

# Earnouts – A Mock Negotiation

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# Overview

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• Fact pattern/positions	Slide	2
• What is an “earnout”?	Slide	3
• Earnout metrics	Slides	4-8
• Earnout measurements period(s)	Slide	9
• Operational issues	Slides	10-12
• Acceleration of earnout and other remedies	Slide	13
• Earnout payments	Slide	14
• Earnout based on total return	Slide	15
• Dispute resolution	Slide	16
• Are earnout interests “securities”?	Slides	17-18
• Key earnout cases and takeaways	Slides	19-27
• Earnout Statistics	Slides	28-31
• Speaker bios	Slides	33-35

## Facts pattern/positions

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- Buyer is negotiating the acquisition of a privately held tech company (“**TechCo**” or the “**company**”) by means of a cash purchase of all of TechCo’s outstanding equity from TechCo’s shareholders (“**Sellers**”).
- After closing, TechCo will operate as Buyer’s wholly owned subsidiary, and TechCo’s current senior management team (all of whom are current TechCo shareholders) will continue to hold TechCo management positions.
- Sellers believe TechCo’s equity value is **\$300M**, based largely on TechCo’s rosy 2-year cash-flow projections. Buyer is skeptical and believes TechCo’s true equity value is closer to just **\$200M**.

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