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 abound!

- Development
- Representation
- Marketing Agreement
- OEM
- VAR
- Out-License
- In-License
- Contract Manufacturing
- Distribution
- Company
A Rose is a Rose...

- “Joint Venture”
- “Partner”
- “Strategic Alliance”

BUT, Words/Terms matter!
Use Third Party Assets

- 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

kWantera to Form Technology Alliance with GE Renewable Energy

October 21, 2015

Fiserv Partners with InvestEdge to Expand Reporting Capabilities for the Wealth Management Industry

Thorley inks $215M Hasbro deal

Philips, Immunetrics ink bioinformatics development deal
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
PNC and Perot team up for online bill presentation, payment system

Operation to employ 41 here in its first year
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 begin relationship
- Easier to exit
- Shorter duration

“Sign here to indicate you have no idea what you’ve signed for.”
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
  - Risk
Framework for a Strategic Relationship

1. Formation
2. Operations
3. 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
Avoid disputes – You Can’t Afford Them!!
Avoid Disputes

- Clear understandings
- Information Exchange/Meetings
- Align interests/Identify different interests
- Quality partners
- Consider escalation/mediation
- Ask the “What if’s”
- Build in Exits
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?
Remedies

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

- Unknown assignees
- Protect against competitors
- Permit assignment in sales
- Bankruptcy
Sales Representative/Marketing Agreement

- 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

Accelerate development and/or commercialization

Biogen Idec and Knopp Neurosciences Announce License Agreement for Late-Stage ALS Drug Candidate
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
Development Agreement

- Quality
- Confidentiality (NDA, Use)
- Ownership of intellectual property
  - Background technology
  - Developments/improvements
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