quite often, the parties in their contract stipulate New York City as the place of arbitration and provide for the application of New York State law to their contract (even though New York State may not have a material connection with the transactions).

Other important considerations regarding arbitration clauses

- How many arbitrators should decide the disputes/claims, one or three?
- How should the arbitrators' fees and other costs of arbitration be divided by the parties?
- Who should the arbitrator(s) be and how should they be chosen?

The advantages of having only one arbitrator include lower costs (one pays the arbitrators) and the fact that it is normally easier to get things done. The American Arbitration Association (AAA) employs a 'list procedure' to select the arbitrator(s) if the parties have not agreed on the arbitrator(s) or another method of selecting them. The AAA arbitrator list normally contains qualified persons, and the list procedure itself works reasonably well. The AAA has arbitrators available in many, if not most, countries of the world, including the UK.

USA product approvals

Some products cannot be brought into the USA and sold without the approval of a particular USA federal or state government agency. Be sure to check what requirements apply to your product. If there is any reasonable doubt whether a prior USA government approval, registration or similar process may apply to your product, or what that process is, you should engage competent USA counsel to deal with those issues.

Due diligence on your prospective USA business partner

You need to investigate your potential business partners thoroughly (due diligence) before agreeing to or starting any business relationship. Your USA lawyer will usually be able to obtain valuable information about a prospective candidate. Don't do business with anyone without first carefully checking them out.

Letting someone other than your most trusted employee handle intellectual property filings

Some foreign companies permit their USA distributor, agent, joint venture partner, a friend, or someone other than one of the company's most trusted employees handle the filing of the company's intellectual property (patents, trademarks, copyrights, etc.) applications. The result can range from error to outright fraud. On occasion, the person entrusted will file the application showing himself or his company as the owner-applicant, rather than the foreign company. These items are at the heart of your business. Only a very trustworthy representative of your firm should handle these matters, working with competent USA counsel.

Intellectual property filings in the USA are a priority item

One of the very first things a foreign company should do is file applications in the USA for patent, trademark, copyright, and other intellectual property protection. You should have these applications in place before you start doing business in the USA. This is true for the trademarks, brand and trade names, slogans, logos, and symbols that you plan to use there. The process will involve first checking whether some third party has already registered or applied for, or is using, that mark, name, etc. or one confusingly similar. You should not use and might be sued for using a mark, name, slogan, logo or symbol that infringes a third party's rights. Putting your intellectual property situation in order should be a priority item.

Don't let anyone but your trusted employee handle setting up your USA company, working with your USA lawyer (and other experts)

Be sure you control the entire process of forming the USA entity. Make sure your agreements and 'ground rules' are in writing, prepared by your USA counsel.

Using service companies to form your own USA company

Advertisements circulate in many countries offering to form a USA company for a very low price. You should not hire any such company.

Well-drafted contracts for the USA market are a must

If you want to optimise your chances of getting paid, succeeding commercially, protecting your intellectual property, and staying out of legal, tax and other trouble, you will need well-drafted contracts for the USA market prepared by competent USA experts.

Using properly drafted general terms of sale (GTS) tailored to the USA market

They offer very clear and important advantages to UK exporters, including for their USA subsidiaries and affiliates

Be careful when terminating USA distributors, franchisees, sales agents and licensees

Proceed carefully, with competent advice, before you attempt to terminate. Terminated distributors, franchisees, sales agents and licensees frequently sue based on alleged improper termination or raise improper termination counterclaims when suppliers, franchisers, principals, or licensors sue them (e.g., to recover moneys due). Make sure any steps you take to terminate (or not renew) are done properly. If the distributorship, franchise, agency or license agreement is properly drafted by experienced counsel, the risk of successful improper termination claims, or that they will be made at all, will be substantially diminished.

Your USA business lawyer should be part of your negotiating team

Experienced USA business lawyers absorb quickly the key features of your business and that of your potential contract partner. They will be able to guide and advise you regarding your contemplated business transaction. They are accustomed to negotiating a variety of business arrangements. Since, in the final analysis, they will be the ones preparing the contract documents, their participation in the negotiations will facilitate their task and typically result in the best work product.



Other sources of information

UK Trade & Investment

UK Trade & Investment is the Government Department that helps UK-based companies succeed in the global economy. We also help overseas companies bring their high-quality investment to the UK's dynamic economy, acknowledged as Europe's best place from which to succeed in global business. UK Trade & Investment offers expertise and contacts through its extensive network of specialists in the UK, and in British embassies and other diplomatic offices around the world. We provide companies with the tools they require to be competitive on the world stage.

For information on the services available to you, or to locate your nearest International Trade Team, please visit our website: www.ukti.gov.uk

UK Trade & Investment has teams located in the British Embassy in Washington DC and eight British Consulates around the United States. For more information on our offices, please visit: www.ukinusa.fco.gov.uk

US States

If you are looking for advice on establishing a presence in the United States, Select USA is a programme under the USA Department of Commerce that explains the benefits and puts you in touch with relevant USA Economic Development Agency contacts: selectusa.commerce.gov

In addition, many USA States maintain offices in the UK or elsewhere in Europe. The USA state governments are a good source of advice and information about business conditions in their states. Please visit the Council of the American States in Europe website for more information: www.case-europe.com

US Lawyers

A list of American attorneys based in the UK is available on the USA Embassy website: www.usembassy.org.uk

The American Bar Association website provides extensive lists of law firms across the United States. You can search by geography, area of practice or just browse the list of law firms to search for ABA-certified lawyers by state and by specialty: apps.americanbar.org/legalservices/lris/directory

Select USA Government Resources

All USA federal agencies

www.usa.gov/directory/federal/index.shtml

Alcohol and Tobacco Tax and Trade Bureau (TTB)

www.ttb.gov/index.shtml

Regulates Alcohol & Tobacco

American Embassy, London

london.usembassy.gov

Represents USA diplomatic interests abroad

Consumer Product Safety Commission (CPSC)

www.cpsc.gov

Regulates Consumer Products

Customs & Border Protection (CBP)

www.cbp.gov

Regulates and facilitates international trade, collecting import duties, and enforcing USA regulations, including trade, customs and immigration

Federal Trade Commission (FTC)

www.ftc.gov

Presides over Dissatisfaction with Business Practices

FedWorld

www.fedworld.gov

Online locator service for a comprehensive inventory of information disseminated by the USA Federal Government

Food & Drug Administration (FDA)

www.fda.gov

Regulates Cosmetics & Drugs, Food, Medical Devices, Veterinary Medicines & Electronic Product Radiation

Internal Revenue Service (IRS)

www.irs.gov

Responsible for tax collection and tax law enforcement

National Institute of Standards and Technology (NIST)

www.nist.gov

Promotes USA innovation and industrial competitiveness by advancing measurement science, standards, and technology in ways that enhance economic security and improve quality of life

Occupational Safety & Health Administration (OSHA)

www.osha.gov

Assures safe and healthful working conditions by setting and enforcing standards and by providing training, outreach, education and assistance

Small Business Administration (SBA)

www.sba.gov

Provides support to entrepreneurs and small businesses

United States International Trade Commission (USITC)

www.usitc.gov

Provides international trade statistics and the Harmonised Tariff Schedule

United States Patent and Trademark Office (USPTO)

www.uspto.gov

Issues patents to inventors and businesses for their inventions, and trademark registration for product and intellectual property identification

UK Export and International Business Development Resources

British American Business, Inc.

www.babinc.org

Leading transatlantic business organization, dedicated to helping companies connect and build their business on both sides of the Atlantic

British Standards Institute

www.bsigroup.com/en

Multinational business services provider that advises on how to meet technical standards and approvals procedures

Business Link

www.businesslink.gov.uk

UK government's online resource for businesses, providing guidance on regulations and to access government services.

Department for Business Innovation and Skills (BIS)

www.bis.gov.uk

UK department that supports sustained growth and higher skills across the economy

Export Control Organisation

www.businesslink.gov.uk/exportcontrol

Helps businesses regarding export procedures and documentation.

Export for Growth Guide

(Click [here](#) for PDF Guide)

SME export guide produced by Forum of Private Business in conjunction with UK Trade & Investment

HM Revenue & Customs

www.hmrc.gov.uk

UK department responsible for the collection of taxes

UK Export Finance

www.ukexportfinance.gov.uk

Export credit agency that provide assistance with credit insurance and financing products

Company Information

Better Business Bureau

www.bbb.org

Dun and Bradstreet

www.dnb.com

Oanda

www.oanda.com

Foreign exchange rates, current and historical.

Nasdaq

www.nasdaq.com

US Securities and Exchange Commission

www.sec.gov

Forbes Magazine

www.forbes.com/forbes

US News & World Report

www.usnews.com

The logo consists of a red arrow pointing to the right, containing the text "Solutions for Business" in white. Below the arrow is a black trapezoidal shape containing the text "Funded by UK Government" in white, rotated slightly.

Solutions for Business

Funded by
UK Government

UK Trade & Investment is responsible for the delivery of the Solutions for Business product “Helping Your Business Grow Internationally.” These “solutions” are available to qualifying businesses, and cover everything from investment and grants through to specialist advice, collaborations and partnerships.

UK Trade & Investment is the Government Department that helps UK-based companies succeed in the global economy. We also help overseas companies bring their high-quality investment to the UK’s dynamic economy acknowledged as Europe’s best place from which to succeed in global business.

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