



# Confidential Memorandum

March 13, 2009

Prepared by:

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## NOTIFICATION

The purpose of this Confidential Memorandum is to acquaint a prospective buyer with preliminary information regarding a client of **The Oxford Capital Group, Inc.** or one of **The Oxford Capital Group, Inc.**'s cooperative brokers. **The Oxford Capital Group, Inc.** its employees, agents, brokers, financial recasters, and affiliate brokers have made no investigation or verification of the information contained herein and any representation to the contrary is not authorized.

**(NAME OF CLIENT COMPANY (i.e. XYZ Company))**, also referred to as "Client Company," has elected not to audit financial statements, appraisals of tangible assets, or real property. In addition, management has elected to omit substantially all of the informative disclosures ordinarily included in financial statements prepared on an income tax basis of accounting, market value presentation, and valuation reports. If the omitted disclosures were included, they might influence the user's conclusions about the company's financial condition. Accordingly, the documents contained in this Confidential Memorandum are not designed for those who are not informed about such matters.

The financial records, equipment list, and operating reports received from management and included in this package are assumed to be accurate. While reasonable tests are applied and unusual results queried, accuracy of these numbers should be verified by the prospective purchaser. Unless stated otherwise, the financial summaries prepared by **The Oxford Capital Group, Inc.** reflect only regrouping of those prepared by management. By accepting this Confidential Memorandum, the recipient acknowledges the responsibility to perform a due diligence review and make its own evaluation and judgment prior to any acquisitions or mergers with the Client Company.

Unless stated otherwise, the underlying assets have not been appraised. The cost data in the financial statements before depreciation may be used as an approximate replacement cost but should be reviewed in due diligence. If a value is included on the asset list, that value is the presumed fair market value of an equivalent asset. Additionally, the list was prepared at a point in time. The ordinary course of business will cause items to be added and disposed of, so any enclosed list of assets should be viewed as an approximation of the total assets of the business.

Inventory is assumed to be at cost. Management's estimate of value is accepted unless reasons exist to use another value, which will be noted.

Real estate values, building leases, rental agreements, equipment leases, and other commitments of the company are management's estimate and are assumed to be at market rates unless otherwise noted.

## COMPANY INFORMATION – Confidential Memorandum

This document is the property of **The Oxford Capital Group, Inc.** and represents general information about a business that **The Oxford Capital Group, Inc.** represents for sale on an exclusive basis. This document is not to be copied or distributed, nor its contents in any way divulged to anyone, as it may contain highly confidential financial and operational information; and reports that are considered trade secrets by the seller. If you need additional copies, **The Oxford Capital Group, Inc.** will provide them upon qualification of the recipient. Prior to receipt of this Confidential Memorandum, you should have signed a *Confidentiality Agreement, Buyer's Confidentiality and Warranty Agreement, or a Non-Disclosure Agreement*. **DO NOT PROCEED FURTHER UNLESS YOU HAVE SIGNED ONE OF THESE AGREEMENTS.**

While it is normal for you to seek professional advice concerning this opportunity, you should advise them of their obligation to non-disclosure and to hold this and all other information concerning this opportunity as confidential, since **you will be held liable for the confidentiality of your advisor(s).**

If you receive this as a professional to review and advise a client on the merits of this opportunity, your professional ethics should prevent the disclosure of this information to any third party.

If you receive this as a potential financing source, you are obligated to keep the information herein as confidential as possible and are to use it only for making a lending decision. The bearer of this presentation is responsible for its confidentiality.

***This information must be held in absolute confidentiality. Any party reviewing this material can be held liable for its improper disclosure and could be held liable for damages if such disclosure proves in any way damaging to the subject company, its owners, employees or suppliers, or to (your company name), its principals or agents.***

**DO NOT CONTACT THE OTHER PARTY WITHOUT PROPER AUTHORIZATION.** All contacts, whether by fax, telephone, writing, email or otherwise, require prior approval of **The Oxford Capital Group, Inc.** Failure to adhere to this requirement prior to contacting the other party WILL jeopardize your ability to pursue this opportunity. If this opportunity involves two brokers, please work only through **The Oxford Capital Group, Inc.**

**NOTE:**

**When you're interested in selling your business, questions relating to the sale of your business must be answered. This is necessary in order to determine the "Fair Market Value" or range of values for your company. Please answer all questions.**

THE FOLLOWING DOCUMENTS MAY BE NEEDED OR BE MADE AVAILABLE (Consult with Broker for documents necessary):

• **FINANCIAL RECORDS**

- HISTORICAL FINANCIAL STATEMENTS (for the most recent three fiscal years)
- FEDERAL TAX RETURNS (or the most recent three tax reporting years (1120,1120s, 1065, Sch. C))\*
- INTERIM FINANCIALS (for the most recent reporting period)
- SCHEDULE OF ALL INDEBTEDNESS OF THE BUSINESS
- ACCOUNTS RECEIVABLE AGING REPORT
- INVENTORY INFORMATION
- SUMMARY OF JOBS-IN-PROGRESS REPORT

• **COMPANY ASSETS AND REAL ESTATE**

- ASSETS NOT APPEARING ON THE BALANCE SHEET
- LIST OF ASSETS TO BE INCLUDED IN THE SALE
- LIST OF ASSETS TO BE EXCLUDED FROM THE SALE
- LEGAL DESCRIPTION OF ANY REAL PROPERTY INCLUDED IN THE SALE
- APPRAISALS ON BUSINESS REAL ESTATE AND/OR EQUIPMENT (within the past 5 years)
- COPY OF LEASE

• **EMPLOYEE RELATED**

- ORGANIZATIONAL CHART (Job Description and Rates of Compensation)
- ANY EMPLOYMENT CONTRACTS, REPRESENTATIVE AGREEMENTS, ETC.
- COPIES OF ANY PENSION AND/OR PROFIT SHARING PLANS
- BUY/SELL AND/OR SHAREHOLDER AGREEMENT

• **CONTRACTS, POLICIES, MARKETING, ETC.**

- COPIES OF ALL INSURANCE POLICIES
- BROCHURES, ADVERTISEMENTS, YELLOW PAGE ADS, ARTICLES, MAPS, ETC.
- LIST OF ANY CONTRACTS FOR SERVICES
- COPIES OF ANY PATENTS, COPYRIGHTS, TRADEMARKS, OR CONTRACTS OF VALUE

\* SBA and/or other lenders will require at least three years of tax returns.

## COMPANY INFORMATION – Confidential Memorandum

1. Client Name: Mr.  Ms.  Dr.  James D. Smith Title: President  
 Name of Business: ABC Company, Inc. Employer ID#: 69-885-5437  
 Address: 111 Main Street City: Anywhere State: US Zip: 55555  
 Business Phone: 555-555-5555 Home Phone: 555-555-5556 Fax: 555-555-5557

1a. Is this the primary contact? Yes  No  If no, please complete the following.  
 Contact Name: Mr.  Ms.  Dr.  Title: \_\_\_\_\_  
 Address: \_\_\_\_\_ City: \_\_\_\_\_ State: \_\_\_\_\_ Zip: \_\_\_\_\_  
 Business Phone: \_\_\_\_\_ Home Phone: \_\_\_\_\_ Fax: \_\_\_\_\_

2a. Please provide the following for all those owning greater than 10% of the company. \*(Should equal 100%)

Name	Title	% Owned*	Age
James D Smith	President	51%	67
Mary J Smith	Secretary	24%	52
Jack J Smith	Vice President	15%	44
Jane S Jones	Treasurer	10%	51

2b. Common Shares Outstanding: 100,000 Shares repurchased? Yes  No   
 Price/Share: \$100,000 Repurchased Date: \_\_\_\_\_  
 Preferred Shares Outstanding: \_\_\_\_\_ Shares repurchased? Yes  No   
 Price/Share: \$ Repurchased Date: \_\_\_\_\_  
 Buy/Sell Agreement? Yes  No  Any Options Outstanding? \_\_\_\_\_  
 To Whom? \_\_\_\_\_

2c. What function(s) does the owner currently perform that will need to be replaced by the buyer? None  
 \_\_\_\_\_  
 \_\_\_\_\_

3. What back-up is there for key positions? Other Management  
 \_\_\_\_\_  
 \_\_\_\_\_

4. Company Legal Name and D/B/A: ABC Company, Inc.  
 \_\_\_\_\_

5. Has the company had a name change? Yes  No  If yes, explain. \_\_\_\_\_  
 \_\_\_\_\_

6. Date business began: 1988 7. Business year end: \_\_\_\_\_

8a. Are you the founder of the business? Yes  No

8b. If no, how long have you owned the business? \_\_\_\_\_

9. Is the founder still involved with the company? \_\_\_\_\_ If no, explain. \_\_\_\_\_

10. State of Incorporation: \_\_\_\_\_ 11. Date of Incorporation: \_\_\_\_\_

**COMPANY LEGAL STATUS**

**BUSINESS CATEGORY**

**SIC CODE**

_____ Sole Proprietorship	_____ Agriculture	Primary: <u>2821</u>
_____ Partnership	_____ Forestry and Fishing	Secondary: <u>1623, 5099</u>
_____ Limited Partnership	<input checked="" type="checkbox"/> Distribution	
_____ Subchapter "S" Corporation	_____ Contract Construction	
<input checked="" type="checkbox"/> "C" Corporation	<input checked="" type="checkbox"/> Manufacturing	
_____ Limited Liability Corporation	<input checked="" type="checkbox"/> Wholesale	
_____ Non-Profit Corporation	_____ Retail	
_____ Other:	_____ Information Technology/Software	
_____ Other:	_____ Finance, Insurance, & Real Estate	
_____ Other:	_____ Transportation, Communication, & Utilities	
_____ Other:	_____ Service	
_____ Other:	_____ Accommodation & Food Services	
_____ Other:	_____ Other:	

12. Provide a brief review of the product line/service history: The Company manufactures widgets and provides wholesale distribution center to market the product.

13. Describe products and/or services: Widgets that are used by customer base in a manufacturing function.

14. How many years at current location? 12 Has the company moved or expanded facilities? \_\_\_\_\_  
If yes, explain. \_\_\_\_\_

15. Provide breakdown for recent FYE of product /services by sales volume in dollars and in %.

<b>Product/Service</b>	<b>Sales Volume in Dollars</b>	<b>Sales Volume in %</b>
widgets	\$4,000,000	100%
	\$	
	\$	
<b>TOTAL</b>	<b>\$</b>	<b>100%</b>

16. Primary Target Market? 700 Customers of which 90% have been doing business with the company for three Years or more.

17. Rate the market trend for this product: 3  
(ENTER A NUMBER 1=DECLINE 2=FLAT 3=GROWTH)

18. How long has this industry or product been widely known? 3  
(ENTER A NUMBER 1=NEW 2=10 YRS OR LESS 3=OVER 10 YRS)

19. How many different competitors are in the company's trade area? 3  
(ENTER A NUMBER 1=NONE 3=A FEW 5=MANY OR NEXT DOOR)

20. Methods of Marketing:

Radio	<u>          </u>	Outside Representatives	<u>X</u>	Yellow Pages	<u>          </u>
Television	<u>          </u>	Employee Sales Staff	<u>          </u>	Direct Mail	<u>          </u>
Newspaper	<u>          </u>	Telemarketing	<u>          </u>	Internet Web Site	<u>          </u>
Trade Journals	<u>X</u>	Ongoing Contracts	<u>          </u>	No Advertising	<u>          </u>
Other Marketing:	<u>          </u>				

21. Patents? Yes            No X If yes, explain.           

22. Copyrights/Trademark? Yes            No X If yes, explain.           

23. Cyclical or Seasonal Factors? Yes            No X If yes, explain.           

24. Describe how you sell and distribute your product and/or service:           

25. Approximate number of customers: 700

How many customers would account for 25% of the revenues? 200

Is the customer base local, regional, national, or global? Regional

26. Potential clients to target for future opportunities: 2500 potential customers in region

27. What are your company's advantages and disadvantages in the market? Well Established with strong Customer base

28. Company's Employee Information:

Total Employees	<u>32</u>	Hospitalization	Yes	<u>X</u>	No	<u>          </u>
Full Time Employees	<u>22</u>	Pension Plan	Yes	<u>          </u>	No	<u>          </u>
Part Time Employees	<u>10</u>	Life Insurance	Yes	<u>X</u>	No	<u>          </u>
Union Employees	<u>0</u>	Other	<u>401K</u>			
Ava. Length of Employment	<u>5 years</u>					

29. Rate the local labor market trend for this product/service. 3  
(ENTER A NUMBER 1=COMPETITION 5=UNEMPLOYMENT)

30. Rate the strength of unions in this area and industry. 2  
(ENTER A NUMBER 1=NONE 5=STRONG)

31. Days and hours business operates: AM: 8:00 PM: 5:00 Other: \_\_\_\_\_  
Monday – Friday: X Monday – Sunday: \_\_\_\_\_ Other: \_\_\_\_\_

32. Facilities: Rent \_\_\_ Lease X Own \_\_\_ Lease/Purchase \_\_\_ Yearly Rent/Lease Amt: \$72,000  
Leaseable Square Feet: 20,000 Monthly Rent/Lease Amt: \$6,000

Does rent include insurance, maintenance, and taxes? Yes X No \_\_\_\_\_

If no, will rental rate to buyer include these amounts? Yes \_\_\_\_\_ No \_\_\_\_\_

If yes, what will be the new annual rent? \$ \_\_\_\_\_

If facility is currently leased, what is the lease expiration date? June 30, 2009

Options: \_\_\_\_\_

If the owner of the business owns the real estate, how much rent will be charged to a new owner?  
\$ \_\_\_\_\_

33. Market value of real estate included in the sale: \$ \_\_\_\_\_

Was the value established by appraisal? Yes \_\_\_\_\_ No \_\_\_\_\_ Will Owner finance? \_\_\_\_\_ # of Years: \_\_\_\_\_

34. Are there any tax liens? Yes \_\_\_\_\_ No \_\_\_\_\_ If yes, explain. \_\_\_\_\_

35. Are there any law suits existing or pending? Yes \_\_\_\_\_ No \_\_\_\_\_ If yes, explain. \_\_\_\_\_

36. Seller will train buyer without charge for the following period of time: 6 Months

37. Are you interested in staying with the business after it is sold? Yes \_\_\_\_\_ No X Comments: \_\_\_\_\_

38. Reason for selling: Real Estate and Owner's vehicle

39. Other assets included in the sale (other than those identified on the balance sheet shown on page 11):  
\_\_\_\_\_  
\_\_\_\_\_

40. Items excluded from the sale: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

41. List below all leased equipment where leases need to be assumed by a buyer.

Description	Monthly Payment	Final Payment Due Date
	\$	
	\$	
	\$	
	\$	

42. List below any debt that must be cleared or assumed to sell the business.

Description	Monthly Payment	Final Payment Due Date
	\$	
	\$	
	\$	
	\$	

43. How many family members, relatives, and/or partners, INCLUDING THE OWNER, are actively working in the business? 3
44. Given an individual with reasonable skills and little direct knowledge of this business, how long would it take to learn enough to manage this business?  
(ENTER A NUMBER 1=HOURS 2=DAYS 3=WEEKS 4=MONTHS 5=YEARS ) 5
45. When starting a business of this type, how many months would it take to show a profit after deducting a reasonable salary for yourself or a manager?  
(ENTER A NUMBER OF MONTHS) 24
46. What is your liability exposure level? (Consider both EPA and physical danger to employees.)  
(ENTER A NUMBER 1=MINIMAL 2= SAFETY IS DISCUSSED 3= HAZARDOUS) 3
47. What is the local economic trend?  
(ENTER A NUMBER 1=DECLINE 2=FLAT 3=GROWTH) 3
48. What is the regional economic trend?  
(ENTER A NUMBER 1=DECLINE 2=FLAT 3=GROWTH) 3



## OWNER'S/SELLER'S DISCRETIONARY CASH FLOW - Confidential Memorandum

PERIOD ENDING: \_\_\_\_\_ FYE: 12/31/99 INTERIM: \_\_\_\_\_  
 INFORMATION SOURCE: TAX RETURN: X FINANCIAL STATEMENTS: \_\_\_\_\_

<b>1. Operating Pre-Tax Profit (Loss) or EBT (Earnings Before Taxes)</b>	<b>1. \$</b> _____
<b>2. Owner Salaries, Perks, and Benefits*</b>	
<i>Add Backs:</i>	
A. Owner's Salary	A. <u>\$ 200,000</u>
B. Other Family Salaries	B. <u>\$</u>
C. Owner's Vehicle	C. <u>\$</u>
D. Owner's Insurance	D. <u>\$</u>
E. Owner's Medical	E. <u>\$</u>
F. Owner's Payroll Taxes	F. <u>\$</u>
G. Owner's Travel and Entertainment	G. <u>\$</u>
H. Non-Essential Telephone	H. <u>\$</u>
I. Non-Essential Utilities	I. <u>\$</u>
J. Non-Essential Legal	J. <u>\$</u>
K. Non-Essential Accounting	K. <u>\$</u>
L. Donations	L. <u>\$</u>
M. Other	M. <u>\$</u>
 <b>2. *Total Owners Add Backs (sum of A thru M)</b>	 <b>2. \$200,000</b> _____
3. Depreciation and Amortization	3. <u>\$ 25,000</u>
4. Interest Expense	4. <u>\$ 15,000</u>
5. Extraordinary Expense /Non Recurring	5. <u>\$</u>
6. Rent (add for overcharge/subtract for no charge or undercharge)	6. <u>\$</u>
7. Other (Describe) <u>Other Rental Properties</u>	7. <u>\$ 20,000</u>
<b>8. Total Net Add Backs to add to Pre-Tax Profit (sum of 2 thru 7)</b>	<b>8. \$260,000</b> _____
<b>9. SELLER'S DISCRETIONARY CASH FLOW (sum of 1 plus 8)</b>	<b>9. \$560,000</b> _____

Owner's/Seller's Discretionary Cash Flow may include: Net Operating Pre-Tax Profit or (Loss) plus/minus Verifiable Non-Cash Expenses (Depreciation/Amortization); Owner's Salary and Benefits; One Time Non-Recurring or Unusual Expenses; and Non-Essential Expenses.

Assume that the business will be sold or transferred to a new owner who may not incur the same discretionary expenses (example: insurance for owner and family members, interest and insurance on non-essential vehicles, convention trips, travel and entertainment, donations, and other non-essential expenses).

An Owner's/Seller's Discretionary Cash Flow Analysis should be completed for the last three years and the most recent interim period. If the company is growing dynamically, projections may need to be provided. If you or the business own the facilities housing the business, a rent adjustment should be made if the rent will increase or decrease for the new owner. Rent should be comparable to lease rates for similar space and location.

## HISTORICAL FINANCIAL SUMMARY - Confidential Memorandum

Company: \_\_\_\_\_

Fiscal Years Ending: \_\_\_\_\_

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>Est. 2001</u>
<b>NET SALES</b>	<b><u>\$2,000,000</u></b>	<b><u>\$3,000,000</u></b>	<b><u>\$4,000,000</u></b>	<b><u>\$4,600,000</u></b>

\$ Growth	N/A	\$ 1,000,000	\$1,000,000	<b>\$ 600,000</b>
% Growth	N/A	50%	33.3%	15%

<b>Historical Operating Profit or EBT</b>	<b>\$150,000</b>	<b>\$225,000</b>	<b>\$300,000</b>	<b>\$350,000</b>
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**Add Backs:**

Owner's Salaries, Perks, and Benefits	\$ 150,000	\$ 175,000	\$ 200,000	\$ 200,000
Depreciation and Amortization	\$ 20,000	\$ 22,500	\$ 25,000	\$ 25,000
Interest Expense	\$ 10,000	\$ 12,000	\$ 15,000	\$ 12,500
Plus/Minus Other Adjustments	\$ 15,000	\$ 17,000	\$ 20,000	\$ 20,000

<b>Seller's Discretionary Cash Flow (SDCF)</b>	<b>\$345,000</b>	<b>\$451,500</b>	<b>\$560,000</b>	<b>\$607,500</b>
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**Less:**

Normalized Owner/Mgmt. Salary	\$100,000	\$100,000	\$100,000	\$100,000
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<b>EBITDA</b> (Earnings Before Interest, Taxes, Depreciation, and Amortization)	<b>\$245,000</b>	<b>\$351,500</b>	<b>\$460,000</b>	<b>\$507,500</b>
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**PRICE AND TERMS – Confidential Memorandum**

**Price:**

Purchase Price	\$ <u>1,995,000</u>
Down Payment	\$ <u>300,000</u>

**Terms:**

Note to Seller (Principal Amount)	\$ <u>100,000</u>
Note to Commercial Financing	\$ <u>1,295,000</u>
Annual Payment (Principal and Interest)	\$ <u>230,000</u>
Interest (Percentage)	<u>11%</u>
Terms (Months or Years)	<u>10 years</u>

**Assets to be Transferred with Business**

Description	Amount
Accounts Receivable	\$600,000
Inventory	\$50,000
Leasehold Improvements	\$5,000
Furniture and Fixtures	\$15,000
Equipment	\$111,000
Vehicles	\$12,000
<b>TOTAL:</b>	<b>\$793,000</b>

**Liabilities to be Assumed or Refinanced by Purchaser**

Description	Amount
Accounts Payable	\$300,000
Bank Debt	\$150,000
	\$
	\$
	\$
<b>TOTAL:</b>	<b>\$450,000</b>

**OWNER'S JUSTIFICATION FOR PURCHASE PRICE –  
Confidential Memorandum**

<b>Owner's Discretionary Cash Flow</b> (See Owner's Discretionary Cash Flow Analysis)	\$ <u>590,000</u>
<b>Less: Annual Debt Service</b> (See Price and Terms - Annual Payment)	\$ <u>230,000</u>
<b>Less: Debt Service 25% Coverage Cushion</b>	\$ <u>57,648</u>
<b>Less: Owner's/Management Salary</b> (Annual Salary)	\$ <u>100,000</u>
<b>Less: Return on Down Payment</b> (See Price and Terms- % Annual Return on Down Payment)	\$ <u>18,000</u>
<b>Less: Capital Expenditures</b> (% of Fair Market Value of Fixed Assets)	\$ <u>100,000</u>
<b>CASH FLOW REMAINING</b>	\$ <u>83,758</u>