**LETTER OF INTENT BUSINESS PURCHASE**

April 23, 20XX

Dear John:

I am pleased to submit the following preliminary, non-binding (except as otherwise set forth herein) letter of intent (the “Letter”) pursuant to which a new entity (“Newco”) be formed in order to acquire the assets of Samples Service Company, Inc. (the “Company” or “Sample Service Co.”), upon the terms and subject to the conditions set forth herein (the “Acquisition”).

I have very much enjoyed the opportunity to meet with you and familiarize myself with Sample Service Co. over the past few weeks. I am extremely impressed by Sample Service Co.’s reputation and longstanding history in the industry.

I understand that your goals in completing a transaction, beyond an appropriate valuation, are finding a partner that you trust and that you can be confident will help grow the organization to achieve long-term success. For these reasons, I believe that I am the ideal partner for Sample Service Co. and will help in building upon the Company’s established success.

With all of this in mind, it is a pleasure to submit to you this letter of intent.

The following is a summary of the proposed transaction:

1. Newco will acquire the assets of Sample Service Co.;
2. All of your current employees will remain and the business will operate as usual;
3. Newco will enter into a market-based lease agreement with the facility’s current landlord, Real Estate Holding, LLC.

I have a high level of confidence in our ability to participate in the process with minimum disruption to the business and to complete my diligence on an expedited basis.  The principal terms of my preliminary proposal are set forth below:

**1. Structure/Purchase Price:**

Newco would acquire the assets or stock of Sample Service Co. with the shareholder of Sample Service Co. (the “Stockholder”) receiving cash and a seller note. As used in this Letter, after the acquisition Sample Service Co. is referred to as the “Surviving Corporation.” In accordance with my recent review of the business, the valuation I place on the Company is $500,000 plus all cash on the balance sheet at close (the “Purchase Price”). Based on a cash balance of $25,000 on the December 31, 2017 balance sheet, this results in a total estimated value to the Sample Service Co. shareholder of $525,000.

The aggregate proceeds of the transaction would be structured as follows (individual proceeds of the transaction to be distributed based on the current ownership breakdown):

1. $400,000 paid in cash upon the closing of the acquisition (the “Closing”), assuming the Company is cash-free and debt-free, and subject to the Net Working Capital (as defined below) adjustment described below.

$40,000 would be paid to an escrow account (held by a mutually agreed upon third party with expenses to be split equally between both parties) to be released upon the 12-month anniversary of the Closing date.

1. $100,000 in the form of a Seller Note issued by Newco with a 5% interest rate, a one-year interest only period followed by a 4-year amortization schedule (the “Seller Note”).
2. Payments would be made annually within 60 days following December 31, with the first principal payment coming due on March 1, 2020. Payments under the Seller Note would be subject to standard subordination requirements and subordinate to the financing partners of Surviving Corporation including compliance with fixed charge coverage requirements.
3. The parties would agree on a target amount of Net Working Capital during my review. The Net Working Capital target amount would reflect the Company’s historical average working capital ratios and an amount which supports the Company’s current and future expected operations to be determined during the diligence process. The Purchase Price would be adjusted upward or downward, as applicable, on a dollar for dollar basis in an amount equal to the amount by which the actual Net Working Capital at Closing exceeds or is below the agreed upon Net Working Capital target level. The Net Working Capital at the Closing would be determined by Buyer within 60 days of the Closing (subject to review by the Stockholder and a dispute resolution mechanism to be agreed to by the parties). Any amounts due to Buyer would be paid within 15 days after final determination of the actual Net Working Capital at Closing. Any amounts due to Stockholder would be guaranteed by the Company and payable to Stockholder in cash in equal monthly installments over a six-month period.

As used herein, “Net Working Capital” shall mean the sum of accounts receivable inventory, prepaid expenses, and other current assets of Sample Service Co. (expressly excluding cash), less accounts payable and other current liabilities of Sample Service Co. (expressly excluding indebtedness for borrowed money) at Closing, all determined in accordance with GAAP.

**2. Purchase Assumptions:**

The purchase price at Closing assumes

1. no indebtedness for borrowed money or other long-term liabilities at the Closing not expressly assumed by Newco (including capital leases, letters of credit and guarantees) and that the assets being purchased are free and clear of all liens,
2. that working capital at closing will be at a mutually agreeable level, and based on the Company’s historical average, which is sufficient to support the Company’s expected operations,
3. that CapEx spending for the period from January 20XX through and including the Closing date will be sufficient to continue operating the business in ordinary course,
4. that the proposed valuation remains contingent upon a continued review of the Company’s assets and liabilities, business model, customer base, facilities, as well as other aspects of the business, and
5. that no material adverse change with respect to the Company’s business or operations has occurred.

**3. Purchased Assets.**

Newco would acquire all of the assets of every type and description, tangible and intangible, owned, leased or otherwise used in the operation of the Company (the “Assets”).  The Assets would include, but not be limited to, the following:

1. all leases of the real or personal property used by the Company, except such leases which Newco designates in the definitive acquisition agreement (the “Agreement”) as excluded leases;
2. all rights of the Company under the contracts to which the Company is a party in respect of the Company’s’ business, except such contracts which Newco designates in the Agreement as excluded contracts;
3. all vehicles, machinery, tenant improvements to the real property and equipment used by the Company or the Company’s manufacturers for the primary benefit of the Company;
4. all furniture and fixtures used by the Company;
5. all raw material inventory, finished goods inventory, spare parts, supplies and other inventory of the Company (collectively, the “Inventory”);
6. all accounts receivable and other rights to payment of the Company (collectively, the “Accounts Receivable”);
7. all retentions or hold-backs earned by the Company on or prior to the Closing or arising in connection with assumed contracts;
8. all prepaid expenses and deposits of the Company including cash for future contracts;
9. the Company’s rights to payment for work completed or in process (including change orders and extras) on or before the Closing or arising in connection with assumed contracts;
10. all licenses, permits, approvals, and authorizations;
11. all business records and files, inventory and supply records, accounting records and all other books and records;
12. lists of customers and/or suppliers, marketing literature, electronic systems and databases and goodwill;
13. the information contained in the software relating to the Company and including any software used for programming products distributed by the Company (which information will be delivered in a format capable of being downloaded to Newco) and will be made accessible to Newco via online access post-transaction;
14. the name “Sample Service Company” as well as any and all other forms of identification associated with Sample Service Co. whether registered or not including, but not limited to, logos, trademarks, trade names, URLs or website addresses, and telephone numbers;
15. all intangible and intellectual property of the Company whether registered or not including, but not limited to, patents, patents pending, trade secrets, plans, designs, copyrights, manuals, and similar rights;
16. all rights to monies to be received in connection with claims (either pending at Closing or made after Closing for events that arose before Closing) made under the Company’s insurance policies;
17. the benefits and rights, but not the liabilities or obligations, of the Company in connection with any legal proceeding pending as of the Closing date and relating to the Company’s business, in which Sample Service Co. is the plaintiff, and
18. the land and buildings currently owned by the Company.  The Assets will include cash in the Company’s bank accounts as of the Closing to the extent that working capital is not sufficient to achieve the targeted Net Working Capital described in this letter of intent at the Closing and required to complete projects for which prepayment may have been received.  The Assets would be delivered free and clear of any security interests, liens, claims or encumbrances other than customary and immaterial encumbrances arising in the ordinary course of business and the Assumed Liabilities described below.

**4. Assumed Liabilities.**

The liabilities of the Company to be assumed by Newco at the Closing would be strictly limited to liabilities that are specifically designated in the Agreement and will include:

(a) trade payables,

(b) any operating expenses arising in the ordinary course of business prior to the Closing which are included in the calculation of Net Working Capital, and

(c) any operating expenses accruing after the Closing under any real or personal property leases, contracts and other executory agreements designated by Buyer for assignment to and assumption by Newco in connection with the Acquisition. The Assumed Liabilities would not include any other liabilities or obligations, including, without limitation,

(a) indebtedness, financings, leases, contracts, and other executory agreements not specifically designated by Newco for assignment and assumption in connection with the Acquisition;

(b) income tax liability of the Company, including specifically but not limited to, tax liability arising in connection with the Acquisition or

(c) liabilities arising out of the ownership, leasing or operation of the Assets or otherwise arising from the operations of the Company prior to the Closing, including, but not limited to, environmental claims (so long as the environmental claims are made prior to Closing or are not the result of retroactive legislative or regulatory actions).  Newco would not assume any liability for past due amounts on any outstanding indebtedness, contracts or leases to be assumed by Newco.  At or prior to the Closing, the Company would pay off all indebtedness and capital leases secured by or relating to any of the Assets to the extent such indebtedness or capital leases are not expressly assumed by Newco.

**5. Financing.**

I expect to finance the transaction including related fees and expenses with senior bank financing and any needed equity contributions. Due to my longstanding relationship with numerous banks and financing sources, I anticipate no difficulty in securing satisfactory financing for the contemplated Acquisition on a timely basis.

**6. Due Diligence Requirements;**

Conditions. Newco’s obligations to complete the Acquisition will be subject to:

1. the execution of mutually satisfactory definitive agreements on terms consistent with this preliminary proposal which shall include, without limitation, an Asset Purchase Agreement between the Company and Newco (the “Agreement”) containing customary representations and warranties regarding the Company’s business and operations;
2. Newco’s receipt of the proceeds of debt financing in the amounts necessary to complete the Acquisition including related fees and expenses of the Acquisition and provide necessary working capital on terms satisfactory to Buyer, at his sole discretion,
3. prior to execution of the definitive agreements, my satisfaction with business, legal and accounting due diligence investigations and review of the Company,
4. the receipt of all necessary governmental approvals and material third-party consents (to be identified and agreed upon in the Agreement) and
5. the execution of satisfactory employment agreements with key employees identified by us. Buyer and its representatives, advisors, consultants and/or lenders will have reasonable access to appropriate management and information relating to the business, operations and properties of the Company and financial, legal, accounting, tax, and other matters relating to the business and operations of the Company in order for us to conduct his due diligence. The business and operations of the Company will be conducted in the usual and ordinary course in accordance with good business practices between the date of this letter agreement and the Closing, and the Company will use its reasonable best efforts to maintain the value of its business as a going concern.  The parties agree to use their reasonable best efforts to negotiate in good faith the definitive transaction agreements.

**7. Indemnification.**

The Agreement will provide that the Company and its stockholder will jointly and severally indemnify, defend and hold harmless Newco against losses (including but not limited to costs, losses, liabilities, third party claims and reasonable attorney fees) resulting from a

1. breach of the Company’s representations and warranties,
2. failure by the Company to perform any covenant or agreement in the Agreement or in any closing documents or other instruments furnished by the Company pursuant to the Agreement, and
3. third party claims or liabilities (other than any Assumed Liabilities). For clarity, the claims or liabilities in this paragraph 7.
4. ican never be the result of retroactive legislative or regulatory action.  Fundamental representations and warranties including fraud, taxes, environmental, accounts receivable, accounts payable, and inventory will not be subject to a limited survival period or feature a cap.  Other representations and warranties will have market-based survival periods.

**8. Working Capital.**

The Acquisition will contemplate Newco starting with a specified amount of Net Working Capital consistent with historical average working capital ratios given the revenue base and growth projections. The target Net Working Capital amount will be established during due diligence review.

**9. Executive Salary.**

In connection with the Acquisition, Newco will enter into employment agreements with specific members of Sample Service Co.’s executive team in a manner mutually acceptable to all parties; salary and length of employment to be determined during the due diligence period.

**Binding Provisions.**

The following provisions (the “Binding Provisions”) constitute the binding agreement of the Parties:

**1. Due Diligence:**

From the date hereof until the Closing or the termination of this Letter (the “Due Diligence Period”), Newco, Buyer, and its representatives, shall undertake and shall be afforded an opportunity to conduct such business, financial, legal and operating due diligence review of the Assets and the Company as deemed necessary.  During the Due Diligence Period, the Company shall provide Newco, Buyer, and its representatives with reasonable access to all of the Company’s books, records, and financial statements relating to the assets or the Company.  The Company shall cooperate with Newco, Buyer, and its representatives in all efforts to complete my due diligence examination prior to the execution of the Agreement. Newco, Buyer, and its representatives, will not, without the prior consent of Sample Service Co., contact or have any communications with any of Sample Service Co.’s customers, vendors, including independent/outside technicians, employees or other managers. If I am dissatisfied with the results of this due diligence examination, prior to signing the Agreement, I, in my sole and absolute discretion, may terminate this Letter and its efforts to complete the transaction.

**2. Exclusivity:**

In consideration of the substantial expenditure of time, effort and expense to be undertaken by Buyer and its representatives hereunder, the Company hereby undertakes and agrees that, for the period  of ninety (90) days from the date hereof, or the earlier determination of either party not to proceed with the transaction (the “Termination Date”), it will not cause or permit any officer, director, stockholder, member, affiliate, agent, or representative of the Company, or other person acting on behalf of any of them, directly or indirectly, to take any action to discuss, negotiate, solicit, entertain, accept or consummate any offer or inquiry from any person or entity other than Buyer or its affiliates relating to the issuance or sale of any capital stock (or securities exercisable for, or convertible or exchangeable into, capital stock, or other equity interests or equity equivalents) of the Company or any of its subsidiaries or affiliates, or any merger, consolidation, statutory share exchange, sale of assets or of capital stock, recapitalization, or other similar transaction related to the Company or any of its subsidiaries or affiliates (each, an “Alternative Transaction”). In the event that the Company receives, during the period of time from the date hereof until either the Closing or the Termination Date, any proposal for an Alternative Transaction, the Company will promptly notify Buyer of the receipt of such proposal and deliver a copy of such proposal to Buyer. The Company will immediately cease any discussions it is having with other parties regarding any Alternative Transaction.  If the Company proceeds with an Alternative Transaction during this period of exclusivity, the Company will promptly pay for all fees and expenses, including time, travel, and fees owed to outside parties (financial, legal, environmental, etc.) related to the transaction incurred by Buyer from the date of signing of this Letter to the date of the Alternative Transaction.

**3. Transaction Expenses:**

Buyer, on the one hand, and the Company, on the other, will each be responsible for their own fees and expenses and those of their respective accountants, bankers, counsel, and other advisors.

**4. Confidentiality:**

Any confidential information disclosed to Sample Service Co. will be retained in confidence between Sample Service Co. and Buyer. Notwithstanding any prior agreement, Buyer may disclose certain information on a confidential basis to advisors, financing sources, and other affiliates related to the completion of this transaction. The Company and Buyer will treat the matters set forth herein (including my interest in the transaction) as strictly private and confidential and the Company will not disclose the fact that the Company received this Letter or any of the contents of this Letter to anyone other than the advisors of the Company, unless otherwise authorized in writing.

**5. Ordinary Course;**

Good Faith: The business and operations of the Company will be conducted in the usual and ordinary course in accordance with good business practices between the date of this Letter and the Closing, and the Company will use its reasonable best efforts to maintain the value of its business as a going concern. The parties agree to use their reasonable best efforts to negotiate in good faith the definitive transaction agreements.

Except for the Binding Provisions (1, 2, 3, 4, & 5), this Letter is not intended to be, and does not constitute, a legally binding agreement or commitment between the parties, but sets forth the current intention of the parties with respect to the terms which would be incorporated in an Agreement and any related documents contemplated by this Letter.

I look forward to hearing from you, and to working with you to consummate this transaction in an expeditious and professional manner.  This offer will remain open until 5:00 pm Eastern Time on May 4, 20XX

Sincerely,

Jim Smith

**[Signature]**

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Jim Smith
Buyer

**Accepted and Approved, Including the Binding Provisions:**

**[Signature]**

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John Brown, Owner