



FENWICK & WEST LLP

Joint Ventures and Other Growth Alternatives

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Growth Alternatives

- **Internal Development**
- **Acquiring Technology**
- **Joint Venture (JV) Entities**
- **“Contractual” JV Agreements**
 - > **Joint Marketing**
 - > **Joint Development**
 - > **Outsourcing**
 - > **Hybrids**
- **Acquisitions**



Internal Development: Pros

- **Control of Design, Timing and Quality**
- **Design for Integration**
- **Known Team and Technology**
- **100% IP Ownership and Control**
- **Can Control Third Party Access**
- **No Dependence on Third Party (“3P”)**



Internal Development: Cons

- **Often Slowest Time to Market**
 - > **Delays in Building a New Team**
 - > **Conflicts in Resource Allocation**
- **May Be Highest Cost Approach**
- **Distracts from Core Competencies?**
- **Excess Baggage After Development Completion?**

Acquiring Technology License: Pros

- **Often Fastest Time to Market**
- **Less Expensive, Easier Process**
- **Can Couple With Equity Investment, With**
 - > **Upside Potential to Share Value Creation**
 - > **Control Rights**
 - > **Merger Veto, Refusal Right**



Acquiring Technology License: Cons

- **Dependence on Third Party**
- **Risk of Termination or Nonrenewal**
 - > **Licensor Acquisition or Bankruptcy**
- **Costly and Difficult to Get Exclusive Rights**
- **Third Party May Want Grant Back or Equity**
- **Above Unacceptable Risks for “Core IP”**



Entity Joint Ventures: Pros

- **Improved Ability to Address New Markets and Technologies**
 - > **Pooling of Resources**
 - > **Time to Market Advantages**
- **Sharing of Profits and Risks**
 - > **IP Royalties Also Possible**
- **Unlike Acquisition, Can “Unscramble”**



Entity Joint Ventures: Cons

- **Not Truly Independent**
- **Upside / Liquidity Path Unclear**
- **Joint Control Unworkable**
- **ISOs May Be Unavailable**
- **Risks of Disputes or “Divorce”**
- **Risks of Giving JV Exclusive Rights**



Entity JVs—Key Issues

- **JV Structure; Choice of Entity**
- **Tax Planning**
- **Technology (IP) Contributions**
- **Employee Incentive Strategies**
- **Control; “Divorce” Planning**

Entity JV Structure: Choice of Entity

- **If Tax Considerations Dominate--LLC**
- **If Equity Compensation or IPO Exit is Key--
Corporation**





Tax Planning

- **Choice of Entity**
 - > **Contract Arrangement May Be Tax Partnership**
- **Structuring of Technology Contributions**
 - > **Grant of “All Substantial Rights”**
- **Cross Border Technology Transfers**
 - > **Royalty Advisable If Contribute IP to Foreign JV**
- **Special Allocation Provisions**
- **Exit Planning Issues**



IP Complexity

- **JV vs. Member IP Rights**
- **Rights Pre, Post and During JV**
- **Royalty Structure**
- **JV Field of Use and Sublicensing Rights**
- **Assignability; Terminability**
- **Noncompetes**
- **Assign Parent Opportunities?**



Control: Member Veto As To:

- **Business Plan and Scope**
- **Budgets, Financings, Capital Calls**
- **Officers, Compensation**
- **Member Assignments or Admissions**
- **Exit Scenarios--IPO, M&A, Wind Up**
- **Key IP Issues**



“Divorce” Planning

- **Clear Initial Agreement On Goals, Tactics, Timing & Respective Contributions Is Key**
- **Escalation & Deadlock Resolution**
- **Clear rights to dissolve JV or terminate its exclusive rights in certain situations**
- **Have mechanism to achieve Exit Strategy by JV sale or IPO or JV partner buyout**
- **Consider Effect of Termination On:**
 - > **IP, Employees, Facilities,**
 - > **Other Assets, Rights & Liabilities**



Employee Incentive Strategies

- **Inducement Incentives**
- **Downside Protection--Severance; Vesting Acceleration, Right to Return to Members**
- **Phantom Stock Plans--"JVARs"; SAR Accounting**
- **Option Plans--Effect of Roll Up; Put/Call Rights; LLC Complexities**



“Contractual” JVs-Types

- **Joint Marketing, Co-branding and Linking Agreements**
- **Outsourcing; Joint Development**
- **Internet Hybrids of the above:**
 - > **e-business Infrastructure Development**
 - > **Sales and Customer Management**
 - > **Web Hosting; Fulfillment; MIS**
 - > **Content/Delivery JVs**
- **Above Often Coupled With Equity Investment**



Contractual JVs: Pros

- **Avoids Need for Entity Formation for Shorter Term and Project Specific Cooperation**
- **Retains Focus on Core Competencies**
- **Avoids Need to Build Infrastructure**
- **Fast, Low-resource Way to Add Needed Solutions and Services**
- **Leverages 3P's Superior IP and Resources**
- **Shifts Risk to 3P**



Contractual JVs: Cons

- **Dependence on 3P and Contract Continuance**
- **Loss of Control & Flexibility**
- **Risk of Disputes; Termination Planning**
- **Impact on Expenses and Margins?**
- **Dilution If Give up Equity**

M&A Risks May Favor JVs or Other Growth Alternatives

- **EPS Dilution if Synergies Don't Materialize**
- **Integration Risks: Employee/Culture, Customer and Market Channel Confusion**
- **Management Distraction**
- **Inheriting Unforeseen Risks (IP, Litigation)**





Decision Drivers

- **Core Technology, Control/Exclusivity Critical**
 - > **Buy or Grow**
- **Can't Depend on Others--Buy or Grow**
- **Internal R&D Impossible**
 - > **Buy, License, or Have 3P or JV Develop**
- **Inability to Ramp Infrastructure Quickly**
 - > **Time to Market Critical: Buy or License; Market or Have 3P Provide Solution Via Contract or Entity JV**
 - > **Inability to Afford Rapid Market Segment Penetration—partner With Party With Funds, Market Position or 1st Mover Advantage**