

Transferring Intangibles

*Buying and Selling Technology, Service & other
Knowledge-Based Companies*

Jim Chester, JD/LL.M



Jim Chester, JD/LL.M

Attorney / Professor / Entrepreneur

I serve as strategic legal counsel for innovators.

For 22 years, I have advised companies operating in the US, around the world, and on the Internet to resolve legal challenges related to business, intellectual property, technology, ecommerce and international transactions. I am currently a partner in Dallas-based technology boutique law firm Klemchuk LLP, and a significant amount of my practice is focused on advising clients involved in the purchase and sale of technology companies and international technology transactions. Before joining Klemchuk LLP, I was managing partner of Chester PLLC for 14 years.

I've also taught as an adjunct professor of law at Baylor Law School for the past 18 years, and previously taught business law courses at the University of Dallas and at Texas A&M University-Commerce. In fall of 2019, I begin teaching Entrepreneurial Law in the MBA program at SMU's Cox School of Business.

I'm also an entrepreneur, having founded or co-founded several ventures. Recent ventures include: in 2018, co-founded Engage (www.officespace.law) an executive suite/co-working concept for lawyers; in 2017, launched OWL Suites (www.owlsuites.com), an online marketplace for office space.

EDUCATION

LL.M., International Economic Law, University of Houston School of Law, 2000

J.D., South Texas College of Law (Law Journal, Varsity Mock trial), 1997

B.S., Economics/Political Science (Double major), High Honors, Texas A&M University, Commerce, 1994

HONORS

- “Rising Stars Under 40,” Law & Politics Magazine published in Texas Monthly & Texas Rising Stars (2008-2011).
- “Super Lawyer” Law & Politics Magazine published in Texas Monthly & Texas Super Lawyers (2013-19).
- “Best Lawyers in Dallas,” D Magazine (2014).
- “AV® Preeminent” Peer Review Rating by Martindale Hubbell®.
- Dallas Bar Fellow
- Texas Bar Fellow
- Alumni Ambassador, Texas A&M, Commerce (1998 & 2018)

Introduction



Challenges to Buying/Selling Knowledge-Based Companies

- Valuation
- IP Ownership
- Key Employees

Cautionary Tale



1998 purchase of Rolls-Royce by Volkswagen, AG.

Volkswagen paid \$795 million for Rolls-Royce Motor Cars Ltd., but soon discovered that the “Rolls-Royce” trademarks were not part of the deal.

Rolls-Royce PLC had gone into receivership in the 1970s and, although Rolls-Royce Motor Cars, Ltd was sold at that time, the “Rolls-Royce” trademark was retained by Rolls-Royce PLC (aircraft engine company)

Thus, Volkswagen had spent \$795 million for a luxury car company, but could not use the Rolls-Royce brand.

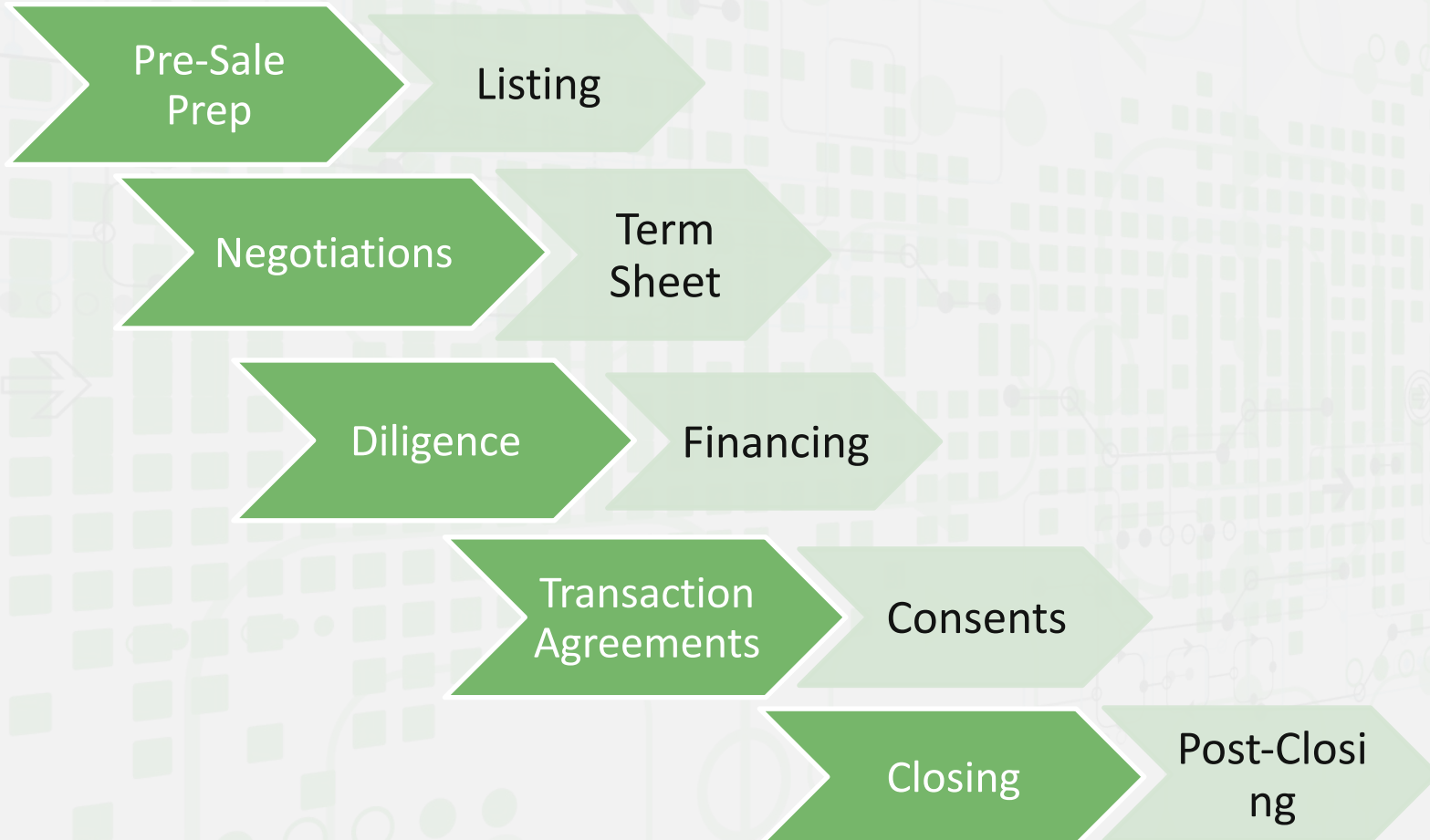
Introduction



Reasons for Buying & Selling Companies

- Exit & Succession-Planning
- Strategic Growth/Consolidation (competitors, adjacent markets, vendors & customers)
- Investors
- Immigration-based (EB-5 Visas, etc.)

Overview of the Buying/Selling Process



Pre-Sale Internal Review



- Ascertain assets and value
- Gathering and reviewing company records
- Financial documents
- IP Ownership & Registrations
- Software Escrow
- Identifying risks, liabilities & Issues

Listing & Offer for Sale



- Generally
- Using Brokers & Listing Services

Negotiations



- NDA
- Deal Structure
 - Asset v. Equity
 - Price & Terms
 - Tax Implications
 - Other Aspects of Deal
- Acquiring Entity
- Target Closing Date

LOI/Term Sheet



Key Components, Caveats & Pitfalls

- Definitive Agreements Required
- Confidentiality
- No shop
- Expenses

Due Diligence



- Diligence Request/List
- Research
- Key Elements:
 - Financial & Corporate
 - Real Estate
 - Key Contracts
 - Risks/Liabilities & Disclosures
 - Encumbrances on Assets or Interests
 - **IP Due Diligence**

IP Due Diligence



For an buyer, IP due diligence is crucial.

- Otherwise, the acquiring company cannot correctly value the seller company and might significantly overpay for the assets it acquires.
- Even worse, the acquiring company could be purchasing an IP infringement lawsuit.

IP Due Diligence is as important to Seller as it is to Buyer

- allows it to better ascertain the value of its IP assets, and therefore overall worth.
- It also permits seller to “clean house” and ensure that all registrations, licenses and assignments are current, properly executed and recorded
 - avoids delays/hiccups in deal process.

IP Due Diligence



- Step 1: Create & review the IP Asset Inventory to determine the selling company's rights with respect to each of those IP assets (e.g., owner, co-owner, licensee, etc.).
- Step 2: Review any active litigation, settlements, coexistence/consent agreements, assignments, liens, security interests, licenses, and any other agreements affecting the selling company's rights in the IP assets.
- Step 3: Ensure that the IP is enforceable, and that registrations are current.
- Step 4: Assess the value of the IP. Analyze the value of the IP as it relates to current production and future expansion of the business. Factor in remaining useful life of finite registrations like © or patents.

Financing the Deal



- Self finance
- Stock
- Earn Out
- 3rd Party Money

The Purchase Agreement



Key Components / Caveats & Pitfalls

- Reps and Warranties
- Included/Excluded Assets & Liabilities
- Indemnity and Clawbacks
- Payment, Escrow & Earn out
- Non-Competes
- IP Transfers
- Key Contract Transfers
- Key Employee employment

POLL CODE 1: CLOSING

Consents



- Lenders
- Landlords
- Stockholders/Members/Directors
- Governmental/Regulatory
- Key Contracts
 - “Change in Control” provisions
 - Software Escrow

Closing & Post-Closing Matters



- Payment
- Bill of Sale & Transfers
- IP & Title Assignments
- Handling Disputes

POLL CODE 2: IP

Questions & Answers

Contact Jim at: jim.chester@Klemchuk.com

Mention this Presentation and
get a **free** LOI review