

**BUYING A SECURITY
ALARM COMPANY
(AND FINANCING THE
PURCHASE PRICE!)**

2005

**NORTH AMERICAN SECURITY
SYMPOSIUM & EXHIBITION**

MAY 15, 2005

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HOUSEKEEPING

MATTERS

- **ENCOURAGE QUESTIONS
THROUGHOUT PRESENTATION**
- **MULTIPLE PERSPECTIVES/
MULTIPLE PERSONALITIES**
- **NO LEGALESE**
- **CONSULT YOUR ADVISORS**
- **JUST EXAMPLES**

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PERSPECTIVES

- **NOT SELLER'S; NOT OUTSIDE EQUITYHOLDER'S; NOT BROKER'S**
- **SENIOR LENDER'S AND BUYER'S**
- **THREE TYPES OF BUYERS:**
 1. **GREAT**
 2. **SOON TO BE GREAT**
 3. **BAD & UGLY**

GREAT

- SMART; STRATEGIC VISION;
DISCIPLINED
- AVAILABLE SENIOR FINANCING;
PLENTY OF LEVERAGE
- IDENTIFIED A GREAT SELLER

SOON TO BE GREAT

- SMART, BUT NEEDS SENIOR
FINANCING
- EQUITY PROSPECTS
- THE BROKER'S CALLED

BAD & UGLY

- NEW TO THE BUSINESS, BUT KNOWS
IT ALL
- “GOTTA DO A DEAL; ANY DEAL!”
- WILL NEED TO FIND A SENIOR
LENDER
- “EQUITY – WHAT’S THAT?”

MARKET PREMISE

- **TURNING THE CORNER**
- **LOTS OF BUYERS**
- **LOTS OF DEBT AND EQUITY FINANCING**
- **NOT THAT MANY QUALITY SELLERS**
- **MAY BE A “SELLER’S MARKET”**
- **MULTIPLES ARE TRENDING UP**

TOPICS

- **COMMON PITFALLS**
- **LENDER'S HOT BUTTONS**
- **KEY NEGOTIATING POINTS**
- **LETTERS OF INTENT**
- **STOCK VS. ASSET DEAL**
- **RMR DEFINITIONS**
- **ACCOUNT GUARANTY AND
HOLDBACK**
- **CUSTOMARY TERMS**

COMMON PITFALLS

- **FORGETTING THE GOLDEN RULE**
- **NOT PREPARING WELL IN ADVANCE**
- **NOT INCLUDING YOUR LENDER IN THE PROCESS**
- **NOT HAVING A PLAN (BUSINESS, STRATEGIC, INTEGRATION)**
- **NOT HAVING SOLID DUE DILIGENCE**
- **NOT HAVING CREDIBLE FINANCIAL PROJECTIONS**
- **DEAL MANIA**
- **NOT SHOPPING FOR BEST LENDER**
- **PULLING AN OSTRICH**
- **SPEED KILLS**

LENDER'S HOT BUTTONS

- **RULES FOR FINANCING DEALS**
- **COORDINATED DUE DILIGENCE**
- **SEEK LENDER'S INPUT AND ADVICE**
- **CONTROL OF ACCOUNTS**
- **THE NASTIES:**
 - **ENVIRONMENTAL**
 - **EMPLOYEE DISPUTES**
 - **UNPAID TAXES**
 - **LOTS OF LITIGATION**
 - **NO CUSTOMER CONTRACTS**
 - **HIGH ATTRITION**
- **NOT SO SUBORDINATED DEBT**
- **SELLER NON-SOLICITS**
- **NO SURPRISES**

KEY NEGOTIATING POINTS WITH SELLER

- **INCORPORATE LENDER'S HOT
BUTTONS**
- **USE LENDER AS "BAD COP"**
- **BUT, TIMING IS CRUCIAL**
- **AMOUNT AND TERMS OF PURCHASE
PRICE**
- **LISTEN TO SELLER'S SALES PITCH**
 - **FORCE SELLER TO STAND
BEHIND IT**
 - **NEGOTIATED ADJUSTMENTS**
- **RMR GUARANTY**

LETTERS OF INTENT

- **SELLERS LOSE LEVERAGE ONCE SIGNED**
- **BUYER'S NEED FOR EXCLUSIVITY**
- **BINDING VS. NON-BINDING**
- **REFUNDABLE, ESCROWED HAND MONEY**
- **FINANCING CONTINGENCY**
- **LENDER INPUT**
- **CONSULT OTHER ADVISORS BEFORE SIGNING**

STOCK VS. ASSETS

- **NO LONGER KNEE JERK REACTION**
- **BUT NEED FOR INCREASED ANALYSIS**
- **MANY BENEFITS**
- **MORE PROSPECTS**

RMR

- **WHOSE DEFINITION CONTROLS?!**
- **ORAL CONTRACTS**
- **PAST DUE AND PREPAID ISSUES**
- **CREDIT SCORES**
- **TYPES OF RMR**
 - **JUST MONITORING?**
 - **NOT THIRD PARTY?**
 - **NOT MAINTENANCE?**
 - **NOT FIRE SYSTEM?**
- **TYPES OF CUSTOMERS**
 - **MASS MARKETED,
LOW DOWN, NO DOWN**
 - **RENTERS**
 - **EFT**

ACCOUNT GUARANTY

- **IMPACT ON PURCHASE PRICE WITHOUT THEM?**
- **CAN THEY BACKFIRE?**
 - **POST-CLOSING DISPUTES**
 - **TRACKING HASSLES**
- **LENDER'S PERSPECTIVE**
- **“TYPICAL” SELLER EXCEPTIONS**
 - **ATTRITION CUSHION**
 - **CAP AT HOLDBACK**
 - **BUYER POOR SERVICE**
 - **NO BUYER RATE INCREASE**
- **BUYER PITFALLS**

HOLDBACK

- **PURE HOLDBACK, WITHOUT INTEREST**
- **ESCROWED**
- **UNSECURED NOTE**
- **SECURED NOTE**
- **ACCELERATED IF BUYER DEFAULTS**
- **SUBORDINATION AGREEMENT**
 - **TIMING IS EVERYTHING**
 - **PLAN AHEAD**

CUSTOMARY TERMS

- **INDUSTRY REPRESENTATIONS**
 - **STANDARD CUSTOMER AGREEMENT (ASSIGNABLE, LIMITATION OF LIABILITY, AUTOMATIC RENEWALS, 3-DAY RESCISSION, RATE INCREASES, ETC.)**
 - **ACCOUNT REPROGRAMMING**
 - **ATTRITION**
 - **CLAIMS ARISING INSURANCE**
 - **EMPLOYEES BOUND BY NON-COMPETE/NON-DISCLOSURE**
 - **CAN EXIT THIRD-PARTY CENTRAL STATION**

- **INDEMNIFICATION**

- **ADDRESSED DUE DILIGENCE ITEMS**

THANK YOU.