

Ancillary Document No. 2  
Letter of Intent

\_\_\_\_\_, 199\_

Seller A  
[Address]

\_\_\_\_\_  
Seller B  
[Address]

Re: Proposal to Purchase Stock of the Company

Dear Sellers:

This letter is intended to summarize the principal terms of a proposal being considered by \_\_\_\_\_ (the "Buyer") regarding its possible acquisition of all of the outstanding capital stock of \_\_\_\_\_ (the "Company") from \_\_\_\_\_ ("A") and \_\_\_\_\_, who are the Company's sole stockholders (the "Sellers"). In this letter, (i) the Buyer and the Sellers are sometimes called the "Parties," (ii) the Company and its subsidiaries are sometimes called the "Target Companies," and (iii) the Buyer's possible acquisition of the stock of the Company is sometimes called the "Possible Acquisition."

#### PART ONE

The Parties wish to commence negotiating a definitive written acquisition agreement providing for the Possible Acquisition (a "Definitive Agreement"). To facilitate the negotiation of a Definitive Agreement, the Parties request that the Buyer's counsel prepare an initial draft. The execution of any such Definitive Agreement would be subject to the satisfactory completion of the Buyer's ongoing investigation of the Target Companies' business, and would also be subject to approval by the Buyer's board of directors.

Based on the information currently known to the Buyer, it is proposed that the Definitive Agreement include the following terms:

#### 1. BASIC TRANSACTION

The Sellers would sell all of the outstanding capital stock of the Company to the Buyer at the price (the "Purchase Price") set forth in Paragraph 2 below. The closing of this transaction (the "Closing") would occur as soon as possible after the termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (the "HSR Act").

#### 2. PURCHASE PRICE

The Purchase Price would be \$\_\_\_\_\_ (subject to adjustment as described below) and would be paid in the following manner:

(a) at the Closing, the Buyer would pay the Sellers the sum of \$\_\_\_\_\_ in cash;

(b) at the Closing, the Buyer would deposit with a mutually acceptable escrow agent the sum of \$\_\_\_\_\_, which would be held in escrow for a period of at

least \_\_\_\_\_ years in order to secure the performance of the Sellers' obligations under the Definitive Agreement and related documents; and

(c) at the Closing, the Buyer would execute and deliver to each Seller an unsecured, non-negotiable, subordinated promissory note. The promissory notes to be delivered to the Sellers by the Buyer would have a combined principal amount of \$ \_\_\_\_\_, would bear interest at the rate of \_\_\_% per annum, would mature on the \_\_\_\_\_ anniversary of the Closing, and would provide for \_\_\_\_\_ equal [annual] [quarterly] payments of principal along with [annual] [quarterly] payments of accrued interest.

The Purchase Price assumes that the Target Companies have consolidated stockholders' equity of at least \$ \_\_\_\_\_ as of the Closing. The Purchase Price would be adjusted based on changes in the Target Companies' consolidated stockholders' equity as of the Closing, on a dollar-for-dollar basis.

### 3. EMPLOYMENT AND NONCOMPETITION AGREEMENTS

At the Closing:

(a) the Company and A would enter into a \_\_\_\_\_-year employment agreement under which A would agree to continue to serve as the Company's [Vice President and Chief Operating Officer] and would be entitled to receive a salary of \$ \_\_\_\_\_ per year; and

(b) each Seller would execute a \_\_\_\_\_-year noncompetition agreement in favor of the Buyer and the Company.

### 4. OTHER TERMS

The Sellers would make comprehensive representations and warranties to the Buyer, and would provide comprehensive covenants, indemnities and other protections for the benefit of the Buyer. The consummation of the contemplated transactions by the Buyer would be subject to the satisfaction of various conditions, including:

(a) \_\_\_\_\_  
\_\_\_\_\_.

(b) \_\_\_\_\_  
\_\_\_\_\_.

## PART TWO

The following paragraphs of this letter (the "Binding Provisions") are the legally binding and enforceable agreements of the Buyer and each Seller.

### 1. ACCESS

During the period from the date this letter is signed by the Sellers (the "Signing Date") until the date on which either Party provides the other Party with written notice that negotiations toward a Definitive Agreement are terminated (the "Termination Date"), the Sellers will afford the Buyer full and free access to each Target Company, its personnel, properties, contracts, books and records, and all other documents and data.

### 2. EXCLUSIVE DEALING

Until the later of (i) [90] days after the Signing Date or (ii) the Termination Date:

(a) the Sellers will not and will cause the Target Companies not to, directly or indirectly, through any representative or otherwise, solicit or entertain offers from, negotiate with or in any manner encourage, discuss, accept, or consider any proposal of any other person relating to the acquisition of the Shares or the Target Companies, their assets or business, in whole or in part, whether directly or indirectly, through purchase, merger, consolidation, or otherwise (other than sales of inventory in the ordinary course); and

(b) The Sellers will immediately notify the Buyer regarding any contact between the Sellers, any Target Company or their respective representatives and any other person regarding any such offer or proposal or any related inquiry.

### 3. BREAK-UP FEE

If (a) the Sellers breach Paragraph 2 or the Sellers provide to the Buyer written notice that negotiations toward a Definitive Agreement are terminated, and (b) within [six] months after the date of such breach or the Termination Date, as the case may be, either Seller or one or more of the Target Companies signs a letter of intent or other agreement relating to the acquisition of a material portion of the Shares or of the Target Companies, their assets, or business, in whole or in part, whether directly or indirectly, through purchase, merger, consolidation, or otherwise (other than sales of inventory or immaterial portions of the Target Companies' assets in the ordinary course) and such transaction is ultimately consummated, then, immediately upon the closing of such transaction, the Sellers will pay, or cause the Target Companies to pay, to the Buyer the sum \$\_\_\_\_\_. This fee will not serve as the exclusive remedy to the Buyer under this letter in the event of a breach by the Sellers of Paragraph 2 of this Part Two or any other of the Binding Provisions, and the Buyer will be entitled to all other rights and remedies provided by law or in equity.

### 4. CONDUCT OF BUSINESS

During the period from the Signing Date until the Termination Date, the Sellers shall cause the Target Companies to operate their business in the ordinary course and to refrain from any extraordinary transactions.

### 5. CONFIDENTIALITY

Except as and to the extent required by law, the Buyer will not disclose or use, and will direct its representatives not to disclose or use to the detriment of the Sellers or the Target Companies, any Confidential Information (as defined below) with respect to the Target Companies furnished, or to be furnished, by either Seller, the Target Companies, or their respective representatives to the Buyer or its representatives at any time or in any manner other than in connection with its evaluation of the transaction proposed in this letter. For purposes of this Paragraph, "Confidential Information" means any information about the Target Companies stamped "confidential" or identified in writing as such to the Buyer by the Sellers promptly following its disclosure, unless (i) such information is already known to the Buyer or its representatives or to others not bound by a duty of confidentiality or such information becomes publicly available through no fault of the Buyer or its representatives, (b) the use of such information is necessary or appropriate in making any filing or obtaining any consent or approval required for the consummation of the Possible

Acquisition, or (c) the furnishing or use of such information is required by or necessary or appropriate in connection with legal proceedings. Upon the written request of the Sellers, the Buyer will promptly return to the Sellers or the Target Companies or destroy any Confidential Information in its possession and certify in writing to the Sellers that it has done so.

#### 6. DISCLOSURE

Except as and to the extent required by law, without the prior written consent of the other Party, neither the Buyer nor either Seller will, and each will direct its representatives not to make, directly or indirectly, any public comment, statement, or communication with respect to, or otherwise to disclose or to permit the disclosure of the existence of discussions regarding, a possible transaction between the Parties or any of the terms, conditions, or other aspects of the transaction proposed in this letter. If a Party is required by law to make any such disclosure, it must first provide to the other Party the content of the proposed disclosure, the reasons that such disclosure is required by law, and the time and place that the disclosure will be made.

#### 7. COSTS

The Buyer and each Seller will be responsible for and bear all of its own costs and expenses (including any broker's or finder's fees and the expenses of its representatives) incurred at any time in connection with pursuing or consummating the Possible Acquisition. Notwithstanding the preceding sentence, the Buyer will pay one-half and the Sellers will pay one-half of the HSR Act filing fee.

#### 8. CONSENTS

During the period from the Signing Date until the Termination Date, the Buyer and each Seller will cooperate with each other and proceed, as promptly as is reasonably practical, to prepare and to file the notifications required by the HSR Act.

#### 9. ENTIRE AGREEMENT

The Binding Provisions constitute the entire agreement between the parties, and supersede all prior oral or written agreements, understandings, representations and warranties, and courses of conduct and dealing between the parties on the subject matter hereof. Except as otherwise provided herein, the Binding Provisions may be amended or modified only by a writing executed by all of the parties.

#### 10. GOVERNING LAW

The Binding Provisions will be governed by and construed under the laws of the State of \_\_\_\_\_ without regard to conflicts of laws principles.

#### 11. JURISDICTION: SERVICE OF PROCESS

Any action or proceeding seeking to enforce any provision of, or based on any right arising out of, this Letter may be brought against any of the parties in the courts of the State of \_\_\_\_\_, County of \_\_\_\_\_, or, if it has or can acquire jurisdiction, in the United States District Court for the \_\_\_\_\_ District of \_\_\_\_\_, and each of the parties consents to the jurisdiction of such courts (and of the appropriate appellate

courts) in any such action or proceeding and waives any objection to venue laid therein. Process in any action or proceeding referred to in the preceding sentence may be served on any party anywhere in the world.

12. TERMINATION

The Binding Provisions will automatically terminate on \_\_\_\_\_, 19\_\_ and may be terminated earlier upon written notice by either party to the other party unilaterally, for any reason or no reason, with or without cause, at any time; provided, however, that the termination of the Binding Provisions will not affect the liability of a party for breach of any of the Binding Provisions prior to the termination. Upon termination of the Binding Provisions, the parties will have no further obligations hereunder, except as stated in Paragraphs 2, 3, 5, 7, 9, 10, 11, 12, 13 and 14 of this Part Two, which will survive any such termination.

13. COUNTERPARTS

This Letter may be executed in one or more counterparts, each of which will be deemed to be an original copy of this Letter and all of which, when taken together, will be deemed to constitute one and the same agreement.

14. NO LIABILITY

The paragraphs and provisions of Part One of this letter do not constitute and will not give rise to any legally binding obligation on the part of any of the Parties or any of the Target Companies. Moreover, except as expressly provided in the Binding Provisions (or as expressly provided in any binding written agreement that the Parties may enter into in the future), no past or future action, course of conduct, or failure to act relating to the Possible Acquisition, or relating to the negotiation of the terms of the Possible Acquisition or any Definitive Agreement, will give rise to or serve as a basis for any obligation or other liability on the part of the Parties or any of the Target Companies.

If you are in agreement with the foregoing, please sign and return one copy of this letter agreement, which thereupon will constitute our agreement with respect to its subject matter.

Very truly yours,

BUYER:

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Duly executed and agreed as to the Binding Provisions on \_\_\_\_\_, 199\_\_.

PROSPECTIVE SELLERS:

\_\_\_\_\_  
\_\_\_\_\_