



M110

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# INTERNATIONAL JOINT VENTURES FOR RESEARCH AND DEVELOPMENT

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

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**J. Michael Slocum, Esquire; Slocum & Boddie, P.C.; Alexandria, VA USA**  
**Mir Asghar Ali Khan, Senior Manager; Aga Khan University, Karachi, PK**

# Learning Objectives

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- Learn about joint venture structures, regulatory issues, preliminary agreements, and related agreements
- Outline of a typical joint venture agreement (parties, governance, financing, disputes, intellectual property issues, separation and termination)
- Discuss additional issues, such as government approvals, taxes, due diligence, expatriates and political risk insurance



# Structures

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- 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

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- 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



# Scope/Purpose of the JV (2)

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- 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

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- 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

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# Regulatory Issues (2)

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- Dilution, exit and liquidation rights
- 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

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- 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

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- “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)

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- 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

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- 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)

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- 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 the Process: Letter of Intent/Term Sheet (3)

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- 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

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- 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

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- Depends largely upon 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)

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- 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

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- 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)

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- 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

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- Officers
  - President, CEO
  - Managing Director or general manager
  - Overall leadership versus responsibility for the day-to-day operations
  - CFO/financial management

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# Officers (2)

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- 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

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- 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

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- 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 (2)

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- 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

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- 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)

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- 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

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- 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)

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- 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

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- 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)

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- 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)

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- 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

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# Intellectual Property (4)

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- 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

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- 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

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# Separation and Termination (2)

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- Remedies on termination or separation
  - Accounting
  - Payments
  - Specific performance and prohibitions (injunctions, etc.)
- Technology issues
  - Licenses
  - Grantbacks and continuing licenses
  - Rights of a withdrawing party
  - Opportunity to grant licenses to a third party
  - Compulsory licensing



# Separation and Termination (3)

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- 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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# Presenters

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J. Michael Slocum, Esquire  
Slocum & Boddie, P.C.  
5400 Shawnee Road, Suite 300  
Alexandria, VA 22312

Tel: 703-451-9001  
Fax: 703-451-8557

[jmichaelslocum@slocumboddie.com](mailto:jmichaelslocum@slocumboddie.com)

Mir Asghar Ali Khan, Senior Manager  
Research and Grants Administration  
Division of Women and Child Health  
The Aga Khan University  
Karachi, Pakistan

Tel: + 92 213 493 0051  
Fax: + 92 213 493 2095  
Cell: + 92 (0) 300 827 9739

[asghar.ali@aku.edu](mailto:asghar.ali@aku.edu)

