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# 1 Setting up a business

ARTER

Lawyers often have to use these terms when talking about business law. How many of them are you familiar with? Can you explain any of them?

articles of association • sole trader • equity / company capital • tangible assets • register of companies • unlimited liability

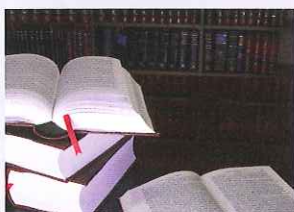
For further help, look at the terms in the text below.



- 1 Deborah Evans, a solicitor in the law firm Garfield Brown, is writing a brochure for the firm's clients about the different business structures in the United Kingdom. Fill the gaps with the words supplied below.

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### INFORMATION FOR INVESTORS AND ENTREPRENEURS FROM ABROAD

Legal structures in the United Kingdom

agreement • cash • debts • on your own • owners • personally liable • profits • publicly • separate • shareholding

### Working for yourself

If you work for yourself, you are self-employed and are described as a sole trader. You do not have to register your business in order to set it up: you simply start trading and manage the business \_\_\_\_\_<sup>1</sup>. However, once your business makes a certain amount of money every year, you must register with the tax authority. As a sole trader, there is no limit to the amount of capital you can take out of the business, but on the other hand, you have unlimited liability for your \_\_\_\_\_<sup>2</sup>.

## Partnerships

There are two main types of partnership in the U.K. The oldest is the general partnership. This business vehicle does not have a separate legal identity from the people who form it. This means that the partners are \_\_\_\_\_<sup>3</sup> without limit for the debts of the firm. A written partnership \_\_\_\_\_<sup>4</sup> is recommended but is not required by law. A general partnership can keep its partnership agreement and its financial information private. Partners do not have to provide a minimum amount of equity by law but they usually agree to pay capital into the firm when they join the partnership. The second type of partnership in the U.K. is the limited liability partnership (LLP). Unlike a general partnership, the partners are called *members*. They are still the \_\_\_\_\_<sup>5</sup> of the business, but their liability for the debts of the firm is limited. However, every LLP must publish regular financial information about itself.

## Limited companies

These business structures must be registered on the Register of Companies and have a \_\_\_\_\_<sup>6</sup> legal identity. This means the members are only liable to pay for their \_\_\_\_\_<sup>7</sup> in the company. It is the company that is liable to its creditors. When a company is formed, its owners will normally put capital into it. However, this company capital does not have to consist entirely of \_\_\_\_\_<sup>8</sup> – tangible assets e.g. machinery can also be contributed. Limited companies must also have a written agreement – called the *articles of association*. The two main types of limited company are the private company (which has *Limited* or *Ltd* in its name) and the public company, or *plc*. A plc is often – but not always – a company whose shares are traded \_\_\_\_\_<sup>9</sup> i.e. anyone is allowed to buy them. For these companies there is a minimum amount of capital and there are different requirements regarding directors and accounting procedures.

### DID YOU KNOW?

The British and American English terms for business structures vary. The established structures in the United Kingdom are sole traders, general partnerships, and limited companies. Sole traders and partnerships are often (but not always) small businesses. Limited companies are used by businesses of all sizes, from the very small to the very large. The smaller ones are often private companies and have *Ltd* or *Limited* in their name. Larger limited companies often choose to be public companies and have *plc* in their name. Since 2001 in the U.K., a fourth business structure, the limited liability partnership or LLP, has existed.

In the U.S., the abbreviations *Inc* and *Corp* are very common, but they are just the abbreviations acceptable in all U.S. states for a company that has registered itself as a separate legal identity. The U.S. limited liability company or *LLC* is a different type of company which combines the tax flexibility of a partnership with the personal liability protection of a corporation.

Be sure to check and use the correct term in the right jurisdiction: exercise 1 on pages 5–6 will help you do this.

## 5

## Mergers and acquisitions

## STARTER

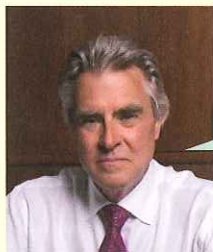
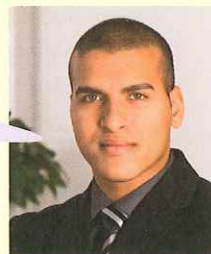
Read the *Quotations of the Week* from a U.S. magazine.

- Who do you think the speakers might be?
- Which of them seem to be in favour of more regulation to control M & A?
- Which of them aren't? Where do you stand on this question?

### Quotations of the Week

1

When the company I work for was taken over, the price offered was far too high. The scope for savings through synergies was then overstated to justify the high price. The shareholders won, the directors won, all the legal and financial advisers walked away with their fees – and the price was paid by the employees. Within one year 2,000 jobs had been cut.



2

The legal instruments in place for identifying and combating insider dealing are more than sufficient. Any more legislation in this area would simply restrict the freedom of companies to expand and would make them unattractive to investors.

3

Naturally, we take the Federal Trade Commission (FTC) or its equivalent in other countries very seriously when we make an acquisition. But, to be quite honest, it has never intervened once. The whole thing is more of a formality, really.



4

Mergers and acquisitions are a perfectly acceptable way for the market to optimise its efficiency. We were delighted when a large multinational wanted to acquire our small private limited company. The price was fair, no one lost their job and there was much more R&D money available to drive forward our most innovative ideas.

- 1 Read the article. Complete the sentences using words from the box. Be careful! Two of the words don't fit anywhere.

## Foodstyle plc brings in CEO from US

The Anglo-Spanish company *Foodstyle plc*, which was formed two years ago out of the \_\_\_\_\_<sup>1</sup> between the Spanish restaurant chain *Pimentón* and the

British cafeteria and snack bar chain *Culture Café*, has responded to criticism of its



recent performance by its major shareholders. Following the

disappointing \_\_\_\_\_<sup>2</sup> posted by the sandwich

bar chain *The Bread Company*, which was recently

\_\_\_\_\_<sup>3</sup> from a British hotel group for

€60 million, and the failed \_\_\_\_\_<sup>4</sup> bid which

had \_\_\_\_\_<sup>5</sup> the well-known restaurant chain

*Pasta Plus*, *Foodstyle's* share price had fallen by 20%. The long-serving CEO Dr. Henri

Kroll has agreed to make way for a fresh face – Matt Delaney, who has switched from

his post as CEO of the major U.S. fast-food restaurant chain *Lucky's*. Mr. Delaney

is expected to sharpen up the company's performance and to put it back on an

\_\_\_\_\_<sup>6</sup> course. News of the appointment was received positively by

the market, with *Foodstyle's* share price rising by 6%.

- 2 Matt Delaney leaves the following voicemail message for Esther Suarez, the recently appointed in-house lawyer. Listen and decide if the statements below are true or false.



- 1 Matt finds mergers and acquisitions confusing.
- 2 There is documentation on mergers but not on acquisitions.
- 3 Esther Suarez has to explain to Matt where the hidden difficulties are.