

CASE STUDY

SETTING UP A UNITED STATES BUSINESS

**Presentation to
NOF Energy**

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I. Introduction – UK Consulting Company History

1. Established UK company with foreign subsidiaries. Core business is sale of consulting services to E&P companies and proprietary software.
2. Sent UK Director / Shareholder to establish US office in Houston.
3. Prepared extensive market study; conservative budget prior to opening US office.

II. Key Factors to Success

1. Trips to US to develop business plan.
2. Transfer of UK Director with financial stake in US Company.
3. Identified target market prior to entry and preexisting US clients.
4. Established legal, accounting, banking, and insurance relationships.

II. Key Factors to Success (Cont.)

5. Developed understanding of US tax consequences for both US Company and UK Director.
6. Development of US legal systems.
7. Developed US tax and accounting systems.

III. Observations, Mistakes And Lessons Learned

1. Initial market development time greater than anticipated.
2. US Company provided increasing number of leads for worldwide projects.
3. Adverse effects of initial asset acquisition of related, but non-core business.

III. Observations, Mistakes And Lessons Learned (Cont.)

4. Insights from initial asset provided significant benefits of subsequent asset acquisition of known competitor in core business.
5. Decision to grow through acquisition of competitor or competitors to increase global competitiveness versus internal growth.

IV. Initial Considerations

1. Market Research, Business Plan and Budget.
2. Assemble team of advisors – legal, accounting, financial/ bankers and insurance.
3. Start-up or Purchase of Existing Business – asset or stock purchase and opportunities in specialized fields such as energy.
4. Operating in a down business environment

V. Finance Issues

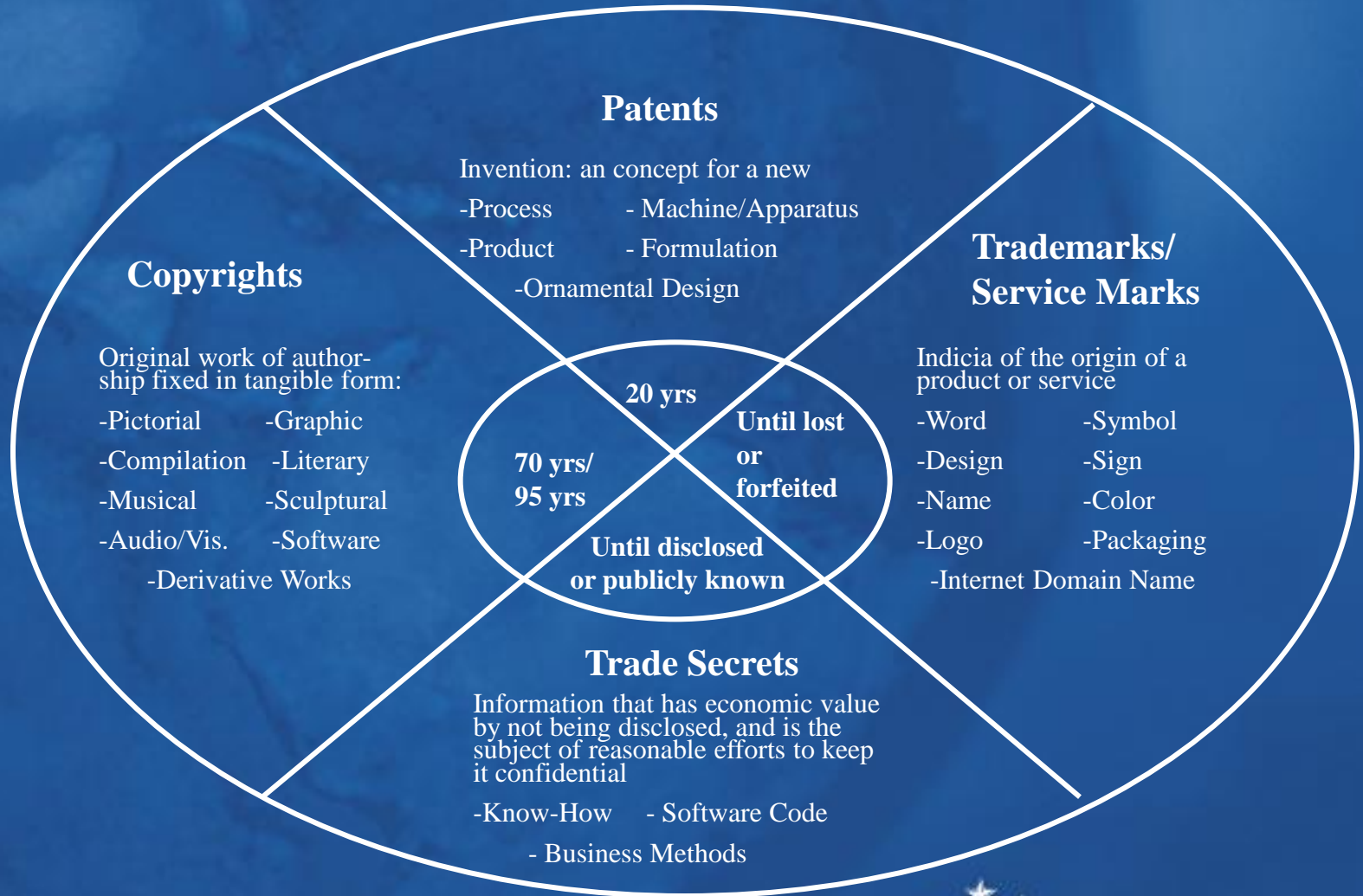
1. UK parent company versus outside financing, e.g., US banks.
2. Establishing credit for the US Company and UK employees transferred to the US.
3. Insurance.
4. FATCA issue affecting jurisdiction of parent company.

VI. Legal Issues Prior to Entry to US Market

1. Intellectual Property.

- Valuable asset for a proposed US business
- Keys to maximizing value of IP
 - investigate the availability of protection for these assets
 - ensure that the assets can be utilized in the US without encroaching on the rights of other parties

Intellectual Property (Cont.)



Intellectual Property (Cont.)

- Trademarks
 - Conduct Name Availability Search Early
 - Use Selection Criteria (Strong vs. Weak)
 - Avoid potential confusion (Sight & Sound)
 - First-to-Use (US) vs. First-to-File
 - Common Law Rights vs. Federal Registration
 - Effect of Foreign Registration/Priority
 - ® Only if US Federal Registration
 - Pitfall: Don't rely on Other Authorizations or Domain Registration

Intellectual Property (Cont.)

- Patents
 - Patentable Subject Matter
 - Process
 - Machine
 - Method of Manufacture (software, business methods, surgical procedures)
 - Composition of Matter
 - Patentability Search & Right-to Use Search

Intellectual Property (Cont.)

- Patents (cont.)
 - US Patent Office & PCT Applications
 - First-to-File
 - File in Name of Inventors, Company
 - Grace Period vs. Absolute Novelty
 - “Patent Pending” marking
 - Maintenance Fees Due: 3.5, 7.5, 11.5 years

Intellectual Property (Cont.)

- Copyrights
 - “*Original*” works of authorship... “*Fixed*” in a tangible medium of expression
 - Original: minimal degree of creativity + conceived without copying (no substantial similarity)
 - Fixed: recorded in a way that can be preserved and reproduced
 - KEY: Expressions of ideas, not the ideas themselves

Intellectual Property (Cont.)

- Copyrights (cont.)
 - **Protectable Works:** Literary works - books, articles, poems, etc., Musical works - score and words, Dramatic works, pantomimes, and choreographic works, Pictorial, graphic and sculptural works - web pages, advertisements, photographs, paintings, technical drawings, Motion pictures and other audiovisual works, Sound recordings, Architectural works
 - Rights Vest in Author (Get Assignment)
 - Rights Vest on Creation (Protect w/Marking)
 - Maximize Rights with Federal Registration

Intellectual Property (Cont.)

- Trade Secrets
 - Any secret information that gives one an advantage over competitors
 - No Registration Mechanisms; State Laws Apply
 - Must maintain secrecy with “Affirmative Steps”
 - Limit access to secrets
 - Use Confidentiality Agreements
 - Scope of Rights
 - Damages for theft or unauthorized disclosure
 - Enjoins others who have unlawfully obtained

VI. Legal Issues Prior to Entry to US Market (Cont.)

2. Choice of Legal Entity.

Simple approach versus complex:

There is not one “best” corporate form. Rather what choice of legal entity best suits a particular circumstance depends on multiple factors. Often times, the most cost effective vehicle may be to utilize a Texas corporation because of relative simplicity and costs. This decision may be answered in large measure depending on whether the operation is a start up or an acquisition of an existing business.

VI. Legal Issues Prior to Entry to US Market (Cont.)

Tax Considerations:

This is a key issue for businesses and individuals prior to entering the US market. There are multiple US and UK tax considerations which affect the choice of entity. It is important to identify the applicable taxes, national (*i.e.*, US federal) and state (*i.e.*, Texas) to be paid by the US business entity.

VI. Legal Issues Prior to Entry to US Market (Cont.)

The decision concerning choice of business entity should be taken together with the advice of qualified tax counsel.

Short-term versus long-term objectives.

VI. Legal Issues Prior to Entry to US Market (Cont.)

3. Visa Options.

There are many U.S. visa options which may be available. In most circumstances the options are either a B-1 visitor for business, E visa, L-1 visa or H-1B visa.

VI. Legal Issues Prior to Entry to US Market (Cont.)

It is important to plan ahead to minimize delays.

- A. B-1/Visa Waiver Program - Temporary visitor for Business –
- Temporary entry with restrictions.
 - Cannot engage in “productive employment” in the US.

VI. Legal Issues Prior to Entry to US Market (Cont.)

B. L-1A Intra Company Transferee – L-1A

- Requirements include (1) qualifying relationship between non-US entity, e.g., UK entity and US Company; (2) employee's prior employment with non-US entity, e.g., UK entity (1 year out of last 3 years) must be managerial, executive, specialized knowledge; US position must be managerial, executive or specialized knowledge.

VI. Legal Issues Prior to Entry to US Market (Cont.)

- Procedures, filing fees, period of admission, employment of spouse permitted subject to USCIS authorization.

C. E-1 Treaty Trader and E-2 Treaty Investor

- E-1 Treaty Trader requirements include (1) nationality; (2) “substantial trade”; (3) trade is between US and UK; (4) employee’s work is “executive, supervisory, or essential skill”; and (5) Employee must have a UK “residence”. Note the definition of trade includes goods and certain services.

VI. Legal Issues Prior to Entry to US Market (Cont.)

- Additional requirements for E-2 –
(1) “substantial investment”; (2) funds must be “at risk”; (3) “commercial enterprise”; and (4) “marginality.”
- Procedures, filing fee, period of admission, employment of spouse permitted subject to USCIS authorization.

VI. Legal Issues Prior to Entry to US Market (Cont.)

D. H-1B Specialty Occupation Visa

- Basic requirements include (1) “specialty occupation” position; (2) employee has qualifications for the “specialty occupation;” (3) pay prevailing wage or actual wage, whichever is higher; and (4) and postings.
- Annual cap of 85,000 H-1B visa numbers. An employer needs to apply on 31 March 2015 for employment commencing on 1 October 2015. For FY ending 1 October 2014, the quota was reached by 7 April 2014 with a 1 in 3 chance to obtain an H-1B visa number.
- H-1B visa issued initially for 3 years with a 6 year maximum. At present the spouse cannot work but there are actions pending to permit the spouse to work.

VI. Legal Issues Prior to Entry to US Market (Cont.)

4. Office Lease.

A prospective tenant will encounter multiple issues during the negotiation of an office lease. Texas law favors landlords. It will be necessary to have insurance in place prior to the signing of the lease.

VI. Legal Issues Prior to Entry to US Market (Cont.)

1. Standard Terms and Conditions for Purchase/Sale of Goods and Services.

- Generally will be governed under the law of the jurisdiction where the transaction occurs. There are significant advantages to prepare standard terms and conditions under the applicable US state law.

VI. Legal Issues Prior to Entry to US Market (Cont.)

- The use of UK standard terms and conditions can have adverse affects on the legal rights to enforce a contract. E.g. failure to perfect a “security interest.”

2. Employment Law Considerations.

- At-Will Employment; Employment Agreements. Texas is known as an “at-will” state.

VII. Legal Issues Subsequent to Entry (Cont.)

- This phrase denotes the doctrine that if there is no written employment agreement between employer and employee, the law presumes that either party is free to terminate the relationship “at will,” *i.e.*, for any reason or for no reason at all, unless:
 - The termination violates a law (such as an antidiscrimination or anti-retaliation law).
 - The right to terminate “at will” is modified by a contract (*i.e.*, a for cause termination provision in an employment contract/agreement or a collective bargaining agreement).

VII. Legal Issues Subsequent to Entry (Cont.)

- Personnel Practices/Procedures Manual.
- Contractual Covenants. There are several different protections an employer can provide for itself in connection with the employment relationship to protect the resources expended by the employer. To protect an employer's assets to the fullest extent of the law, which varies by state, employers should consider requiring employees to sign agreements governing: non-competition by employees, confidentiality of trade secrets and proprietary information, non-solicitation of customers and non-solicitation of employees.