

Date

Mr.

President

Company Name

c/o Mr. Eric White

EBB Group of Texas LLC

P.O. Box 262008

Dallas, TX 75026

Dear :

BUYER NAME (“BN”) is pleased to offer to purchase substantially all of the assets of SELLER NAME (“SN”). A purchase would be made by a newly formed affiliate of _____ (“Buyer” or “NewCo”). This letter outlines the principal terms and conditions of the proposal and is intended to provide a framework for finalizing negotiations between SN and the Buyer. The parties hereto intend that these negotiations will lead to the preparation and execution of mutually satisfactory definitive agreements covering such purchase (the “Definitive Agreements”).

1. Business to be Purchased

Buyer will purchase all of the assets and business operations utilized by “SN” in conducting its business operations, including but not limited to, inventories, equipment, accounts receivable, leases, leasehold interests, intellectual property, trade names, proprietary know-how, technologies, goodwill and all other tangible and intangible assets and excluding “SN” facilities, land, and cash and cash equivalents (less \$100,000 of operating cash). It would be “BN” intention to lease the facilities and land from “SN” at a fair market annual lease rate (estimated at \$_____/year including triple nets). All normal and customary working capital liabilities will be assumed by Buyer as detailed in the Definitive Agreements. No long-term debt, interest, tax liabilities, capital lease obligations, deferred compensation arrangements or other non-normal course liabilities will be assumed by the Buyer and all such obligations are to be repaid by “SN” or otherwise assumed by “SN”. All of the assets purchased will be required to be owned by “SN” free and clear of all liens and encumbrances.

2. Purchase Price Consideration

The purchase price for the assets of the Company is \$_____ million, consisting of \$_____ million in cash payable at closing, \$_____ million in an earn-out, and \$_____ million in a reinvestment in equity by management. This equity re-investment will purchase approximately 20% of NewCo, pre-dilution. The earn-out will be paid annually over four years based on a percentage of EBITDA (See “Earn-Out Structure” below and the attached Schedule I). The equity will be reinvested by Mr. Seller and will be in the form of common shares of NewCo at the same price per share as the other founding shareholders of NewCo.

The purchase price is subject to the working capital adjustment below, certain conditions and approvals as described in this letter and as finally determined in the Definitive Agreements among the parties involved. A customary escrow and indemnity from "SN" for breaches of representations, warranties and covenants will be addressed in the Definitive Agreements after proper due diligence.

3. Working Capital Adjustment

The working capital adjustment will be based on changes in working capital from the adjusted balance sheet as of [December 31, 2004] as provided by the Company, to closing. Based on our current calculations, the sum of inventory, trade receivables and other current assets, less payables, accruals and other current liabilities, was _____ at December 31, 20xx. An audited closing balance sheet will be completed post closing. The purchase price will be reduced dollar for dollar to the extent that audited working capital at closing is less than \$_____, and increased dollar for dollar to the extent that audited working capital is greater than \$_____. However, no payment to either party will be made if the difference is less than \$_____ or more than \$_____.

4. Structure.

We would propose to purchase all of the assets and business operations of "SN" through NewCo. The transaction would be structured as an asset purchase. No long-term debt, interest, tax liabilities, capital lease obligations, deferred compensation arrangements or other non-normal course liabilities would be assumed by "BN" or NewCo and all such obligations of "SN" would remain with "SN".

5. Earn-Out Structure.

The earn-out would be 50/50 sharing of EBITDA in excess of an agreed upon figure. The earn-out payment would be paid out annually after the release of audited financials which would be based on full fiscal year results. In order to qualify for a payment in each year the Company would have to produce a minimum EBITDA of \$_____ in 20xx, \$_____ in 20xx, \$_____ in 20xx and \$_____ in 20xx. There would be a total cap on the earn-out of \$1.5 million, although there would be no cap in any one year. The earn-out would have a four year life. (See the attached Schedule I)

6. Financing

The purchase price would be financed through a combination of senior debt, subordinated debt and equity. We have been in preliminary discussions with several banks and subordinated lenders and expect to receive financing commitments within 75 days. These lenders will conduct a full due diligence review along side Buffalo. The availability and final terms of such debt financing will ultimately depend on conditions in the bank market. Equity funding will come from Buffalo's fund and existing funding arrangements. In addition, NewCo may seek equity funding from institutional partners and co-investors.

7. Conditions to Closing / Approvals

Our conditions to closing would include (1) the final negotiation of a purchase and sale agreement consistent with fair and normal practices, which agreements shall contain customary covenants, representations and warranties on the part of PDL, and (2) the absence of any material adverse change in the condition of the business, operating results, assets,

liabilities or prospects of “SN”. Other conditions to close would include satisfactory results of due diligence in the opinion of “BN” and obtaining financing satisfactory to the Buyer, in its sole discretion. We are not aware of any other necessary approvals or regulatory filings.

8. Exclusive Due Diligence Period

Upon acceptance of this letter, “SN” would grant an exclusive due diligence period of 90 days whereby Buffalo, its lenders and agents will be given reasonable access to “SN” facilities, management personnel, customers and its financial and legal records. During this time “SN” and its employees, consultants and advisors will not and will cause “SN” not to, entertain, solicit or respond to any other offers from any other prospective buyers or merger partners, and will advise “BN” in writing of the receipt and terms of any other offers received. The majority of due diligence performed by “BN” would be completed by “BN”. Our lenders would perform due diligence simultaneously with “BN”.

9. Confidentiality

“BN” agrees to hold all information gathered during the due diligence period in strict confidence. “SN” agrees that, subject to the requirements of any governmental or other authorities, “SN” shall not disclose any confidential information concerning “SN” or its assets or the existence, nature or content (including the terms) of the negotiations regarding the proposed acquisition of “SN” (the “Confidential Information”) to third parties other than Buyer’s or “SN”’s representatives, agents, counsel, accountants, lenders and investors; provided that such third parties agree to keep the Confidential Information confidential. Notwithstanding the preceding, such obligation to maintain confidentiality shall not apply to information which is a matter of public knowledge. “SN” agrees to keep this offer and all of its contents and terms in strict confidence.

10. Conduct During Negotiations

The current offer is based upon the unaudited financial statements of “SN” dated December 31, 20xx. From the date of this agreement hereof until the execution of the Definitive Agreements or the termination of this letter “SN” will not pay or declare any dividends, distributions, bonuses, raises or otherwise distribute money from “SN”, other than normal salaries, without the prior written consent of “BN”; and “SN” business shall be managed in the ordinary course and consistent with past practices, and any changes in policy or practices shall not be made without the prior written consent of “BN”.

11. Management

We are very interested in forging a long-term and mutually beneficial relationship with the management of “SN”. We would expect to enter into a management employment contract with SN, which would include a salary of \$_____ and target bonus of \$_____ based on performance versus budgeted EBITDA and incentive options based on reaching certain long-term goals. The target bonus can be exceeded if budgeted EBITDA is exceeded. The contract would be 4 years in term, and would contain a non-compete clause extending three years beyond any termination of his employment. Certain key managers would have the opportunity to earn options on an incentive basis along with employment contracts. This can be addressed with SN at a later date.

12. Timing

We are prepared to commence work on the transaction immediately and to devote sufficient effort to close a transaction in any reasonable time frame allocated, assuming all parties are willing and available to proceed in a timely manner. We believe that a first draft of the Definitive Agreements could be delivered with in approximately 30 days after the signing of this letter and that the transaction could close within approximately 90 days after the signing of this letter.

13. Fees and Expenses

Each party will bear its own out-of-pocket expenses in connection with consummating this transaction, including without limitation, expenses of legal counsel, consultants, accountants and other advisors. "SN" fees and expenses related to the transaction shall be paid by "SN".

14. Representations, Warranties, Indemnification, Survival Periods, Deductible Baskets

We would require customary and standard representations and warranties for transactions of this type. We would also require indemnification provisions for breaches of representations and warranties, an escrow deposit at closing of \$_____ for one year, a survival period of three years for representations, warranties and indemnification, a deductible basket on the indemnification of \$_____ and an indemnification cap of \$_____ all the above being subject to due diligence.

15. Governing Law and Jurisdiction

This letter will be governed by and construed in accordance with the laws of the State of Texas without regard to the conflict of laws principles thereof. The parties agree to submit to the jurisdiction of the courts of the State of Texas for the purpose of interpreting or enforcing any of the provisions of this letter agreement.

16. Effect of this Letter

This letter is not intended to create any legally binding obligations on the part of any party hereto, except for the provisions set forth in paragraphs 7, 8, 9, 10, 13, 15, and 16. This offer will expire on March 30, 20xx at 5 pm CST. If this letter is signed by both parties, it will survive for a period of 90 days, or until the signing of the Definitive Agreements, whichever is sooner. Any future modifications or waiver of the terms of this letter agreement must be in writing, signed by both the Buyer and "SN". In case any provision of this agreement shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

We look forward to working with you on a successful transaction.

Sincerely,

BUYER NAME

By: Buyer Name
Its: General Partner

By: _____
Name: Buyer individual name
Title: Managing Director
Date: Date, 20xx

Agreed and Accepted:
Seller Name
General Partner of SN.
by:

Seller Individual Name
Date:

Schedule I
Earn Out Calculation

(\$000's)	20xx	20xx	20xx	20xx
Est. EBITDA	\$2,000	\$2,100	\$2,300	\$2,400
Minimum EBITDA	\$1,300	\$1,400	\$1,500	\$1,600
Earn Out % Above Minimum EBITDA	50%	50%	50%	50%
Est. Earn-Out Payment	\$350	\$350	\$400	\$400

Terms

1. The Earn-Out would be paid annually, after the release of audited financials.
2. The Earn-Out would be based on full fiscal year results.
3. In order to qualify for a payment in each year the Company would have to produce at least the Minimum EBITDA, as shown above.
4. The total cap on the Earn-Out is \$1,500,000, but there is no cap in any one year.