



INTERNATIONAL JOINT VENTURES FOR RESEARCH AND DEVELOPMENT

Structuring and Negotiating International Joint Ventures for Research Involving U.S. Activities

Presented by:

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**WS25: International Joint
Ventures**
Content Level: Intermediate

STRUCTURES

- International joint ventures come in a multitude of sizes and shapes
 - Partnership/LLC/LLP
 - Corporation
 - Contractual (non-equity)
 - Either be a co-ownership model or simply a contract between the parties whereby they retain all their own assets and agree as to their separate rights and obligations
 - “Partnering” arrangements, strategic alliances and outsourcing services arrangements

SCOPE/PURPOSE OF THE JV

- What activities does the JV intend to do or refrain from doing
- Corporate opportunity issues
 - Existing and potential future conflicts with each party's non-JV businesses
- Scope of non-compete covenants and the confidentiality obligations of each party
- Any core technology or other intellectual property ("IP") either to be transferred to the JV or to be granted by the parties to the JV

(continued)

SCOPE/PURPOSE OF THE JV (2)

- Other inter-corporate arrangements that either will be required for the JV to operate or that are required to make the investment in the JV meet the business case
- Due diligence
 - Generally no less than that required for an acquisition and in many cases more thorough

REGULATORY ISSUES

- Current and any anticipated regulatory issues, including:
 - Foreign ownership
 - Antitrust
 - Export control issues
 - Labor and employment issues
- Restrictions, registration and other issues related to ownership and control of the JV, its assets, the operation of its proposed business, and IP resulting from research
- Dilution, exit and liquidation rights

(continued)

REGULATORY ISSUES (2)

- Government requirements for accounting treatment in JV
- Government and contractual obligations to third parties (bank and other)
- Approvals required for the implementation and ongoing operation of the JV, including non-compete or confidentiality obligations

TAX CONSIDERATIONS

- Flow-through, independent taxation or consolidation with parent(s)
- Income, VAT, property tax issues
- Non-profit status issues
- Taxation of IP
- “Off-shoring” potential
- Credits against the partners' home country tax liability
- Repatriation

DEAL STRUCTURE

- “Pure” patent licensing with little or no collaboration
- Collaborative deals
 - Co-commercialization
 - Certain aspects of discovery research relegated to R&D entity; trials, regulatory and commercialization were left to Commercial “partner”
 - Sale and marketing of a product under a single trademark, with cooperation in commercializing
 - Co-marketing (independent simultaneous sale and marketing by parties of a defined product under different trademarks)

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DEAL STRUCTURE (2)

- Co-development
 - Discovery research and/or product development activities, with a continuing role by each party
- Joint ventures
 - New entity to develop and market a drug
- Equity acquisitions
 - Ultimate collaboration in terms of shared goals

BEGINNING THE PROCESS: LETTER OF INTENT/TERM SHEET

- Binding or non-binding
 - If binding:
 - Ensure all key provisions covered – may be difficult to introduce new business points after signing
 - Unless and until replaced by a definitive agreement agreed to by the parties within a specified time – no material changes without further approval
 - Consider use of arbitration if parties cannot agree upon definitive agreement or if there is a dispute as to interpretation of letter of intent
 - Consider whether to include covenant to negotiate in good faith definitive agreement

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BEGINNING THE PROCESS: LETTER OF INTENT/TERM SHEET (2)

- Appropriate approvals received before signing
 - Board and stockholder approval
 - Regulatory approval
 - Third party contractual consents, etc.
 - If approvals not obtained in advance, letter of intent could provide that it becomes effective once the necessary conditions precedent have been met
- Non-circumvention/no deal shopping issues
- Consider whether to leave confidentiality agreement in place or replace it with confidentiality obligations in letter of intent

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BEGINNING OF THE PROCESS: LETTER OF INTENT/TERM SHEET (3)

- If not binding:
 - Can structure so that it becomes binding upon approval within a specified time and/or subject to signing a definitive agreement
- Will need to draft very carefully to ensure non-binding letter of intent or term sheet cannot subsequently be found to be binding
- If no separate confidentiality agreement, ensure that while most of letter of intent is non-binding, confidentiality and non-solicitation covenants are intended to be binding
- If not binding, what other provisions need to be binding

PARTIES

- Which parties should be parties to the JV
 - Parent entities as parties or simply guarantors
 - How far up the chain is it necessary to go
 - To ensure performance of the obligations of the JV parties
 - To enforce non-competition covenants, etc.
- Government entities as parties
- Should JV entity be a party
 - Specific enforcement of obligations
 - Iterative consideration of structure of JV

GOVERNANCE

- Depends largely on the actual structure chosen (another iterative loop back)
- Management vehicle to direct the JV
 - Extent of the authority given to the management vehicle compared to reserving significant decisions to the joint venturers (shareholders, members or partners); fiduciary duties at different levels will factor into this decision
 - Choice of appointees to the board or management committee & accountability to the joint venturers
 - Authority to retain and remove personnel, including the chief executive officer

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GOVERNANCE (2)

- Management vehicle to direct the JV (continued)
 - Scope of protection for each joint venturer on fundamental decisions and changes – particularly where one of the co-venturers has a minority ownership interest
 - Substantive standards and processes for dealing with non-arm's length transactions and other conflict of interest situations
 - Process for developing, approving and updating the business plan and budget

MANAGEMENT COMMITTEE OR BOARD OF DIRECTORS

- Board representation or formula
 - If a 50-50 board is established, will have to deal with deadlock possibility
 - Giving chair a casting vote in 50-50 situation effectively results in unequal representation on board
- Particular qualifications for members of management board and any particular prohibitions on who can act
- Removal and replacement of members of management board

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MANAGEMENT COMMITTEE OR BOARD OF DIRECTORS (2)

- When and how often will management board meet?
 - Notice requirements
 - Quorum for valid meeting
 - Can management board members be represented by alternates (generally not permissible in a corporate JV)
 - Who can call meetings
 - Under what circumstances can management board act without an in-person meeting – i.e., telephonic meetings or actions by signed consent
- Powers and duties of management board
 - Matters requiring approval of parent(s)
 - Matters requiring super majority or unanimity

OFFICERS

- Officers
 - President, CEO
 - Managing Director or general manager
 - Overall leadership versus responsibility for the day-to-day operations
 - CFO/Financial Management
- Which co-venturers have right to nominate which officers or whether the management board has that right
 - Certain venturers could have right to nominate certain officers; right to nominate could rotate (often found with Chair)
- Right to remove and replace officers
- Limits on authority of officers, signing authority, etc.
- Directors' and Officers' Liability Insurance

AUDITORS, REPORTING AND ACCESS TO INFORMATION

- Who will the auditors be
 - Auditors of one of co-venturers or independent
 - How can firm be changed
- Frequency of financial statements
 - Nature and frequency of other reporting requirements
- Permitted access for co-venturers to books, records and employees
 - Notice, during business hours, etc.
- Should rights be removed/restricted under any circumstances

ACTIONS REQUIRING CONSENT— EITHER BOARD OR CO-VENTURERS

- Approval of annual business plan and budget or any change to any approved annual business plan or budget
- Transactions outside the ordinary course of business [over a specified \$ annual threshold]
- Change of name or scope of the business
- Creation of subsidiaries
- Admission of new co-venturers , transfer of ownership interests , issue, sale or transfer of shares or rights

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ACTIONS REQUIRING CONSENT— EITHER BOARD OR CO-VENTURERS

- Incurring debt, granting security or guarantees
- Payment or other distribution or return of capital
- Change in management board, establishment or change in committees or appointment or removal of officers
- Insolvency-related actions
- Certain types of contracts
- Approvals required in connection with litigation or other proceedings

DISPUTES

- Mediation
- Litigation or arbitration
 - Mandate of arbitrators – i.e., is it any dispute between the party or only specified types of disputes or under specified clauses
 - Certain types of disputes may not be arbitrable
 - Specific performance
 - Preserving right to go to court for certain types of breaches –e.g., breach of confidentiality, non-solicit or non-compete
 - Set out rules or cross reference to specific set of rules (e.g., ICC)
 - Consider whether there should be prohibition on arbitrator amending the JV agreement or granting punitive damages

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DISPUTES (2)

- Number and how chosen
- Parameters around how arbitrators are to act (e.g., findings of fact and conclusions of law)
- Location of actions
- Applicable law
- Costs – who pays what
 - Breach of JV agreement
 - Determinations of a particular value or payment (e.g., license fees or termination costs)

FINANCING AND SUPPORT

- Financing provided by the co-venturers
 - Pro rata to interest in JV
 - Optional or a required
 - What if one co-venturer does not have the necessary funds?
 - Maximum amount either in actual dollar terms or based upon some formula
 - Who can initiate capital call and who determines what type of capital call it will be—debt or, if applicable, equity
 - Consider fixing in advance all relevant terms of debt, including repayment terms, ranking of obligation to repay, etc.

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FINANCING AND SUPPORT (2)

- Third-party debt financing
 - Non-recourse or backed by assets or guarantees
 - If guarantees are to be given, limits and pro-rata to the percentage interest
 - Security granted
- Co-venturer support
 - To what extent each co-venturer is going to provide support or services to the JV
 - Pricing for such support and services
 - Substitution for co-venturer support if not provided

INTELLECTUAL PROPERTY

- Intellectual property transfer from parents to JV
- Allocation of rights to parties and JV rights
- Right of first refusal/preferences
- Residual and derivative rights
- Existing agreements that impact the IP and technology
- Provisions/laws (e.g., Bayh-Dole) that may "contaminate" technology or IP
- IP of the parents' family members
- IP claims or litigation
 - Representations and warranties as to existing
 - Control of claims and litigation
 - Costs
 - Damages and recoveries

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INTELLECTUAL PROPERTY (2)

- Validity, enforceability, ownership, scope and protection
- Third-party consents
- Open source software issues
- Privacy and data protection
- Local legal regime
 - Statutes and regulations
 - Enforcement
 - IP legal practice
 - Restrictions on the ability to transfer that intellectual property out of the country
 - Protections for intellectual property that is transferred to a venture in that country and intellectual property that the venture develops
 - Risks connected with a state-owned or controlled entity?

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INTELLECTUAL PROPERTY (3)

- Transfers
 - Assignment or by a license
 - Royalties or capital contribution/distributions
 - Exclusivity
 - Ongoing technology/IP obligations to/by the JV
- Compensation/contribution for "foreground IP," which is the IP created by the JV alone or in combination with its JV partners
- Terms of assignments, exclusive licenses, non-exclusive licenses, or manufacturing/supply agreements for components that embody but do not disclose the IP
- Joint exploitation issues
- March-in rights
- Reporting, accounting, audit, and payment terms issues
- Term and termination of transfers/payments
- Cost and Administration of IP registration, enforcement and defense

SEPARATION AND TERMINATION

- How the termination will occur
 - Returns of property that a party transferred to the JV, restoration of intangibles
 - Employees, consultants and subcontractors
 - Goodwill
 - Employee benefits
 - Future opportunities
 - Payments to the parents and to creditors
 - Buy-out formulas
 - Continued cooperation by parents, noncompetition
 - Remedies on termination or separation
 - Accounting
 - Payments
 - Specific performance and prohibitions (injunctions, etc.)
- (continued)

SEPARATION AND TERMINATION (2)

- Technology issues
 - Licenses
 - Grantbacks and continuing licenses
 - Rights of a withdrawing party
 - Opportunity to grant licenses to a third party
 - Compulsory licensing
- Trademarks, databases and other IP
- Duplication of tangible know-how
 - Manuals
 - Work-in-progress and similar materials.
 - R&D implementation (test-beds, prototypes, tooling)

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