

# **Oilfield Services Seminar Series**

## ***Part II | Sorting M&A Targets Using Triage Due Diligence***

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Panel Moderator:

Chris Wolfe | Partner, Haynes and Boone

April 14, 2016

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April 14, 2016

# Hilco Energy Solutions

Maximizing the Value of  
Assets through  
Integrated Global Services



# We Are International in Scope



\*Joint Venture Offices

• Valuation

• Monetization

• Advisory

# Hilco Global Delivers Results

- Conducted over 1,800 industrial asset disposition projects.
- 400+ Fortune 2000 clients, across all industries.
- Sold assets from 53 countries into more than 60 countries in 2013.
- Asset sales exceeded \$1 billion in 2012 and 2013.
- Disposition of over 200 million square feet of industrial, office and retail properties .
- Appraised and repositioned industrial, commercial and retail real estate worth nearly \$4.0 billion, and restructured over 35,000 leases.
- Market leader in recovery through market making for IP, patents and other intellectual property.
- Delivered nearly 20,000 appraisals - values in excess of \$200 Billion;
- Converted over \$150 billion of excess inventory to cash.

## Valuation

- Tangible and Intangible Asset Appraisals:
  - › Inventory
  - › Machinery & Equipment
  - › Real Estate
  - › Accounts Receivable
  - › Intellectual Property
- Enterprise Valuations:
  - › Fairness & Solvency Opinions
  - › Quality of Earnings
- Portfolio Valuations
- Due Diligence Services
- Valuations for Tax, Reporting, Accounting and Compliance Requirements:
  - › FAS 157, 141, 142
  - › IFRS Compliant Valuations

## Monetization

- Retail/Wholesale Assets:  
Disposition and Acquisition of Inventory, Fixtures and Equipment, Real Estate, Intellectual Property and Debt Instruments
- Industrial/Manufacturing Assets:  
Disposition and Acquisition of Machinery, Equipment, Inventory, Rolling Stock, Real Estate, Debt Instruments
- Intellectual Property:  
Intangible Assets Including Patents, Brands, Trademarks, Domain Names, IPv4
- Commercial and Institutional Real Estate:  
Disposition and Acquisition of Real Estate, Intellectual Property and Debt Instruments
- Accounts Receivable:  
Acquisition and Collection of Commercial Accounts Receivable Portfolios
- Facility Redevelopment and Repurposing:  
Acquisition of Industrial and Manufacturing Sites for Repurposing
- Private Equity:  
Principle investment and operations for strategic businesses, brands and turnaround situations

## Advisory

- Retail Performance and Profit Enhancement Strategies
- Real Estate Asset Restructuring
- Asset Security and Protection Services
- Brand Revitalization and Licensing Strategies
- Litigation Support Services

## VALUATION

### Hilco Valuation Services, LLC

- Tangible and intangible asset appraisals in real estate, inventory M&E and IP
- Business valuations
- Accounts receivable
- Insurance/Tax valuations
- Asset verification and tagging
- Compliance
- Ad valorem

### Hilco Enterprise Valuation, LLC

- Business valuations
- Intellectual property
- Financial reporting
- IFRS valuations
- Fairness and solvency opinions
- Quality of earnings

### Hilco Real Estate Appraisal, LLC

- Commercial, retail and industrial
- Ad valorem property tax proceedings (real and personal property)

### Hilco Litigation Support

- Valuation dispute resolution
- Bankruptcy
- Shareholder disputes
- Estate/Gift tax
- Expert witness

## MONETIZATION

### Hilco Merchant Resources, LLC

- Retail asset-related disposition and acquisition services
- Retail M&A facilitation
- Outsourced store management and operation
- Shrink reduction services
- Marketing services

### Hilco Fixed Asset Recovery, LLC

- FF&E disposition services

### Hilco Real Estate, LLC

- Property/lease disposition
- Principal acquisitions and sale/leasebacks
- Real estate brokerage/auctions

### Hilco Redevelopment Partners

- Acquisition of land and property
- Financing the redevelopment
- Orchestrate the redevelopment process
- Sale or lease of redevelopment

### Hilco Industrial, LLC

- Acquisition and disposition of machinery, equipment and industrial inventory

### Hilco Receivables, LLC

- A/R portfolio acquisition and collection
- Commercial A/R portfolios
- Non-performing loans
- Purchase charged off consumer debt

### Hilco Streambank

- Intangible asset valuation services
- Market development and auctions for domain names, trademarks, IPv4, etc.

### Hilco Wholesale Solutions, LLC

- Disposition services for underperforming and excess consumer products inventory in wholesale environments

### Hilco Asset Sales (Canada)

- Asset disposition

### Re:Capital (Canada)

- Private equity investments

### Hilco Acetec (Mexico)

- Industrial asset and real estate appraisals and disposition

### Hilco Global Brazil

- Valuation, monetization and advisory services

## ADVISORY

### HRC Advisory

- Strategic consulting for retailers and consumer product companies
- Performance enhancement and R.O.I. processes
- Pre-acquisition operational due diligence
- Store operations and workforce management

### Hilco Real Estate, LLC

- Lease portfolio restructuring

### Hilco Asset Protection, LLC

- Physical facility asset security and protection services

### Hilco Brands, LLC

- Brand strategy, licensing & consulting

## ▲ NORTH, SOUTH AND CENTRAL AMERICA ▲

## ▼ EUROPE AND THE ASIA-PACIFIC REGION ▼

### Hilco Appraisal Asia-Pacific

- Online asset disposition and redeployment services

### Hilco Valuation Europe

- Inventory: consumer, retail & industrial
- Machinery and equipment

### Hilco Valuation Australia

- Retail inventory

### HilcoBid Asia-Pacific

- Online asset disposition and redeployment services

### Hilco Merchant Australia

- Asset-related advisory and monetization services to retailers

### Hilco Capital Europe

- Asset acquisition and investments

### Hilco Industrial Europe

- Acquisition and disposition of machinery and equipment, etc.

### Hilco Industrial Acquisitions

- Acquisition and disposition of machinery, equipment, etc.

### Hilco Brands UK

- Brand turnaround, restructuring and advisory

### Hilco Capital Europe

- Asset acquisition and investments



## Recent Valuation and Liquidation Assignments



# Recent Valuation Projects





**Hilco** Industrial  
**WEBCAST/ONSITE AUCTION**

Powered by

**HILCO** INDUSTRIAL  
 ASSET AUCTIONS

**BidSpotter.com**

*Assets no longer necessary in the continuing operations of*



## Late Model, Exceptionally Maintained, Single Owner Heavy Haul Fleet

- Road Winch, Gin & Slick Back Trucks
- Heavy Lift Cranes, Wheel Loaders
- Heavy Haul Trailers
- Forklifts



**Thursday, January 14<sup>th</sup> • 10am Local Time**  
**Multiple Locations in Texas**

*Sale Offered in Partnership with*

**Gordon Brothers Group**  
 EST. 1993

[www.gordonbrothers.com](http://www.gordonbrothers.com)



**Hilco** Industrial

Phone +1 248-254-9999

[www.hilcoind.com](http://www.hilcoind.com)

A Hilco Global Company  
 Vested in Your Success

- Butch's Trucking is primarily focused on oil and gas rig moving activities and is home to four of the largest and newest fleets of rig moving equipment in Texas and New Mexico.
- Butch's crane services division offers 100 ton to 275 ton cranes for all rig moving needs.
- Assets consisted of heavy haul transportation fleet assets including winch trucks, gin trucks, 4/5/6 Axle lowboys, wheel loaders, all terrain cranes, and crawler cranes.
- Hilco provided a net minimum return guarantee for the sale of the asset pool.
- Hilco sold the assets through a series of private treaty sales and live auctions.

No Longer Subject to Bankruptcy Court Approval  
 See our Website for Updated Lot Catalog: [www.hilcoind.com](http://www.hilcoind.com)



## Saturation Diving Assets For Use In Commercial Diving Applications



**Thursday, August 6<sup>th</sup> • 10:00 am Local Time**  
**Port Arthur, Texas**

Sale Offered in Cooperation with



[www.dmcltd.com](http://www.dmcltd.com)



Phone +1 248-254-9999

[www.hilcoind.com](http://www.hilcoind.com)

A Hilco Global Company  
 Vested in Your Success

- Cal Dive provides manned diving, derrick, pipe laying and pipe burial services to the offshore oil and natural gas industry.
- Assets consisted of saturated diving systems (including bells, hyperbaric chambers, umbilical cables, dive compressors, surface dive control chambers, and HPU systems), aquaterra cable handling, lay and burial spread, jet & pipe burial sleds, pig launcher, pile drivers, plow, and lifting frames.
- Hilco was retained on a fee basis and sold the assets at a live auction from the company's facility.





# AVAILABLE IMMEDIATELY

Assets no longer necessary  
in the continuing operations of



## INLAND & MARINE *Seismographic Testing Equipment; Trucks, Trailers, RTVs & Support Equipment*



**Missouri City, Texas  
& Abbeville (Intracoastal City), Louisiana**

Sale Offered in Partnership with



[www.lyonauction.com](http://www.lyonauction.com)



**Hilco** Industrial

Phone +1 248-254-9999

[www.hilcoind.com](http://www.hilcoind.com)

A Hilco Global Company  
Vested in Your Success

- Global Geophysical Services, Inc. provides an integrated suite of geoscience solutions to the international oil and gas industry including high-resolution Reservoir Grade™ seismic data acquisition, multi-client data products, micro seismic monitoring, seismic data processing, analysis, and interpretation services, and consulting.
- Assets consisted of marine seismic work vessels, pontoon boats, high pressure marine compressors, umbilical reels, guns and related hardware, over 70 service trucks and vehicles, and over 50 trailers.
- Hilco provided a net minimum return guarantee for the sale of the asset pool. Hilco sold the assets through a series of private treaty sales and live auctions.



**Hil Technologies, Inc**  
— ENERGY SERVICES —

## Oilfield Well Site Support Assets

*Flowback Water Transfer Equipment  
Generated Power  
Construction Equipment*



**Online Bidding Opens: Friday, November 13<sup>th</sup>**  
**Online Bidding Closes: Wednesday, November 18<sup>th</sup>**  
**Multiple Locations in Oklahoma & Texas**

**Hilco**® Industrial  
**www.hilcoind.com**

A Hilco Global Company  
Vested in Your Success

- Hil Technologies, Inc. is a Houston Texas based oilfield services company with operations in Texas, Oklahoma, Ohio and West Virginia.
- The company was mainly focused in horizontal drilling and hydraulic fracturing within the United States' active shale and unconventional "tight oil" plays.
- Assets consisted of flowback water transfer equipment, power generators, semi tractors and trailers, rock trucks, excavators, loaders, graders and flowback pipe.
- Hilco was retained on a fee basis and was able to sell the entire package of assets to one private treaty buyer.



**Hilco** Industrial **HILCO** **BidSpotter.com** **proxibid.**  
**WEBCAST/ONSITE AUCTION**

**preferred sands**

**Dozers • Loaders  
 Excavators • Rock Trucks  
 Processing & Storage Equipment**

*Used in the Production and Distribution of Premium Grade Frac Sand*



**Sale Date: Tuesday, July 28<sup>th</sup> • 10:00 am Local Time  
 Saskatoon, Saskatchewan, Canada**

Sale Offered in Cooperation with

**Gordon Brothers Group**  
EST. 1903  
[www.gordonbrothers.com](http://www.gordonbrothers.com)

**Hilco** Industrial  
 Phone +1 248-254-9999  
[www.hilcoind.com](http://www.hilcoind.com)

A Hilco Global Company  
 Vested in Your Success

- Preferred Sands is a premium grade proppant facility and one of North America's largest manufacturers and providers of frac sand for oil and natural gas companies in the hydraulic fracturing industry.
- Assets consisted of mining Equipment (including dozers, excavators, haul trucks, and wheel loaders) and process plant and storage equipment (including conveyors, dryers, sorters, screens, bed dryers and silos).
- Hilco purchased the assets outright and resold on their own behalf through a series of private treaty sales and live auctions.

**Hilco**™ Industrial **Hilcobid** BidSpotter.com  
**WEBCAST/ONSITE AUCTION**

Court Approved Total Liquidation, As awarded  
 by the Court Appointed Trustee FTI Consulting



## Exceptional Offering of Late Model CNC Machining Centers & Coil Tubing Rigs



**Intellectual Property  
 Available for Sale  
 including Drawings of  
 Injectors, Fluid &  
 Tooling, Licenses  
 & Patents**



**Thursday, April 14<sup>th</sup> • 10:00 am Local Time  
 Calgary, Alberta, Canada**

Sale Offered in  
 Partnership with



[machinerynetworkauctions.com](http://machinerynetworkauctions.com)



**Hilco** Industrial

Phone +1 416-252-1955

[www.hilcoind.com](http://www.hilcoind.com)



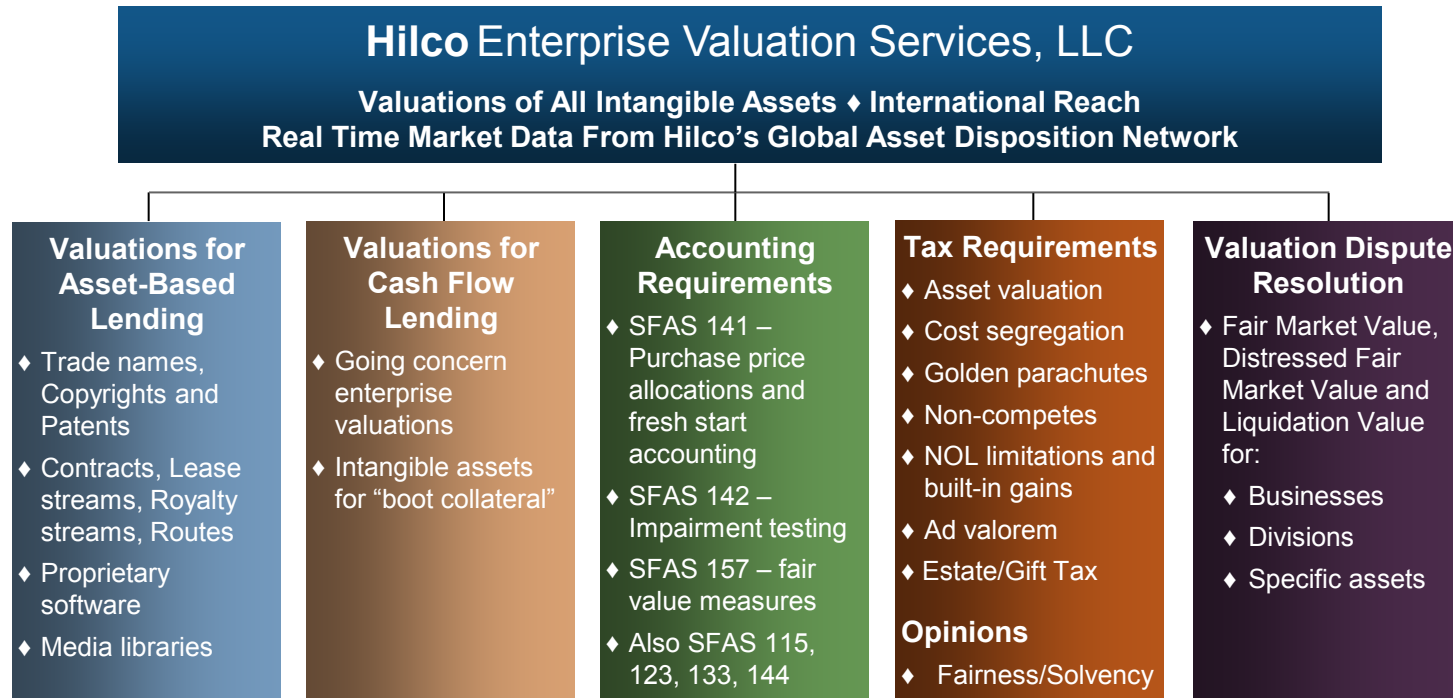
A Hilco Global Company  
 Vested in Your Success

# Upcoming Oil & Gas Related Sales





# EVS: Capabilities



# Hilco Valuation Services: Intangible Asset Valuations



## Representative Transactions



### **BORDERS.**

#### **Borders Group** (Valuation and Disposition)

Hilco was retained by the bank agent to value Borders' IP assets to support a junior tranche with a first lien on the IP. Hilco provided an OLV range of **\$10-\$14 million** based on a liquidation scenario that included an operating e-commerce site at the time of sale. Subsequently, Hilco was engaged to dispose of the Border's IP, including its global trademarks, e-commerce site, customer database and IP addresses. Hilco generated aggregate recoveries in excess of **\$17 million**.



#### **Tavern on the Green** (Disposition)

Hilco was retained by the Chapter 7 Trustee, whose only IP asset was the right to appeal an adverse court ruling that had stripped the estate of its trademark. Without funds to pursue an appeal, and with a secured lender looking for recovery, the Trustee asked Hilco to negotiate a settlement and sell the recovered assets. We promptly concluded a deal with the City of New York and converted the settlement into a **\$1.3 million** asset sale.



#### **Circuit City DiVX Patents** (Disposition)

The Circuit City Liquidating Trust retained Hilco to sell a portfolio of patents held by DiVX, a dormant Circuit City subsidiary. Hilco marketed the assets to companies with direct and tangential business lines as well as a large network of patent litigation attorneys. The final sale price exceeded **\$6 million**.



#### **Berkline/Benchcraft** (Disposition)

Following liquidation of this furniture manufacturer's inventory, machinery and equipment, Hilco was retained to sell its IP assets, including the Berkline and BenchCraft brands. Hilco generated interest from Asia-based buyers and eventually sold the assets to Ashley Furniture for over **\$6 million**.



#### **Collins & Aikman/C&A** **Post Consumption Trust** (Valuation and Disposition)

Following the bankruptcy of this \$4 billion Tier 1 supplier of interior plastics and soft trim components, remnant assets were transferred to the C&A Post Consumption Trust, including approximately 1,100 patents covering the lifecycle of C&A's legacy plastics business. Hilco provided an OLV of **\$4.5 million** and was subsequently retained to handle the portfolio disposition. Within eighteen months, Hilco achieved a **\$4.6 million** recovery including the collection of past due royalties from a Korean joint venture partner.

### **Sotheby's**

#### **Sotheby's** (Valuation)

Hilco was retained to value the intellectual property of the Sotheby's global auction platform to assist the company's efforts to re-finance its secured debt. Hilco evaluated the use of the Sotheby's tradename in its core business, as well as extensions of the brand in other categories including financial services and consumer products. Hilco ultimately generated a valuation report that provided a core underpinning for the extension and increase of Sotheby's **\$300 Million** revolving credit facility.



#### **Ritz Camera & Image** **and Ritz Interactive** (Disposition)

Hilco was retained to sell the trademarks and domain names associated with the Ritz Interactive e-commerce business including: BoatersWorld.com, eAngler.com, and golfingonly.com. When the going concern sale of Ritz Camera & Image failed to materialize, the scope of Hilco's engagement was increased to include the Ritz Camera IP and the RitzPix IP assets. Hilco pulled together a sale process in two weeks that resulted in **\$1.14 Million** in additional proceeds for the Ritz estates.

HSK5001 - 9/25

For a conversation about your business needs or for more information, please contact one of our team leaders:



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# HOW DEEP IS HILCO'S KNOWLEDGE OF THE METALS SECTOR?



09/14/12 Hilco Purchase Completed  
Sparrows Point Mill  
3400 Acres; Baltimore County, Maryland

Deep enough that we put our money where our mouth is.

Monetization | Acquisition | Disposition | Asset Valuation  
Inventory | M&E | Real Estate | Intellectual Property

Hilco's team has a unique cumulative understanding of the metals marketplace that enables us to deliver the most holistic creative solutions possible. The net result is more value to the customer. In fact, with our acquisition of one of North America's largest steel mills at Sparrows Point, we risked our own capital based on the strength of our total market knowledge. Contact our team today and test our metal.

**Hilco**

# Summary: How Hilco Can Assist in the Purchase of an Oil and Gas Company

- Early stage estimates of value and industry intelligence
- Valuation of all asset classes for the purpose of deal negotiation and financing
- Liquidation of excess or non-core assets
  - Fee-based disposition
  - Minimum guarantee
  - Outright asset purchase (up-front or post-close)
- Lease renegotiation and/or potential real estate re-development
- Post-close accounting



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# Patent Portfolio

## Oilfield Services Seminar Series *Part II | Sorting M&A Targets Using Triage Due Diligence*

April 14, 2016

Jade O. Laye

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# Patent Triage Due Diligence

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- 1. Is Patented Technology used or critical to the services provided by the Target?**
  - Goes to the heart of acquisition.
  - Determine whether there are potential bars to future use.
  - Use of Patented Tech. suggests a competitive advantage and added value. Non-use suggests no competitive advantage or added value.

# Patent Triage Due Diligence

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- Is the Patented Tech. owned or licensed?
- Ownership is better – gives control.
- Licenses are ok, in general, as long as rights are *transferrable* and *exclusive*.
- Buyer Beware: ownership doesn't always equate to the right to practice invention. Confirm licenses are transferrable.
- Determine the remaining patent term.

# Patent Triage Due Diligence

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## 2. What is the competitive advantage provided by the Patented Tech.?

- Helps determine whether Patented Tech. is truly valuable.
- Patent values can vary.
- True industry advancement = competitive advantage = value.
- Patented Tech. must be practical in the field.
- Patented Tech. must actually work.

# Patent Triage Due Diligence

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## **3. Any pending/threatened patent infringement lawsuits or other patent proceedings?**

– Can affect valuation of Target.

# Questions?

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# Financial Due Diligence on Distressed Companies



*Thursday, April 14, 2016*

*Jennifer Mailhes  
Shareholder  
713.860.0215  
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# Reasons for Distressed Companies

- Economy
- Poor execution
- Shift in consumer preference
- Competition



- Focus on projected earnings to determine if distress can be resolved:
  - Sales and EBITDA bridges
  - Qualifying cost improvement project measures
- Identify cause of distress and quantify impact on sales and EBITDA
- Validate reported earnings to provide baseline upon which “synergies” can be added to support investment thesis
- Review history of trending profit and loss statements

## A. Carefully review balance sheet:

- Perform visible inspection of tangible assets at all locations, including:
  - Fixed assets
  - Real estate
  - Inventory
- Seek a professional evaluation of all assets

# Quality of Balance Sheet

- Verify loans and financial liabilities
- Review customer base, including:
  - Understanding relationships
  - Contract/MSAs
  - Future orders/backlog

## B. Review cash options:

- Is additional liquidity required?
- Can you restructure loan/credit?

## If not, explore the following:

- Compile sources and uses, upon which a Finance Request can be built, including paying off existing creditors/lenders
- Perform “regular” QoB/S analysis depending on acquisition structure

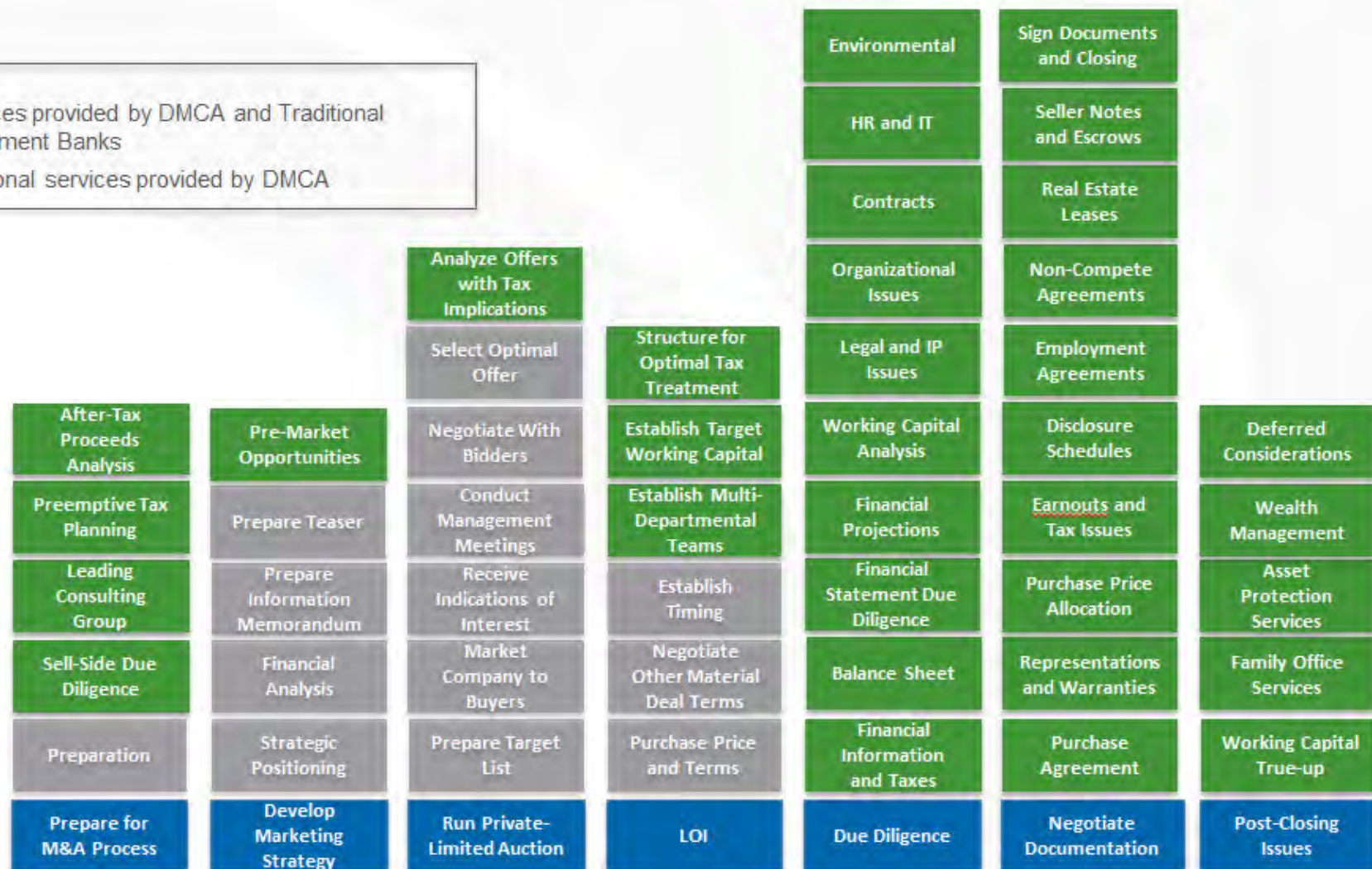
**Out of options? Consider restructuring via U.S. bankruptcy/receivership.**

- Review of reporting systems of business – likelihood of errors or irregularities
- Assess management's decision-making capabilities

# Mergers and Acquisitions Process

■ Services provided by DMCA and Traditional Investment Banks

■ Additional services provided by DMCA



# Thank You!





# Employee Benefits

## Oilfield Services Seminar Series *Part II | Sorting M&A Targets Using Triage Due Diligence*

April 14, 2016

Marilyn Doolittle

haynesboone

# Employee Benefit Plan Liabilities Can Be Hidden Deal Killers

# Top Three Points in a Due Diligence ERISA Review of a Distressed OFS Company

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- Three significant categories to include in the due diligence review:
  - Qualified Retirement Plans
  - Nonqualified Deferred Compensation and Other Executive Arrangements
  - Severance and Change in Control Agreements

# Qualified Retirement Plans

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- Compliance with Internal Revenue Code and ERISA
  - Generally – who's minding the shop? HR/Benefits Department may have had layoffs or attrition due to company's distress situation
  - 401(k) plan - employee contribution deposits to the trust – penalties if late deposits are being made
  - Request target company to terminate the plan before closing to avoid assuming compliance failure liabilities
- Underfunded pension plans
  - Has company kept up with minimum funding requirements? If the plan sponsor is distressed, the plan is likely underfunded
  - Waivers of minimum funding requirements – not really a “waiver,” will be due eventually – on buyer's watch
- Multiemployer pension plans
  - If union employees – this could be a very big ticket item

# Nonqualified and Executive Arrangements

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- Nonqualified deferred compensation plans
  - Code Section 409A compliance – complex and fraught with potential footfalls
  - Benefits are not limited like qualified plans
  - Unfunded – liability with no offsetting asset
- Other Executive Arrangements
  - Change in control payment triggers –with or without severance of employment – compensation payable could become buyer's responsibility
  - If target is publicly traded, possible limitation on compensation tax deduction, and penalty taxes applied to executive due to change in control payments

# Severance and Change in Control Agreements

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- Severance and Change in Control Agreements
  - Severance plans
    - Cash payments could be substantial
    - Continued medical/life coverage – liability can be bigger than pension liabilities, especially for retiree medical benefits – this could be another very big ticket item
  - Retention agreements
  - Stay bonuses – for the duration of the transaction
  - Change in control agreements
  - Which entity will be required to make payments?

# Questions?

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