

Export Sales: Legal Aspects of Alternative Methods

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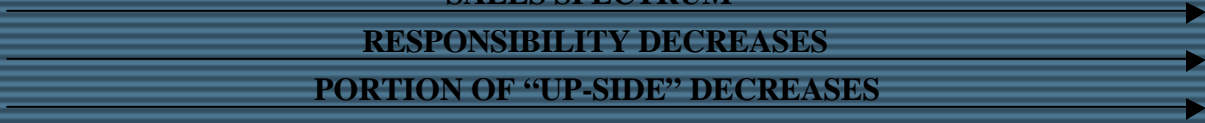
HALE AND DORR LLP

SALES SPECTRUM

RESPONSIBILITY DECREASES

PORTION OF "UP-SIDE" DECREASES

NEED FOR FINANCING DECREASES



**DO IT
YOURSELF**

GIVE UP

**DIRECT
SALES**

**SALE OF
TECHNOLOGY**

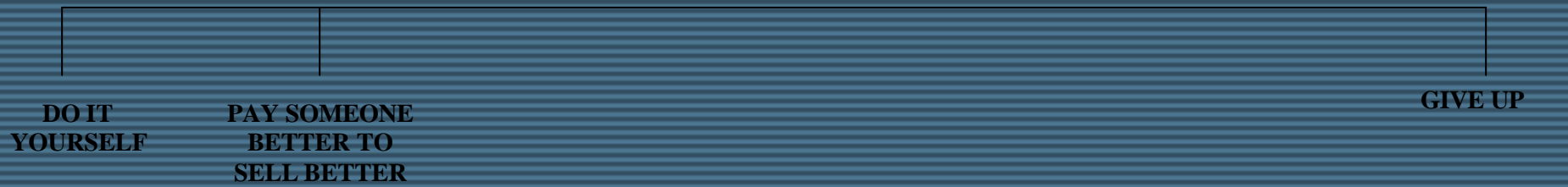
HIRE
EMPLOYEES
TO SELL

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DIRECT SALES

HIRE
EMPLOYEES
TO SELL

SALES REPRESENTATIVES

COMMISSIONED
AGENTS
SOLICIT
ORDERS

ALSO CALLED
MANUFACTURER'S
REPRESENTATIVES
OR
COMMERCIAL
AGENTS

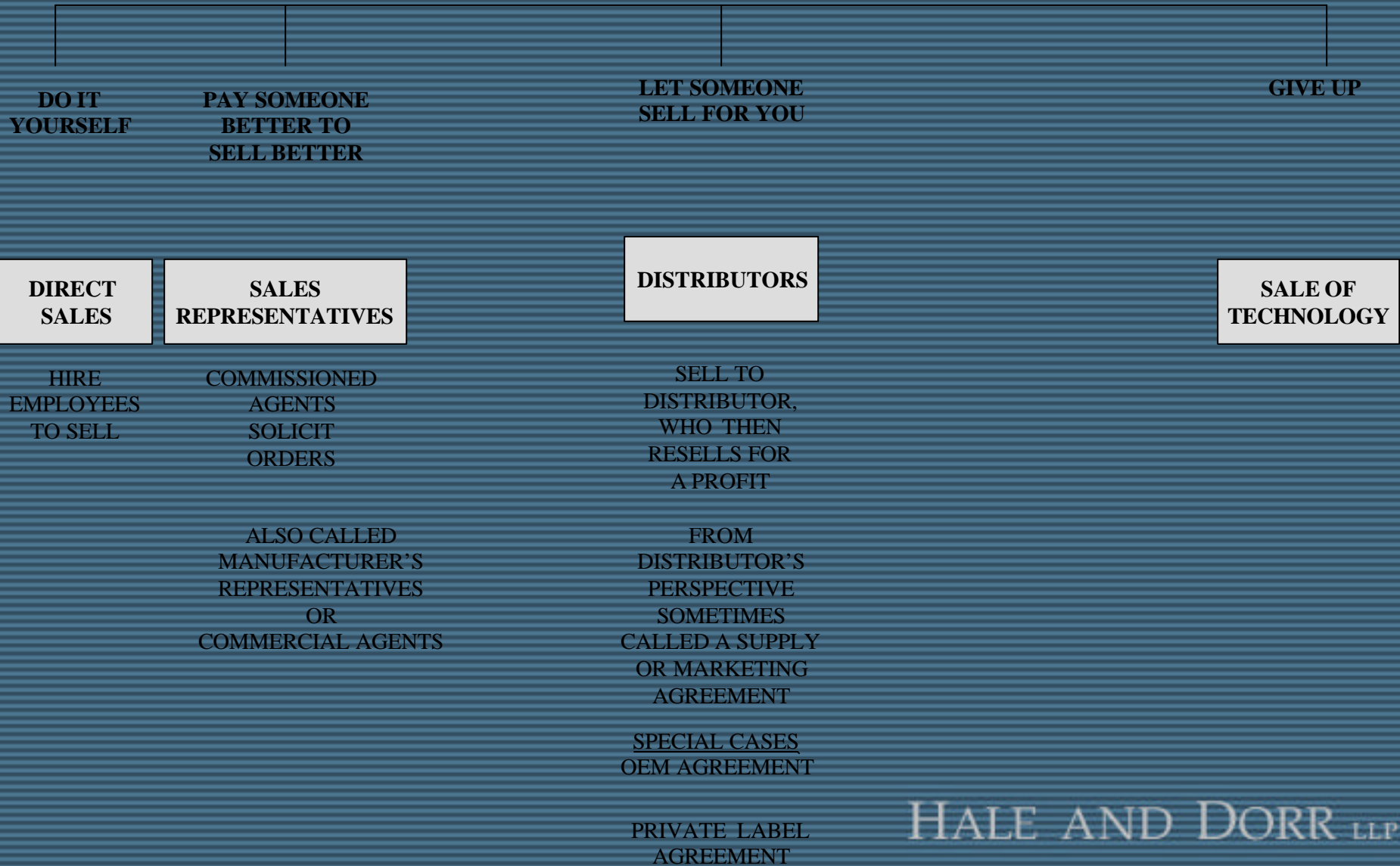
SALE OF TECHNOLOGY

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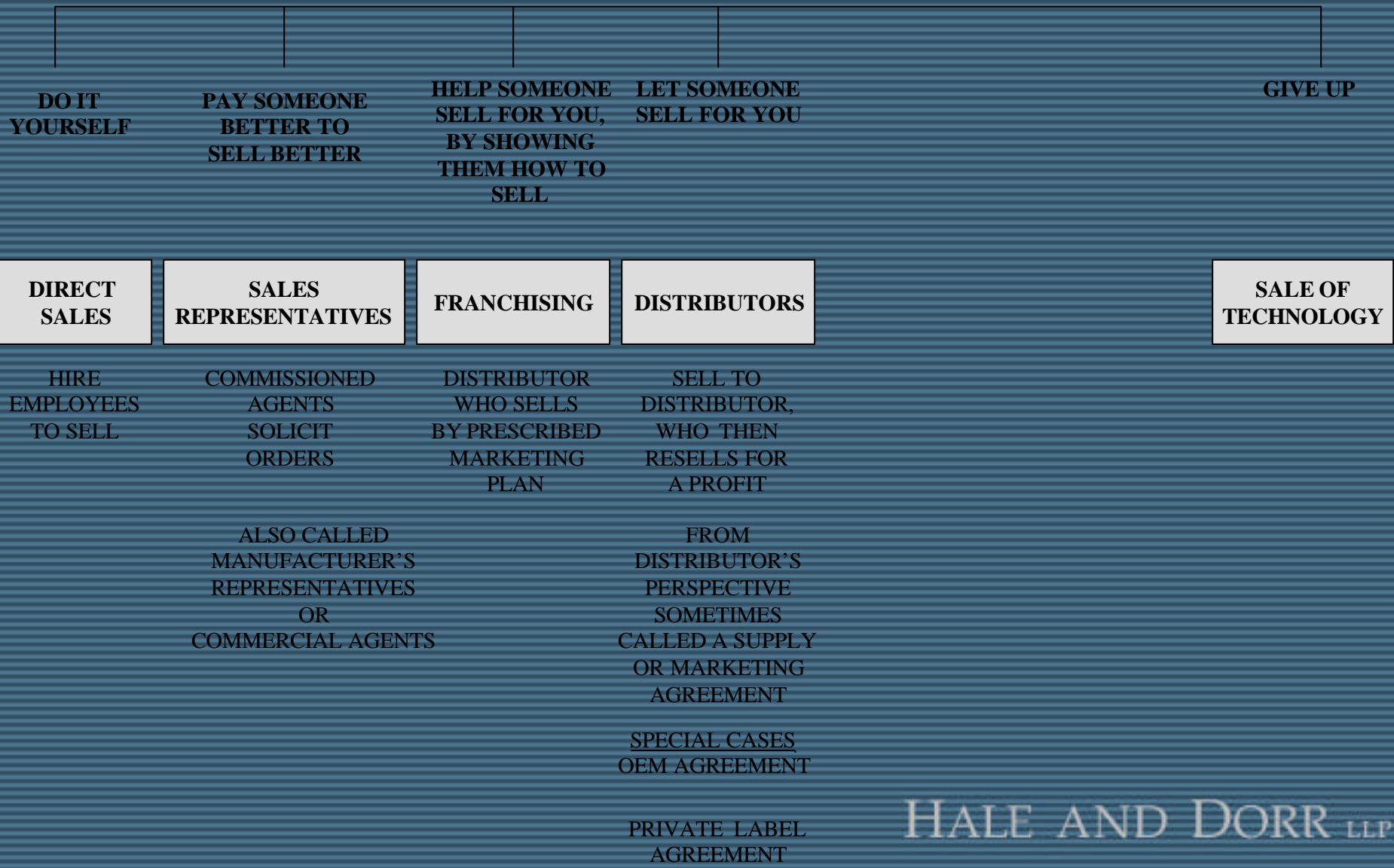


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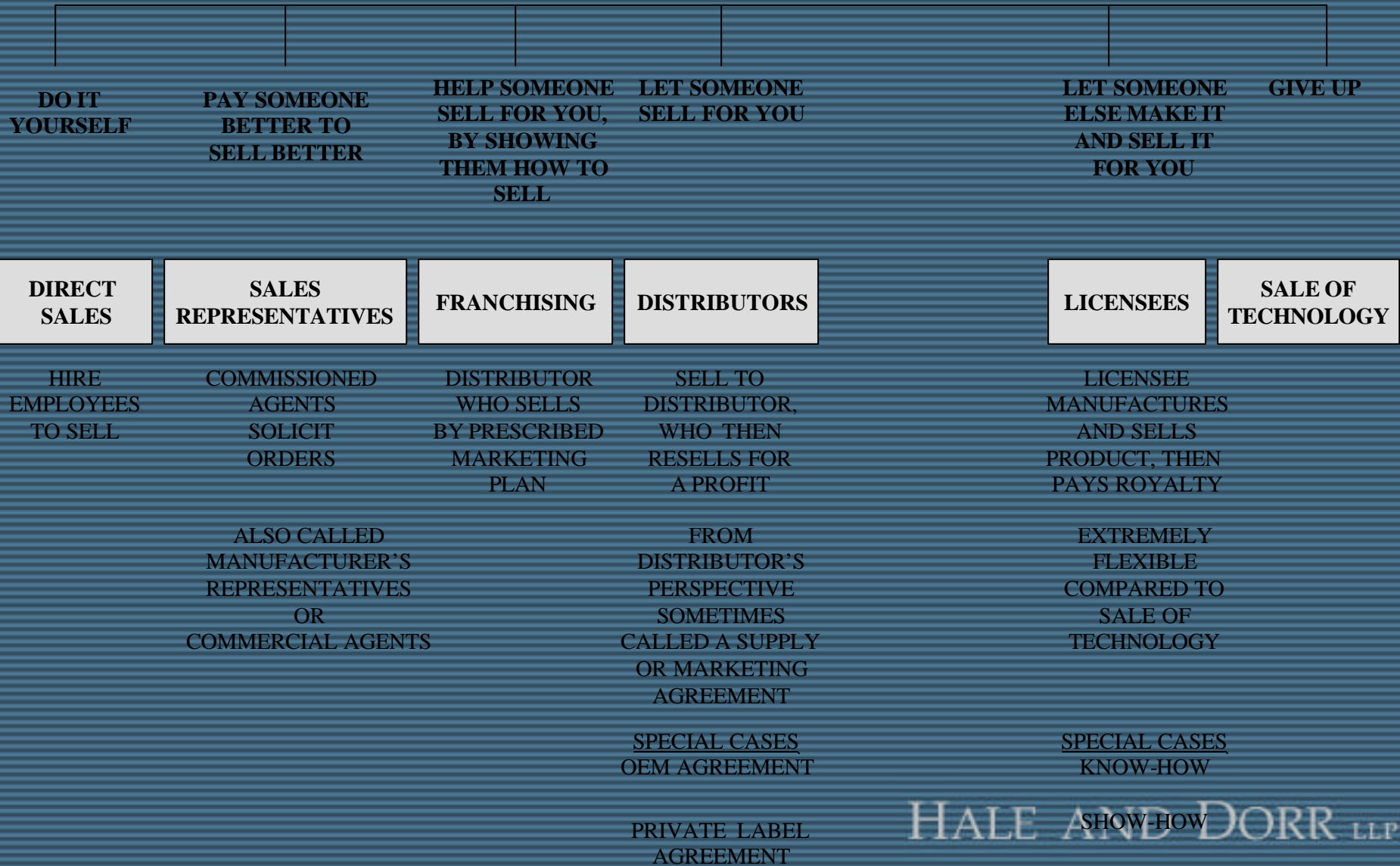


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SALES SPECTRUM

RESPONSIBILITY DECREASES

PORTION OF "UP-SIDE" DECREASES

NEED FOR FINANCING DECREASES

DO IT YOURSELF	PAY SOMEONE BETTER TO SELL BETTER	HELP SOMEONE SELL FOR YOU, BY SHOWING THEM HOW TO SELL	LET SOMEONE SELL FOR YOU	LET SOMEONE ELSE MAKE IT AND SELL IT FOR YOU, BUT OWN PART OF THAT SOMEONE	LET SOMEONE ELSE MAKE IT AND SELL IT FOR YOU	GIVE UP
DIRECT SALES	SALES REPRESENTATIVES	FRANCHISING	DISTRIBUTORS	JOINT VENTURE	LICENSEES	SALE OF TECHNOLOGY
HIRE EMPLOYEES TO SELL	COMMISSIONED AGENTS SOLICIT ORDERS	DISTRIBUTOR WHO SELLS BY PRESCRIBED MARKETING PLAN	SELL TO DISTRIBUTOR, WHO THEN RESELLS FOR A PROFIT	LICENSEE IS JOINTLY OWNED BY LICENSOR AND A THIRD PARTY	LICENSEE MANUFACTURES AND SELLS PRODUCT, THEN PAYS ROYALTY	
	ALSO CALLED MANUFACTURER'S REPRESENTATIVES OR COMMERCIAL AGENTS		FROM DISTRIBUTOR'S PERSPECTIVE, SOMETIMES CALLED A SUPPLY OR MARKETING AGREEMENT	CAN TAKE THE FORM OF A CORPORATION, PARTNERSHIP, LLC OR OTHER ENTITY	EXTREMELY FLEXIBLE, COMPARED TO SALE OF TECHNOLOGY	
			SPECIAL CASES OEM AGREEMENT	SPECIAL CASES TEAMING AGREEMENTS	SPECIAL CASES KNOW-HOW	
			PRIVATE LABEL AGREEMENT		SHOW-HOW	

Special Issues Arising in Sales Representative Relationships

- Defining commission obligations
- Foreign Corrupt Practices Act considerations
- Many of the same issues as for distributor (exclusivity, limiting liability, term, termination and branding)
- Difficulties in terminating in European Union

Defining Commission Obligations

- Payable on what?
 - define Net Sales
 - upon collection by Manufacturer
 - if collections in other currencies, then how will commissions be paid?
- For how long?
 - Do commission rates drop over time, once account is established?
- For what territory?
 - what if account buys outside sales rep's territory?
 - What if outside account enters sales rep's territory?
- For Manufacturer's other products and services?

Foreign Corrupt Practices Act Considerations

- U.S. statute which prohibits payments to influence foreign government/political officials to obtain/retain business
 - Even if that practice is legal/unavoidable in the foreign country
- U.S. party which makes such payments through a sales representative is still liable, if it knew
- Prohibit sales representative from making such payments, and preserve right to audit sales representative for compliance

Difficulties of Terminating Sales Representatives in European Union

- Sales representative protected by EU Commercial Agency Directive
- Sales representative entitled to advance notice of termination
- Sales representative can recover indemnity/other compensation upon termination or non-renewal in bad faith
- This indemnity/compensation cannot be waived contractually or avoided by a choice of U.S. law
- Amount will vary from country to country, but can be substantial, particularly for a sales representative which served for several years

Special Issues in Distribution Relationships

- Transfer pricing
- Payment mechanisms
- Exclusivity
 - Minimum purchase requirements
 - Non-competition covenants
- Term
- Termination
- Branding
- Limiting the Manufacturer's liability

Transfer Pricing

- At what price will Manufacturer sell to distributor?
 - Differentiate from distributor's resale price
- Can be expressed a number of ways
 - Specified amount
 - % of list price
 - Combination of these two methods
- CAUTION: Manufacturer should preserve right to change prices over time

Payment Mechanisms

- How will distributor pay Manufacturer?
 - Letter of credit
 - Cash-on-delivery; deposits
 - Open account (stated number of days after receiving invoice)
- Specify currency of payment
- Limited ability to take security interest
- Interest on overdue amounts

Exclusivity

- Exclusivity: Manufacturer will not sell itself, and will not appoint others to sell in the territory
 - Variation: co-exclusive (won't appoint others beyond distributor and Manufacturer/one other specified party)
- Critical to impose minimum purchase/sales requirements
 - Ensure that distributor is exploiting the opportunity that the Manufacturer is forsaking
 - Ramp up over time; eventual decline
 - Extensions not subject simply to mutual agreement
- Non-Competition covenant: distributor will not sell any products which compete with the distributed products
 - Mutuality of obligations: I won't sell to your competitors, and you won't work for mine
 - Difficult to impose on large distributors

Term

- How long, in terms of years
 - Exclusive distributors typically expect a minimum of 3-5 years, and sometimes for the life of the intellectual property
- Right to extend
 - Mutual agreement
 - Automatic, unless either party gives notice otherwise
 - Subject to achieving certain success milestones

Termination

- Typical grounds
 - Breach
 - Bankruptcy
 - Change in control of Distributor
- Effects of termination
 - Return/buy-back of inventory
 - Cessation of distribution efforts
- Disclaiming damages payable to distributor for loss of distributorship
 - Particularly important outside the United States
 - May be overridden by local law (e.g., Belgium)

Branding

- Use of Manufacturer's trademarks
 - Optional or required
 - Quality control standards
 - Manufacturer must be registered owner of trademarks
- Domain names
 - Make clear that domain name can only be registered by Manufacturer
 - Limit Internet promotional activities

Limiting the Manufacturer's Liability

- Disclaiming implied warranties
- Prohibiting recovery of indirect damages
 - Special, incidental and consequential damages, punitive damages, lost profits and loss of use damages
 - Common exceptions:
 - Product liability claims
 - Intellectual property infringements
 - Confidentiality obligations

Limiting the Manufacturer's Liability

- Limit direct damages to amount of agreement, amount paid in preceding months or a specified amount
 - Costs of cover, damages owed to third parties
 - May also be subject to same exceptions
- Intellectual property infringement indemnifications
 - Avoids non-infringement warranty
 - Allows Manufacturer to control defense/settlement of such claims
 - Subject to exceptions (combinations, modifications, improper use)
 - Abatement clause – stop distributor from committing further infringements

Choice of Law

- Negotiate application of Massachusetts law if possible
- Consider excluding application of U.N. Convention on Contracts for the International Sale of Goods
- Recognize that contractual choice of law may not be effective in all circumstances – consult local attorney regarding application of local laws

Resolution of Disputes

- Negotiate for exclusive jurisdiction of Massachusetts courts
- Recognize that judgment of Massachusetts court may have to be enforced in foreign country; procedures for enforcement vary
- Alternative is international arbitration
 - Specify applicable rules (e.g., ICC, LCIA, UNCITRAL)
 - Specify place and language of arbitration
 - Consider specifying procedures
 - Arbitral award may be more easily enforced due to U.N. Convention on the Recognition and Enforcement of Foreign Arbitral Awards.

Tax Considerations

- Generally, export sales through a sales representative or distributor will not cause Manufacturer to incur tax liability outside U.S.
- Important that sales representative not have authority to accept orders on behalf of Manufacturer
- License fees and royalties may be subject to foreign withholding taxes
- U.S. tax breaks for exporters (former “Foreign Sales Corporation” rules, current “extraterritorial income” rules) under attack by EU in WTO

Questions?

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