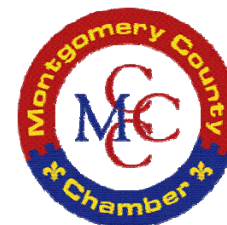




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“JOINT VENTURES”

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WHAT IS A JOINT VENTURE?



- A joint venture is:
 - “An association of a DBE firm and one or more other firms to carry out a single, for-profit business enterprise, for which the parties combine their property, capital, efforts, skills and knowledge, and in which the DBE is responsible for a distinct, clearly defined portion of the work of the contract and whose share in the capital contribution, control, management, risks, and profits of the joint venture are commensurate with its ownership interests”



ABOUT JOINT VENTURES



A. Main Characteristics:

1. Co-management
2. Sharing profits and losses
3. Limited duration

B. Competing as a joint venture:

1. Joint ventures should be formed before submitting offer
2. Agreement should provide for contract performance
3. FAR requires disclosure in the proposal

C. Forms of Joint Venture:

1. Partnership
2. Limited Liability Company
3. Corporation (more formalities)

STRUCTURING A JOINT VENTURE

- Form of Joint Venture
 - Traditional Joint Venture (partnership)
 - Can be informative
 - No employees or assessments
 - Legal Risk
- Alternative
 - Limited liability company
 - Advantages – easy to form; limited liability for partners
 - Disadvantages – requires capitalization and operation as separate entity
 - Corporation (more formalities)



Joint Ventures: Management Structure and Labor



- What will be the management structure of the Joint Venture?
 - Management Committee?
 - Project Manager?
- Which party will be responsible for negotiating contracts?
- Which party will be responsible for negotiating subcontracts with subcontractors?
- What are the sources of labor to be employed?
- How do the Parties envision the division of labor on contracts?



General Provisions that Must be Included in Most Joint Venture Agreements



- Purpose of the Joint Venture
- Designation of SBC as managing venturer
- Not less than 51 % of net profits earned by Joint Venture will be distributed to the SBC participant.
- Responsibilities of the Parties
- Obliging parties to Joint Venture to ensure performance of government contract
- Designation that accounting/administrative records are kept by managing venturer and requirement that managing venturer retain records of contracts completed by Joint Venture
- Performance of Work
- SBA Inspection of Records



Populated Joint Venture



➤ **PROS:**

1. One seamless entity performs work.
2. Reduces possible confusion in evaluating proposal.
3. The Joint Venture subcontracts directly with subcontractors.

➤ **CONS:**

1. SBA's JV regulations are not consistent with populated Joint Venture Structure.
2. If approval of Joint Venture Agreement is required, it may be delayed by proposed structure.
3. The Minority Joint Venture partner (49%) may not be able to exercise control over workforce under PM-managed populated Joint Venture.



Unpopulated Joint Venture



➤ **PROS:**

1. Each Joint Venturer performs work independently as subcontractor to Joint Venture.
2. Easier to explain structure to SBA for approval of Joint Venture Agreement.
3. "Joint Venture" may charge handling fee at prime Contract level for work subcontracted to subcontractor.

➤ **CONS:**

1. May increase price if each Joint Venturer uses a subcontractor which in turn subcontracts to the 2nd tier subcontractors.
2. Procuring Agency may not understand who is performing work if Joint Venture is unpopulated.



Limited Liability Company



➤ **PROS:**

1. **Liability** – *Members not liable (beyond capital contributions) to third parties for actions of the LLC.*
2. **Taxes** – *Maybe treated as partnership (or like an S Corp) for tax purposes.*
3. **SBA** - *recognizes LLC as structure through which to operate joint venture.*

➤ **CONS:**

1. **Liability** – *individual members remain responsible to government for performance of contract under SBA regulations.*
2. **Documentation** – *Articles of Organization and Operating Agreement need to be drafted.*
3. **Past Performance** - *no past performance record of its own unless the solicitation allows members past performance history to be considered.*
4. **SBA** – *the regulations do not contemplate LLC structure, making it difficult to operate within regulations.*



JV Partnership



➤ **PROS:**

1. **Taxes** – *Treated as a partnership (or like an S Corp) for tax purposes.*
2. **Bid and Proposal Cost** – *recoverable by individual members.*
3. **SBA** – *Structure with which the SBA is most familiar, making the review process less time consuming.*

➤ **CONS:**

1. **Liability** – *Partners are jointly and severally liable on debts of the partnership.*
2. **Documentation** – *Joint Venture Agreement necessary for 8(a) purposes; serves as partnership agreement.*
3. **Past Performance** – *no past performance record of its own unless the solicitation allow members past performance history to be considered.*



TIMING OF PRENUPTIALS



1. Joint Ventures should normally be formed before the offer is submitted
2. Agreement should provide for performance of the contract – avoid “agreement to form a joint venture”
3. FAR requires that nature of the joint venture be fully disclosed in the proposed,



JOINT VENTURES: SB SET ASIDES



- A. The Joint Venture may bid on up to three proposals within 2 years
- B. Government can award to JV if contract:
 1. Exceeds 1/2 of revenue-based size standard
 2. Exceeds \$10M (employee-based size standard)
 3. All partners must be small, except for SBA-approved Mentor-protégé relationship



JOINT VENTURES: 8(a) SET ASIDES



- A. Government can award 8(a) contracts to JV if:
 - 1. One firm is 8(a) certified
 - 2. All partners are SBs, unless in Mentor-Protégé
- B. The SBA must approve the Joint Venture agreement
 - 1. 8(a) firm must manage
 - 2. 8(a) must furnish project manager
 - 3. 8(a) must receive at least 51% profits
- C. Competing as a joint venture – best practices
 - 1. JV should be formed before submitting offer
 - 2. Agreement should provide for contract performance
 - 3. FAR requires proposal to disclose nature of joint venture



JOINT VENTURES: HUBZONE CONTRACTS



- A. All partners must be HUBZone.
- B. All partners must be small.
- C. The contract must meet certain size requirements.



WATCHOUTS: Where Small is a Factor



- Avoid affiliation
- Avoid violation of ostensible subcontractor
- Joint venturing under small businesses 8(a) rules
- Mentor-protégé joint ventures
- Performance of Work



TEAMING AGREEMENT *VS.* JOINT VENTURE



- **Liability**

- JV partners jointly responsible for contract performance, and except in LLC, jointly and severally liable
- Subcontractor only responsible for portion of work it performs, limited liability

- **Control**

- Shared by JV partners
- Lead subcontractor has control over teaming relationship

- **Bonding**

- JVs typically able to obtain bonding based on combination of all partners
- Prime/sub may work also, but likely requires agreement of all parties to be bound and collateral from owners