

THE “NUTS AND BOLTS” OF INTERNATIONAL JOINT VENTURES

AMERICAN BAR ASSOCIATION SECTION OF INTERNATIONAL LAW-ISRAEL BAR
ASSOCIATION JOINT MEETING

MAY 22, 2012
EILAT, ISRAEL

PANELISTS

- * PANEL CHAIR and MODERATOR:

- * MARK KATZ, Davies Ward Phillips & Vineberg LLP, Toronto, Ontario, Canada

- * PANELISTS:

- * MERAV NIV GEVA, Efrati Galili & Co., Tel Aviv, Israel

- * DANIEL L. GOTTFRIED, Rogin Nassau LLC, Hartford, CT, USA

- * HERMANN J. KNOTT, Luther, Cologne, Germany

- * OWEN D. KURTIN, Kurtin PLLC, New York, NY, USA

- * MOSHE OSTROWER, Ostrower & Co., Tel Aviv, Israel

The Joint Venture-Memorandum of Understanding

- * Israeli High Tech Company (“Itech”), an Israeli start-up, has developed a prototype ultra-light weight, long duration lithium-ion battery that has the potential for revolutionizing the charge life, size and weight of a variety of consumer technology devices, such as digital music players, video viewers and mobile broadband Internet access devices.
- * Itech has taken the necessary steps to register and protect its intellectual property in the prototype, which relies upon a unique arrangement for accelerating the swapping of ions between cathode and anode and its underlying technology, in the US, EU, Canada, Japan, Israel and all other relevant jurisdictions.
- * US Consumer Electronics Company (“US Co.”), a United States public corporation and major producer of consumer technology devices, sought to acquire Itech, whose only significant asset is the intellectual property in the battery prototype. Itech refused to be acquired, wishing to remain independent. Itech also refused to grant US Co. an exclusive, worldwide license to exploit the battery technology.

The Joint Venture-MoU (cont'd)

- * Instead, Itech has proposed to US Co. that the two companies enter into a joint venture relationship in which the parties formally collaborate on a continuing business project but maintain their separate existence.
- * The parties have agreed in principle that Itech will contribute (or license), on a yet-to-be-determined basis, its intellectual property to the joint venture. Itech will be responsible for completing development of the prototype to a working, fully commercialized model of the battery. US Co. will fund this development by making a strategic investment in either Itech or the joint venture to permit commercialization of the battery. Assuming a working, fully commercialized model of the battery is produced, the two companies will jointly manufacture, market, distribute and sell the battery embedded in a specified range of US Co.'s products over a specified territory. Itech will be free to exploit its intellectual property for other purposes.
- * The parties will divide profits and losses from the joint venture on some basis. Itech also wants to be paid royalties from a limited license it would give to US Co. US Co. wants certain preference rights with respect to its strategic investment.

The Joint Venture-MoU (cont'd)

- * The parties have come together to negotiate five principal issues in the proposed joint venture, with the understanding that only if they reach agreement on those five areas will it be worth proceeding to other points of negotiation. The five issues to be discussed are:
 - * Structure and formation of the joint venture
 - * Governance of the joint venture
 - * Treatment of intellectual property pre-existing the joint venture and intellectual property developed in the course of the joint venture.
 - * Division of profits and losses, royalties from licensing, and terms of US Co.'s strategic investment in Itech
 - * Termination of and exit from the joint venture

STRUCTURE AND FORMATION OF JOINT VENTURE

- * Contribution of assets and/or services to be contributed by each party
- * Competition/antitrust considerations
- * Joint venture by simple contract, or formation of a legal entity?
- * Joint venture by contract
 - * Ownership of intellectual property
 - * Enforcement of rights
 - * Funding development
 - * Taxation of income
 - * Royalties v. equity dividends
 - * Permanent establishment issues

STRUCTURE AND FORMATION OF JOINT VENTURE (cont'd)

- * Joint venture by creation of legal entity
 - * Location of joint venture
 - * US-place of formation
 - * Israel-place of formation or location of management and control

- * Choice of legal entity as joint venture vehicle
 - * Corporation
 - * Partnership or Limited Partnership
 - * Limited Liability Company
 - * US LLC
 - * Israel Ltd

Joint Venture Governance

- * What governance structures should be put in place? Should they be based on a “partnership” or a “corporation” model?
- * Representation on the governing body or bodies: management rights aligned with economic interests? How to value each party’s contribution and stake in the JV?
- * Super-majority or veto rights over particular actions?
- * Setting a budget
- * Capital calls
- * Forum for dispute resolution

Treatment of Intellectual Property in the Joint Venture

- * Pre-existing IP v. JV-developed IP
- * Funding development and “BIRD” grants
- * Royalties apart from JV profits
- * Third party licensing
- * Prosecution/Protection of IP rights

Division of Profits and Losses, Royalties, and Terms of US Co. Strategic Investment in Itech

- * Preference rights with Respect to US Co.'s strategic investment?
- * Division of profits and losses and when distributions are made.
- * Royalties from the batteries embedded in JV-developed products?

Termination of and Exit from the Joint Venture

- * Term and renewal
- * Rights of termination: at will on notice, or event-driven?
- * Treatment of JV-developed IP upon termination
- * Buy-sell rights between the parties
- * Treatment of products already produced or “in the pipeline” at the time of termination
- * Treatment of executory service, warranty obligations

Regulatory and Other Issues

- * Competition/Antitrust review and pre-clearance
- * Industry-specific regulation
- * Environmental Issues (manufacturing, distribution, sale)
- * Foreign investment regulation
- * Technology export regulation
- * Governing law, forum for dispute resolution, information and audit rights

PANELISTS-CONTACT INFORMATION

MERAV NIV GEVA: mnivgeva@egl.co.il

DANIEL L. GOTTFRIED: dgottfried@roginlaw.com

MARK KATZ: mkatz@dwpv.com

HERMANN J. KNOTT: hermann.j.knott@luther-lawfirm.com

OWEN D. KURTIN: okurtin@kurtinlaw.com

MOSHE OSTROWER: moshe@mamolaw.com