

Escrow Purchase Proposal - What is Escrow

This opportunity is being offered by a \$40 billion, east coast, bank on behalf of one of their long standing corporate customers. The corporate customer has an escrow account in the sum of \$111,000,000 which they desire to sell on a discounted, present dollar value. The account is in cash equivalents currently. The account cannot be pledged or encumbered for a term of 15 years, but the purchaser may invest the money in U. S. Government Obligations and is entitled to the earnings from the account and will be entitled to the principal in 15 years. The company offering the account also has issued an indemnity agreement in which they give a principal guarantee to the purchaser of the account.

If the funds are invested at 5%, the annual income would be approximately \$5,500,000. Although the purchaser will have to determine the offer price, it is assumed that the account can be acquired for \$25,000,000 or less. If \$25 million was paid for the account, the interest income would provide a 22% cash on cash return for each of the next 15 years, at which time; the purchaser would receive the \$111,000,000 from the principal in the account. Much higher returns could be made if the purchaser was in a position to leverage the transaction with borrowed funds. In a leveraged transaction, annual returns would approach 400%. Background on the Escrow Account In the 1990's, the five largest tobacco companies were found guilty of wrongdoing in terms of their advertising practices from 1965-1980. In the settlement of those findings, the five largest tobacco companies agreed to a master settlement which required them to deposit monies in to escrow accounts on an annual basis as a backup fund to be used if they were ever proved to have returned to their wrongful practices. Using their substantial lobbying powers, the five large tobacco companies got Congress to also levy these deposit requirements on smaller, regional tobacco companies. These smaller companies were never involved in the wrongdoing and many were not even in business at the time of the allegations, but nonetheless; they have been required to make annual deposits, based on their total sales since 1998. Since the establishment of the escrow funds by regional tobacco companies, there has never been a levy against any of these funds. New funds are deposited annually which are for any potential claim arising in that year. It is the assessment of the bank and the attorneys for the company, that it is most unlikely that any of these funds would ever be attacked. But the possibility of a future levy is the risk that has to be assessed by the purchaser. The company has issued an indemnity agreement, which gives a purchaser a principal guarantee. Corporate Background The corporation is a family owned business which has grown tobacco for the last 125 years and is now in it's fifth generation. The company was not even in the tobacco distribution business during the period of wrongdoing and did not begin selling until 1994. They have their family brand in a dozen states, generally located in the southeastern United States. The company desires to move into additional states, and the sale of the escrow account will allow them to fund this expansion. Sales and market expansion into new States would net the company much more in revenue than they are able to make from interest paid on the escrow account. Transactional Procedures Parties interested in exploring the purchase account must sign a non-disclosure/non-circumvention agreement issued by the bank. Once completed, the purchaser will be contacted by a consultant which is retained by the bank to manage the flow of communication among all the parties. If the purchaser is interested after this first level of due diligence, then the interested party must submit a non-binding letter of intent. At that time, the interested party will gain access to the bank representatives, the corporate attorneys, the corporate officials and the company's financials. When the interested party completes their due diligence, then they will submit a binding letter of intent and proof of their ability to fund. Conclusion The Escrow Purchase Proposal represents a very attractive return to a purchaser over a period of 15 years. Five years of interest would represent a total return of principal. In addition, the \$111,000,000 in the principal, account would be received after the 15th year, adding considerably to the overall return. Should the escrow account ever be levied against, the purchaser is protected by a principal guarantee from the company. If an interested party takes the time to perform their own extensive due diligence, it is believed that they will reach the same conclusion as the bank, that there is very little actual risk in this transaction.