



What Irish and Northern Irish Companies Need to Know Now: Distribution (and Related) Agreements in the US

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Why Do Irish and Northern Irish Companies Need This Webinar?

- The U.S. market should be at the top of every Irish and Northern Irish company's expansion list.
- Plan in advance—we call this advance planning “smart exporting.” Exporting grows revenue and profit, but smart exporting can help your company perform even better.
- Reputation may suggest that the U.S. market is ‘risky’ or ‘difficult,’ but the reality is different.
- Distribution and similar agreements can be a good ‘first step’ to the US market, by which a manufacturer can leverage the experience and expertise of a ‘local’ third party

Control the Contract

- In the U.S., as in Ireland and Northern Ireland, interactions between companies, and with consumers, give rise to a contract.
- That contract can be unwritten or implied through a course of dealing or it can be a written, explicit document.
- As with most business operations issues, setting out in a written document the expectations, obligations, and rights of each party is preferable to asking a court to define those issues in the first instance.
- The most important way to mitigate risk is to consistently use “American-style” terms and conditions/agreements that you develop.

Distinguishing Distributors, Sales Agents, and Resellers

- **Sales Agent:** solicits orders; sends orders to manufacturer; orders fulfilled by manufacturer directly to customer. Compensation usually commission-based.
- **Reseller:** purchases from manufacturer or distributor and resells to customers/end-users; may assume certain training/repair/maintenance obligations as to end-users.
 - Common in software space
 - VAR reseller: adds features/services to existing product and resells ‘complete’ solution; for example, add hardware and software.
- **Distributor:** purchases from manufacturer, resells to customers on own account; compensation based on difference in price charged by manufacturer vs. price charged to customer

Common Issues

- Define the 'Product(s)' that will be sold/resold/distributed
 - All products made by the manufacturer or a subset?
 - What about new products, or new versions/upgrades to products?
 - Are there any services, such as installation or maintenance, contemplates?
- Define the 'Territory'
 - Geographic limits; limits based on economic segment; both?
 - Can the 'territory' be modified during the term of the agreement?
 - Any exclusivity?
 - What happens to orders placed from customers outside the 'territory'? What happens if shipment instructions take product outside the territory?
 - Any 'reserved' customers or targets?

Common Issues (cont'd)

- Intellectual Property Protections:
 - Define 'Marks' and other IP that would be used in the relationship
 - Use as a 'license'
 - Specify how 'Marks' can be used—only for promotion or advertising?
 - If you have TM guidelines, should other party be required to follow it?
 - Specific approval for all advertising/promotion?
 - Use inures to the benefit of the company; any TM or copyright markings should not be obscured or modified
 - No right, title or interest passes to other party by virtue of the license
 - Policing infringement
 - Linked termination: license terminates at same time as agreement

Common Issues (cont'd)

- **Term and Termination:**
 - Specified term with options for renewal; termination for convenience option
 - Reserve right to terminate for uncured breaches; 15-30 day cure period
 - Reserve right to terminate for specific situations, such as if other party files for bankruptcy
 - IP license terminates upon expiration or termination of agreement
 - In agreement, other party should waive any damages for termination or non-renewal; no liability for termination
 - What happens to inventory? What happens with outstanding orders
 - Survival of key terms post-agreement

Common Issues (cont'd)

- **Confidentiality Protections:**
 - Ask for a non-disclosure agreement prior to any substantive business discussion; sales agent/distributor/reseller agreement should have confidentiality provisions that mirror initial NDA
 - Define 'confidential' information broadly to include anything of business value, whether or not stamped 'confidential'
 - Limit use to performing agreement
 - Limit exclusions to 'confidential'
 - Other party should hold confidential information in trust for manufacturer, and should only share with employees who 'need to know'
 - Provide information on an 'as-is' basis, and reserve any IP rights
 - Preserve right to injunctive relief

Common Issues (cont'd)

- **Independent Contractor:**
 - Agreement with other party should specify that each party is in an 'independent contractor' relationship with the other
 - Neither can attempt to create any obligation for the other
 - Agreement does not create an employment, franchise or joint venture relationship between parties
 - Each party responsible for its own employment taxes and obligations
 - Other party controls the mode and method of performing its obligations

Common Issues (cont'd)

- **Terms and Conditions of Sale should be referenced in a distribution/reseller/sales agent agreement and should control the sale of products thereunder:**
 - Choice of law and choice of forum;
 - Payment terms and consequences for late or non-payment;
 - Limitations of liability;
 - Disclaimer of certain warranties;
 - Dispute resolution provisions;
 - Amendment and waiver restrictions;
 - IP reservations;
 - Shipment terms;
 - Indemnification; and
 - Termination language.

Common Issues (cont'd)

- **Securing Payment; Consider multiple payment options:**
 - Payment before shipment;
 - Using letters of credit;
 - Requiring a deposit;
 - Using guarantees; and/or
 - 30/60 day terms.
- **Hold a security interest in shipment, and proceeds therefrom, until payment is made**

Common Issues (cont'd)

- **Securing Payment:**
 - Late payment may be subject to an interest charge;
 - Late or non-payment may result in termination or suspension of future or outstanding orders;
 - Late payments could alter the 'usual' payment terms by, for example, allowing you to ask for a letter of credit or guarantee;
 - Non-payment or consistent late payment can result in termination of, for example, a distribution agreement; and
 - In the event that you have to sue to recover overdue amounts and are successful, the customer agrees to pay all of your expenses (not just legal fees) in connection with that collection effort.
 - What currency?

Common Issues (cont'd)

- **Recordkeeping and Reporting**
 - Reseller/distributor/sales agent should keep accurate books and records pursuant to agreement
 - Reserve right to inspect books and records on a reasonable basis
 - If underpayment to manufacturer, specify threshold for 'penalty'
 - Penalty should include reimbursement of costs of inspection, payment of underpaid amounts, and possible penalty amount
- **Assignability**
 - Limit other party's ability to assign agreement to situations where manufacturer provides prior consent; attempted assignment without consent should be void in the first instance and should give rise to a termination right

Common Issues (cont'd)

- **Warranties and Remedies**
 - Product should be free of material defects and should perform as indicated in manufacturers materials
 - Role of appropriate disclaimers and limits on financial exposure
 - Non-infringement IP warranty?
 - Time limit on enforcement
 - Right to inspect and return non-conforming goods?
 - Certain actions, such as unapproved modifications or repairs, terminate warranty

Common Issues (cont'd)

- **Specify Shipment Terms:**
 - Defines when title and risk of loss passes from you to the customer
 - Most common reference is to the shipment terms in INCOTERMS 2013
 - But be specific with the reference to INCOTERMS, since certain U.S. terms differ from their INCOTERMS counterparts
- **United Nations Convention on the International Sale of Goods**
 - Does not automatically apply to sales from Ireland or Northern Ireland to the U.S., since neither Ireland nor the U.K. have ratified the convention
 - Nonetheless, if you don't want it to apply, specifically disclaim applicability in the Terms/Agreement

Common Issues (cont'd)

- **Other Items to Consider:**
 - Minimum quantities requirement
 - Can other party promote/sell competitive products and if so, on what terms?
 - Responsibility for obtaining permits/testing/approval to market and sell product—should be in name of manufacturer
 - Use and distribution of product manuals; ownership of copyright in any translations
 - Nonsolicitation of key employees; noncompetition, post-termination/expiration, as to customers
 - Requirements on other party's facilities, such as warehouse?
 - Allocation of products in short-supply situations

Common Issues (cont'd)

- Other limits on reseller/sales agent/distributor:
 - No unauthorized warranties
 - Compliance with laws
 - No deceptive trade practices or other actions that may adversely affect perception of products or manufacturer
 - Customer support requirements
 - Qualified personnel
 - 'Best efforts' vs. 'reasonable efforts' in promotion and sale of products
 - Cooperate with manufacturer's sales and promotion efforts
 - Training/repair/servicing requirements
 - Choice of law and dispute resolution

U.S. Customs/Import Regulations

- Each product imported into the U.S. passes through US Customs.
- There may be limitations or bans on the import of certain products, or duties payable on specific goods.
 - IP infringement-related import bans.
- Certain INCOTERMS shift the responsibility of customs clearance to a purchaser.
- In many situations, the purchaser would be regarded as the 'importer of record' and have first-line responsibility for customs compliance.

Insulating the Parent, Its Assets, and Its Investors

- Irish or Northern Irish company may be concerned that a plaintiff may seek to use U.S. courts to reach the company, its assets and/or investors. This concern can be mitigated.
 - The Irish/Northern Irish company could protect itself by conducting all U.S. sales through an independent distributor.
 - The Irish/Northern Irish company could form a U.S. subsidiary (Delaware C corporation, generally) as a 'blocker,' so long as the parent does not encourage the subsidiary to target promotion to specific jurisdictions...be sure to observe corporate formalities.
 - Beware of the single entity concept and the risks of agency.
 - Maintain appropriate insurance.
 - Websites?

Life Sciences

- Business Considerations for Irish and Northern Irish Life Sciences Companies:
 - The party registered with FDA as the owner of the NDA, ANDA, PMA, or 510(k) is the party with ultimate regulatory responsibility (whether located in the U.S. or not).
 - All parties registered with FDA are subject to compliance enforcement (e.g., distributors, packagers, labelers, contract manufacturers).
 - While a U.S. distributor may handle the marketing and labeling of a product in compliance with FDA regulations, the Irish/Northern Irish manufacturer would still be subject to FDA scrutiny. If FDA had concerns about the product, they could place an import hold or inspect the manufacturer.

Some Business Suggestions

- Perform thorough due diligence
- Consider regional differences in the U.S. market, and don't look at the U.S. market as unitary or homogenous.
 - Could seek to break in to a few regions first (such as the Northeast, Mid-Atlantic, or Southeast) before expanding.
- If you're thinking about a partner, do some thorough due diligence.
- Plan, including deciding on corporate structure, insurance, and other risk-avoidance measures
- Differentiate your product/service from others.
- Exclusive arrangements not always advantageous.

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