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DEFERRED PRICE ISSUES
MBBI LUNCHEON MEETING 11/13/2008

SELLER FINANCING

Seller Financing: When a seller agrees to loan money to a buyer as part of the purchase price.

1. Why is seller financing desired? Skin in the game
2. What % of purchase price?
 - a. Trending up or down?
 - b. Higher with customer concentration
3. Term of the note?
4. Interest rates – trending down
5. Subordination required?
6. Security
 - a. Personal Guaranty?
 - b. Security Agreement? What is covered in security agreement? – only assets purchased or also home and other assets?
7. Right to offset
8. Cure period on default
9. How to communicate with the client (seller or buyer)

NOTES

EARNOUTS

Earnout: Purchase price dependent on performance.

1. What is an earnout?
 - a. Helps buyers have assurance that the business is performing in accordance with projections
 - b. Earnouts may be determined for the entire company or only part of a product line
2. Situations when an earnout might be appropriate
 - a. Proverbial hockey stick
 - b. Uncertainty about future
 - i. About the company
 - ii. About the economy/industry
 - c. Unstable businesses or rapidly growing businesses
 - d. New business
 - e. Used to be more of a valuation issue and now becoming more of a risk mitigation issue
 - f. Seller is key to business and wants to leave business

NOTES

