Agenda

- What are Strategic Relationships?
- Why enter into Strategic Relationships?
- General Framework and Common Issues
- Closer look at certain Strategic Relationships
- Questions and Answers (But Don’t Wait!)

Objective: Consider Strategic Relationships as an alternative approach
Strategic relationships are all around us!
A Rose is a Rose...

- “Joint Venture”
- “Partner”
- “Strategic Alliance”
Why Bother with Strategic Relationships?

- Use assets of third parties
  - Marketing/reseller – Marketing Resources
  - Out-License – Various Resources
  - In-License – Technology
  - Joint Development
    - Technology
    - Capital
    - Resources (e.g., lab, people, expertise)
Strategic Alliance Headlines - Credibility

- “Fiserv partners with InvestEdge to Expand Reporting Capabilities for the Wealth Management Industry”
- “Thorley Industries lands $215 M Hasbro deal, hiring”
- “Biogen, Knopp Strike Deal to Develop Treatment for Lou Gehrig’s Disease”
- “Philips, Immunetics Unite to Target Infectious Disease”
Potential Benefits of Strategic Relationships

- Non-dilutive
- Potentially faster/cheaper
- Exploit third party assets – fewer mistakes
Two Flavors of Strategic Relationships

- Separate Entity

Venturer I

Joint Venture
(Partnership/Joint Venture)
(Limited Liability Company)
(Corporation)

Venturer II

Assets

Assets
Reason for Entity Alliances

- Liability (marketing a new product)
- Value in enterprise (e.g., BillingZone)
- Deeper relationship
- Tax
- Accounting (consolidation)
Reason for Contractual Alliances

- Lower Investment Cost
- Easier to commence relationship
- Easier to exit
- Shorter duration
Cautions

- Remember the little person on your shoulder
- Consider the future of the business (e.g., reseller/branding) – Don’t mortgage the future
- Consider
  - Time
  - Cost (somebody has to pay the lawyers)
  - Risk
Framework for a Strategic Relationship

- Formation
- Operations
- Termination
Framework for a Strategic Relationship

- What is each party contributing?
- What is each party NOT contributing?
- Exclusive vs. non-exclusive rights
Framework for a Strategic Relationship

- Who is operating?
- Who makes decisions? (Who decides who decides?)
- What if additional resources are necessary?
- How are proceeds allocated?
- Who gets paid for operating?
Framework for a Strategic Relationship

- When is the Strategic Relationship terminated?
- Cause/No cause
- Who gets which assets upon termination (e.g., intellectual property; developments; customers; trademark)?
- Buy/Sell
Dispute Resolution – Common Issues

- Avoid Disputes
  - Information Exchange/Meetings
  - Align interests/Identify different interests
  - Quality partners
  - Consider escalation/mediation
  - Ask the “What if’s”
Dispute Resolution

- Where does the fight occur?
  - Venue
  - Forum
    - Arbitration v. Court
    - 1 arbitrator v. 3 arbitrators
- Governing Law
- Who pays for the fight?
- What happens during the fight?
Dispute Resolution – Common Issue

- Remedies
  - Termination (out-license)
  - Damages/Liquidated Damages
  - Injunctive Relief (e.g., reseller)
Assignment – Common Issue

- Third Party
- Competitors
- Successors
- Bankruptcy
Introductory Example - Lease

- Economic Matter: Leveraging Landlord’s ownership of property
  - Rent includes
    - Operating expenses
    - Carrying Costs
    - Amortization of tenant improvements/lease cost
- In Reality: Debt transaction
- What is each party’s contribution
  - Initial premises
  - Expansion premises
- Term
  - Initial Term
  - Extension
  - Early Termination
Sales Representative/Marketing Agreement

- Overview – Note: Sales Rep never takes title
- Benefits to Company
  - Leverage third party sales force/marketing team
  - Maintains goodwill/trademark of company
- Benefits to Third Party
  - Use already existing sales force – add another product
Sales Representative/Marketing Agreement

- Special considerations
  - Sales effort
  - Exclusivity (territory and product)
    - Company
    - Sales Representative
  - Limit Representations
  - Not an agent (can’t bind company)
  - Protect goodwill – use of trademark/trade name
Sales Representative/Marketing Agreement

- Consideration/Payment
  - Amount per sales
  - Costs and expenses

- Termination
  - Notice
    - Company – short
    - Sales Rep – long
  - Cause – no cause
  - There may be laws
  - Avoid franchise characterization
Sales Representative/Marketing Agreement

- Post-Termination
  - Post-termination commissions ("Tails")
  - Post-termination rights/obligations (e.g., non-compete)
  - Customer list
  - Confidentiality

- Dispute
  - Termination is final – only remedy is damages
Remarketing Agreements

- Remarketing/Distribution
- OEM (Original Equipment Manufacturers)
- VAR (Value Added Reseller)
Remarketing Agreements

- Lose/diminish value of goodwill
  - Trademark – use (mandatory and control)?
- Changes to product/service
  - Control
  - Liability
  - Warranties
- Payment
  - Verification
  - Reports
  - Incentive to pay (interest/penalty/pay for audit)
Remarketing Agreements

- Special Considerations (continued)
  - Pricing of Products and Services
    - Potential of undercutting
    - Minimum pricing (pay attention to anti-trust considerations)
    - Combination products
  - Inventory Control
  - Technology (see licenses)
Remarketing Agreements

- Termination
  - Notice
  - Carry-over inventory
  - Reliance
  - Trademarks
- Post-Termination obligations
Out-Licenses

- Description (common with Drug Development)
- Benefits
  - Use underutilized assets
  - Accelerate development and/or commercialization
Out-Licenses

- Keys to Grant
  - Identify the technology with specificity
  - Territory
  - Field of Use
  - Exclusivity (Note: Clarity re: exclusivity as to Licensor)
  - Transferability
  - Term
Out-Licenses

- Commitment of Licensee
  - Milestones/performance
- Royalties
  - Amount
  - Royalty-Base
  - Minimums
  - Joint Products
Out-Licenses

- Improvements/Developments
  - Licensee improvements/Licensor improvements
  - Rights to use
    - Licensor
    - Licensee
  - Obligation to pay royalties on Developments
    - Licensee
    - Licensor
Out-Licenses

- Term of royalty obligation
  - Consider survival beyond life of patents
- Intellectual property prosecution and infringement
  - Who prosecutes? Who pays?
  - Protect the base intellectual property
  - Who can sue? Who benefits?
In-Licenses

- Similar Issues
- Reasons
  - Critical asset
  - Develop more than 1 product
- Remember the “Shoulder Person”
  - Pay attention to Termination
- Improvements are key
Joint Development

- **Formation**
  - Critical as to what is being contributed (and what is not)
    - Intellectual property
    - Cash
    - Technology
    - Lab/people
  - Background technology v. new technology
  - License v. transfer
Joint Development

- Operation
  - Decision-making – Typically a “Steering Committee”
    - What is being developed?
    - Who is on the steering committee?
    - How are decisions made?
Joint Development

- Ownership/Use of Development
  - Identify improvements/development/How do you know?
  - Use/commercialization
  - Royalties
  - Intellectual Property Prosecution
  - Intellectual Property Enforcement
Joint Development

- Joint Ownership of Patents → $1 + 1 < 2$
  - Each owner can exploit patent
  - Each owner can grant non-exclusive licenses
  - No right to grant exclusive licenses
  - No obligation to “Pay Over”
  - Need other owner to enforce patent
Joint Development

- Alternatives to Joint Ownership
  - Vest technology in one party, with a license
  - Allocate by field of interest/use
  - Place technology in an entity
  - Express agreements

- Royalty-Base
  - What is the base?
  - How are derivatives handled?
  - Reporting, etc.
Conclusion

- Pursue, consider and exploit Strategic Arrangements