Letter of Intent Walkthrough

The nine terms to settle before the purchase agreement is drafted

Prepared by Official Business Doctor. Updated September 8, 2026.

The nine terms a letter of intent has to settle before the purchase agreement is drafted, with the question to answer before each blank is filled. It is a working aid, not legal advice. Have the LOI reviewed by an attorney before signing.

1. The price and what it includes

- The price is stated as one number
- Working capital is in the price, out of it, or delivered to a target with a true-up
- Inventory is in, out, or counted and priced at closing
- Equipment is listed, in the price, and its condition is warranted or not
- Real estate is in, out, or leased back, and the lease terms are stated
- Cash and accounts receivable stay with the seller or transfer, and the LOI says which

Question to answer first: what does the seller think they are selling, and does that match what you think you are buying?

2. The structure

- ■ Asset purchase or stock purchase is stated
- ■ The reason is understood: which liabilities transfer, and how the seller is taxed
- ■ If stock, the seller's retained stake, if any, is stated with its percentage

Question to answer first: which liabilities do you refuse to inherit, and does the structure keep them out?

3. The financing

- Buyer cash, senior loan, and seller note are each stated as an amount
- The closing is, or is not, conditional on the senior loan being approved
- The equity injection the lender will require has been calculated on total project cost, not price

Question to answer first: does the sources-and-uses schedule balance without leaving a use off it?

4. The seller note

- Amount, interest rate, term, and payment schedule are stated
- If a senior lender is involved, the subordination is stated
- If the note is to count toward an SBA equity injection, full standby is stated: no payments to the seller until the senior loan is repaid, in the form the lender requires
- The price reflects the standby, and the LOI says so

Question to answer first: has the seller been told, in plain words, what standby means for when they are paid?

5. Working capital

- A target amount is stated
- The measurement method and date are stated
- A shortfall or excess adjusts the price, and the mechanism is stated

Question to answer first: what does the business need in the bank on day one to make payroll and pay suppliers?

6. Due diligence

- The period is stated in days
- The access the seller grants is stated: documents, premises, employees, customers, advisers
- The buyer's right to withdraw on findings is stated

Question to answer first: what is the shortest period in which you could actually rebuild the earnings from source documents?

7. The seller's transition

- The length of the seller's involvement after closing is stated
- What the seller does during it is stated
- What the seller is paid for it is stated, or that it is included in the price

Question to answer first: what do you still need to learn from the seller, and how many weeks does it take to learn it?

8. Non-compete and non-solicit

- ■ Duration is stated
- ■ Geography or market is stated
- ■ It covers the seller's principals, not only the selling entity

Question to answer first: could the seller start the same business across the street, and would that hurt you?

9. Exclusivity and the binding terms

- The exclusivity period is stated
- Confidentiality is stated
- Which terms are binding and which are not is stated in plain words
- Who pays which costs if the deal does not close is stated

Question to answer first: what does diligence cost you, and is the exclusivity period long enough to protect that spend?

Before signing

- Every blank above is filled or deliberately deferred to the purchase agreement, and the LOI says which
- The financing structure has been run through a debt coverage check with your own salary in it
- The seller has confirmed the standby terms, if any, in writing
- An attorney has read it

Results vary. Nothing here is financial, legal, or tax advice.