Arthur Hamel

Business Seminars

Seminar Workbook

Michael Senoff's HardToFindSeminars.com

Michael Senoff's HardToFindSeminars.com

Dear Student,

I'm Michael Senoff, founder and CEO of HardToFindSeminars.com.

For the last five years, I've interviewed the world's best business and marketing minds.

And along the way, I've created a successful home-based publishing business all from my two-car garage.

When my first child was born, he was very sick, and it was then that I knew I had to have a business that I could operate from home.

Now, my challenge is to build the world's largest free resource for online, downloadable audio business interviews.

I knew that I needed a site that contained strategies, solutions, and inside information to help you operate more efficiently

I've learned a lot in the last five years, and today I'm going to show you the skills that you need to survive.

It is my mission, to assist those that are very busy with their careers

And to really make my site different from every other audio content site on the web, I have decided to give you access to this information in a downloadable format.

Now, let's get going.

Michael Senoff

Michael Senoff

Founder & CEO: www.hardtofindseminars.com

Michael Senoff's HardToFindSeminars.com

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CHAPTER ONE

INTRODUCTION

BUSINESS OPPORTUNITIES

Introduction

DON'T BE A QUITTER

Don't be a quitter
When the job is tough.
Or fail in trying,
When the going is rough.
A well worn path
Is easy to find,
When the following crowd,
Is left close behind.

To make a new trail,
May be left to a few,
For a worthwhile task
Is not easy to do.
But the proof of the fighter,
Is how long he can stand
The reigning blows
From the opponent's hand

No blaze of glory
May follow your name.
Or titles of honor,
Deserving of fame.
Yet, in being a victor,
Rewards have their due,
When the pride in the doing
Belongs only to you.

CHAPTER TWO

FINDING A BUSINESS

BUSINESS OPPORTUNITIES

CHAPTER TWO

FINDING A BUSINESS

Introduction

Most of you will be very successful in finding a business to buy or to list. Why? Well, we never made a stud to find out why our program works, but I can tell you, if you follow it, you will find success!

A few of you will find this section doesn't work for you. Why? One reason, you don't listen.

Those of you who have trouble finding a business, read this section over and over until it finally sinks in. You will usually find your failure is based on your hard headed approach. You want to do it your way. Fine! But if you will try it our way, you will discover that it works. (This is not theory!)

I. The Search for the "Sincere Listing"

The Hamel program is built on using at least 5-6 different approaches each week. You should spend 2, 3 or 4 hours only on each approach. If you have more time, go to more types of approaches. Do not increase the time on each. (Stay out of ruts!)

1. Suppliers

Your number one source for information on businesses for sale. Suppliers are those that supply businesses with goods and services. They are the ones that supply restaurants with meats, produce, liquor and linen; hotels and motels with their sheets and towels; grocery stores with their products; etc. Suppliers have to know what's going on in their industry: who's making money and who is not; who has good credit and who does not; which businesses are for sale and for how much. If you want to know the truth about businesses in your city, cultivate the suppliers. You'll find them listed in each category in the Yellow Pages as wholesalers.

2. Cold Canvas

Every salesperson knows this one. You knock on doors or call on the telephone. Both ways work well, but you have to get past the feeling that you're intruding; you're not. Business owners and managers generally are pleased to talk about their business. Many of our students simply assign themselves a certain number of cold calls per day or week. The results are gratifying.

3. Promotion

Self promotion is what we mean. Let the world know that you are looking for businesses to buy. Pass the word to everyone you know and meet and let them be voluntary bird dogs for you.

4. Lawyers

They're involved in probate sales and the settling of estates so, of course, they know about businesses for sale. You'll eventually need a lawyer when you close your business purchase, so get to know a good one who specializes in business. Establish a friendly relationship with him/her. If you're not ready to discuss legal fees, at least be ready to offer a finder's fee for sale information.

5. **CPAs/Accountants**

Guess who has the books on businesses in your community? And often the CPAs and accountants are involved in the sale of their client's business. In any case, they have the inside knowledge you need; they know who's making money and how much, and who has a clean operation. Again, use your contacts and establish a personal relationship with them.

6. **Bookkeeping Services**

The same as Number 5 above, except the bookkeeping services often handle the books of the smaller businesses. Numbers 5 and 6 have a good reason for wanting to help you: you might become a business client someday.

7. **Stock Brokers**

Often overlooked by business buyers, stock brokers can be excellent sources because they're sometimes involved in the sale of the stock of business corporations. Get to know a few of them and let them spread the word through their brokerage community. Like lawyers, CPAs and others, stock brokers are professionals and can be motivated by the promise of a finder's fee.

8. **Bankers**

Who should know more about the finances of local businesses than the banker? Sellers usually let their banker know they're selling, especially if outstanding business loans are involved. If you're not yet on a first-name basis with a banker, the time is now.

9. **Wall Street Journal**

Another of the better sources of information on businesses for sale. Concentrate on the Wednesday and Thursday issues of the regional publications of the Journal and look in the Businesses For Sale section. Watch out for the ads that list only a telephone number; when you call, they'll do their utmost to qualify you on the phone. Ads that carry a P.O. Box number are best. The Journal is also a great newspaper in which to list your ads about your wants and needs.

10. **Business Opportunity Newspapers**

Perhaps there's a good one somewhere, but we have yet to see it. All the ones we've seen so far advertise the junk and marginal business opportunities, or extol the virtues of "buy yourself a job" businesses. You may luck onto an occasional gem in all the junk, but don't expect a lot and you won't be disappointed.

11. **Trade Journals**

Every industry has dozens, even hundreds, of such publications devoted solely to it. There are trade journals for food service, hotels and motels, electronics, broadcasting, shipping, entertainment, automotive and on and on. The public library can refer you to the journals of your choice to write for. Your supplier friends will usually have a few laying about their offices.

12. **Real Estate Brokers**

One of the better group of professionals to be in touch with. Although normally concerned with real estate, the very nature of their industry brings them in touch with businesses for sale. They too like a finder's fee for helping you find businesses.

13. **Telephone Book**

A natural beginning for your cold canvassing. And you'll appreciate the Yellow Page system of listing businesses by category. The display ads will often give you a feel for the size and personality of the business.

14. **Directories**

Business and government organizations publish an almost endless array of them, listing businesses by type, size, location, etc. Look in the reference section of the public library. One of the best of sources for businesses to contact by telephone, letter or in person.

15. **D & B**

Dun and Bradstreet provides credit information and special reports on businesses. D & B charges for its services, but you may have a friendly contact who subscribes. You'll find D & B listed in major telephone directories.

16. **Chamber of Commerce**

Your local Chamber provides essential information about the economic climate of the area. The Chamber will give you specific facts and figures about business trends and opportunities and acquaint you with ownership movement in local industries and businesses. In order to get a realistic feel of the business community, the Chamber is a must. It's also a great source of well-prepared material to include in your presentation to investors.

17. **Better Business Bureau**

Because the B.B.B. is the watchdog of business activities, you can quickly determine how a particular business is being received by the buying public; whether any complaints have been registered and how they have been resolved. The B.B.B. is a great agency to connect yourself with in your search for businesses to buy. Get acquainted with the staff and they'll often informally share information about businesses in transition that they're aware of.

18. **Business Brokers**

This source can be great or grim, depending on how you use the brokers and what you expect. If you want to contract for a broker to represent you, the buyer, that's one way. Usually, the broker you approach represents the seller, collects his/her fee from the seller and is legally obligated to get the best price and terms for the seller. Because of that arrangement, you should be ready to suffer the broker doing his/her best to qualify you before revealing much pertinent information.

19. **Merger/Acquisition Companies**

Much like business brokers only bigger and they deal in larger companies. Highly professional and a delight to work with.

20. **Management Consultants**

These individuals and firms are on the inside track of business; they often know what's going on before the news ever hits the streets. They also have priceless information about the current and potential worth of a business. Since they are professionals, you should assume that they deserve a fee for their effort in your behalf.

BUSINESS OPPORTUNITY INFORMATION ATTACHMENTS

_________ Attachment A – Business Opportunity Owner's Statement

_________ Attachment B – List of Inventory

_________ Attachment C – List of Equipment

_________ Attachment D – Equipment Lease

_________ Attachment E – Sign Lease

_________ Attachment F – Franchise Agreement

_________ Attachment G – Building Lease

_________ Attachment H – Copy of assignable notes, contracts, chattels

_________ Attachment I – Ageing – Accounts Receivable

_________ Attachment J – Ageing – Accounts Payable

_________ Attachment K – Corporation minutes (approving listing)

✓ Attachment L – Copy of P&L for 1978, 1979, 1980, 1981, 1982, 1983, 1984

✓ Attachment M – Copy of Balance Sheet for 1978, 1979, 1980, 1981, 1982, 1983, 1984

✓ Attachment N – Corporate tax records (of Schedule C) 1978, 1979, 1980, 1981, 1982, 1983, 1984

_________ Attachment O – Summary of owner's reasons for selling

_________ Attachment P – Real estate included. Need plat map, local maps, state maps, photographs, topography map, road map.

_________ Attachment Q – Photographs of equipment, inventory and business.

_________ Attachment R – Chamber of Commerce package of area where the business is located.

_________ Attachment S – Copy of current insurance policies (all types)

_________ Attachment T – Appraisal of Equipment

_________ Attachment U – Appraisal of Inventory

_________ Attachment V – Copy of tax bill (personal property & real estate)

_________ Attachment W – Copy of Union Contract

_________ Attachment X – Copy of Union Contract

_________ Attachment Y – ____

_________ Attachment Z – ____

INFORMATION ATTACHMENTS

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_________	Attachment I	–	Ageing – Accounts Receivable
_________	Attachment J	–	Ageing – Accounts Payable
_________	Attachment K	–	Corporation minutes (approving listing)
_________	Attachment L	–	Copy of P&L for 19__, 19__, 19__, 19__, 19__, 19__, 19__
_________	Attachment M	–	Copy of Balance Sheet for 19__, 19__, 19__, 19__, 19__, 19__, 19__
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_________	Attachment Z	–	____

CHAPTER THREE

PROFIT AND LOSS

BUSINESS OPPORTUNITIES

CHAPTER THREE

PROFIT AND LOSS

Introduction

This is one of the two key documents required in starting, buying, selling, or running a business.

CHOOSING THE RIGHT ACCOUNTING METHOD: When anew business is started, it is critically important to select the most appropriate accounting method. Attempts to make later changes will generally require advance permission of Internal Revenue Service, and that is not always easy to get, at eat not without conditions, which may be burdensome.

The basic choice is between the cash and accrual methods. Other possible choices involve treatment of inventories, long-term contracts, installment sales, bad debt losses, and depreciation. As a general rule, different methods may be used for financial and tax accounting purposes. The tax method normally is adopted by using the method in the first tax return of the business.

CHOOSING A FISCAL YEAR: Choosing a fiscal year depends largely on the form of organization. A sole proprietorship is limited to the accounting period (almost always the calendar year) used by the proprietor. A partnership may adopt the fiscal year of all its principal partners, or the calendar year if there is not a principal partner. Any other partnership year requires advance permission from the Internal Revenue Service. A corporation may choose a tax year ending on the last day of any month or a 51/53 week year by merely filing its first return for that period on a timely basis.

For years beginning after 1982, a corporation making an Selection must generally elect a calendar year. Election of any other accounting period requires that the corporation establish to the satisfaction of IRS a business purpose for the accounting period elected.

Often it is possible to pick a year-end in order to defer income taxes. Tax deferral can be achieved, for example, by selecting a year-end for a new business after substantial expense has been incurred, but before substantial revenues are realized.

TAX PLANNING: When starting a business, two areas require special attention. These are accounting for organization costs and treatment of assets contributed to the business.

Organization expenses. Corporations and partnerships may elect to amortize organization expenses over a sixty-month period. This election should be made when the first tax return is filed. If this election is not made, these expenses must be capitalized.

Assets contributed to the partnership. As a general rule, formation of a partnership is not a taxable event. The Internal Revenue Code provides that no gain or loss is recognized to the partnership or to the partners when property is exchanged for a partnership interest. However, a services in exchange for a partnership interest may be taxable to the contributing partner. In this situation the value of the contributed services may be deducted by the partnership unless it is a capital expenditure.

The contributing partner's basis in his partnership interest is his basis in the property, including cash, contributed to the partnership. The assumption of liabilities by a partner is considered to be a contribution of property.

The partnership's tax basis (cost) in contributed assets is the contributing partner's basis, plus any gain recognized by him. This occasionally produces unfair results. For example, assume A and B form a partnership. A contributed $20,000 in cash. B contributes depreciable property with a fair value of $20,000 but its basis in B's hands is only $16,000. In this situation, the partnership's basis in the depreciable property is only $16,000. Although B gets tax-free treatment of the $4,000 unrealized gain, A loses any benefit that would result from depreciating that same $4,000. There are two possible remedies for this situation. The partnership agreement may provide to A, so that A receives a deduction equal to what would have been received if B had recognized gain. Alternatively, B might sell the property to the partnership for$20,000 recognizing $4,000 gain, although this is not always feasible.

Contribution of property subject to recapture of depreciation or investment tax credit presents another problem. The burden of any potential depreciation recapture carries over to the partnership and may result in ordinary income to the partnership upon sale of the property. Investment tax credit recapture ordinarily is not triggered by contribution of the property if the contribution is a change in the form of conducting business. However, if recapture does not occur at the date of contribution, there may be recapture if the property is disposed of prior to the end of the useful life of the property.

Assets contributed to the corporation. The rules for transfers of property to a corporation in exchange for stock are similar to those for transfers to a partnership.

General Analysis Problem

1. **Cash vs. accrual methods**

   a. Cash basis P & L

   $10,000 income, January 198X
   - 8,000 expenses (bills paid in January)*
   $ 2,000 profit

   *This is a rip-off! Bills paid in January are usually the December and November unpaid bills, rather than expenses incurred in January.

   b. Other methods of cheating

2. **Inventory**

   b. Sometimes taken annually (sometimes more often).

   c. Sometimes it is estimated.

   d. The largest expense item in many businesses is subject to the least control.

3. **Common ownership**

   Does this profit and loss statement reflect the income and/or expenses of this business only?

4. **Owner benefits** (perk/volcanoes!)

See detail on profit and loss adjustment sheet in this section.

5. **Standard accounting practice is inadequate.**

The average P & L is set up and used all year to lower the tax bite and not to run the business. The net profit that a business reflects is not a true measure of what the business is really producing.

Inventory

Beginning inventory	$ 50,000.00
(+) Purchases	200,000.00
(–) Ending inventory	50,000.00
	$200,000.00

Beginning inventory	$ 50,000.00
(+) Purchases	200,000.00
(–) Ending inventory	— 0 —
	$200,000.00

Rip off — $50,000.00 Net

"The Store"

Profit and Loss Statement

12 months ended December 31, 198X

Account Name	**Percent**	**Year to date Balance**
Sales	100.00	500,000
Cost of Sales		
Beginning inventory	10.00	50,000
Purchases	40.00	200,000
Ending Inventory	10.00	50,000
Cost of Sales	40.00	200,000
Gross Profit	60.00	300,000
Operating Expenses		
Automobile		12,400
Advertising		2,300
Cash short and over		700
Insurance — business		3,000
Insurance — health and life		16,600
Licenses		2,500
Office expense		6,000
Salaries and wages		77,000
Salaries, officers		80,000
Taxes — real estate		2,500
Utilities		6,200
Legal and accounting		4,100
Repairs and maintenance		3,100
Travel		24,900
Rent		8,700
	Total operating expenses	250,000
Net profit		50,000

Buyer's Profit & Loss Adjustment Sheet

Net profit (loss) pre-tax = 50,000

Adjustment:

Description	($) Addition to net profit	($) Deduction from net profit
Wages (or draw)		
1. owner	80,000	
2. spouse		
3. relatives		
Manager's Salary		42,000
Payroll taxes		
Auto expense	8,000	
Travel and transportation	19,700	
Pension and profit sharing		
Insurance — health	16,600	
Insurance — life		
Real estate:		
Depreciation		
Interest		
Lease payment		
Other		
Other		
Other		
Other		

Net Profit	50,000
(+) additions	124,300
(-) deductions	42,000
Adjusted net profit available to new owner =	132,300

Buyer's Profit & Loss Adjustment Sheet

Net profit (loss) pre-tax = ______________________________

Adjustment:

Description	($) Addition to net profit	($) Deduction from net profit
Wages (or draw)		
1. owner		
2. spouse		
3. relatives		
Manager's Salary		
Payroll taxes		
Auto expense		
Travel and transportation		
Pension and profit sharing		
Insurance — health		
Insurance — life		
______________________________		
Real estate:		
Depreciation		
Interest		
Lease payment		
Other		
Other		
Other		
Other		
Total		

Net Profit ______________________

(+) additions ______________________

(-) deductions ______________________

Adjusted net profit available to new owner = ______________________

CHAPTER FOUR

BALANCE SHEET

BUSINESS OPPORTUNITIES

CHAPTER FOUR

FINDING A BUSINESS

Introduction

The balance sheet answers the questions: What is my financial worth? Or, if I sold everything I own and paid all of my debts today, how much would I have left? The solution comes from subtracting the total of what you owe (your liabilities) from what you own (your assets). The result is your financial or net worth.

A balance sheet is like a stop-action photograph; it's a picture of where you stand financially on a given day. By preparing a balance sheet once a year on the same date, you'll be able to measure the changes in your financial condition over the years.

The balance sheet has two columns, your assets, listed in the left column, include everything you own, whether you own items outright or still owe payments. The dollar figures you fill in are the assets' current market values—that is, what you could sell them for today.

In the right column are your liabilities—everything you own—recorded as the total balance due on our debts as of today. Your net worth is also calculated in the right column, below liabilities. It shows the amount of money left over after you subtract your liabilities from your assets.

Why the name **BALANCE SHEET**? Because your assets (left column) equal the sum of your liabilities and your net worth (right column)—and the two columns balance.

GLOSSARY

ACCOUNTS RECEIVABLE: Money owed to you for goods and/or services. Check your tiles for items outstanding.

ASSETS: Anything in which you have ownership interest, including cash, real estate, insurance policies. Copyrights and patents also may be assets.

AUTOS/OTHER VEHICLES: Trucks, boats and airplanes. Vehicle dealers and some libraries carry special price books such as the Kelley Blue Book for new and used automobiles. If no published information is available, dealers may be able to tell you the current market value.

CASH: Money you have on hand, today's checking and savings account balances.

CASH SURRENDER VALUE LIFE INSURANCE: Investment or equity built up in your whole or straight life insurance policy; not face value. (Term life insurance has no cash surrender value.) Find the cash surrender value from the chart on your policy.

COLLATERAL: Income or property including stocks, bonds, etc. pledged to secure a debt.

ENCUMBERED ASSET: Any property against which there is a recorded lien or claim, such as a deed of trust, mortgage or other security agreement, tax lien, mechanic's lien.

EQUITY: Actual value of your financial interest in an asset. For example, you own a business that would sell for $40,000. A $22,000 balance is due on your loan (business). Your "Equity" is $18,000.

FIXED EXPENSES: Payments you must make at regular times for set amounts. Most of your "fixed expenses" are set by written agreement.

GUARANTOR (COSIGNER, SURETY, ENDORSER): A person who promises to pay someone else's debt if that person doesn't perform as promised.

INTEREST IN PROPERTY: Degree or percentage of ownership or equity you have in something. You may, for example, have a fractional "interest" in a partnership, business or property.

KELLY BLUE BOOK: A reference book that gives wholesale and market retail values of new and used automobiles.

LEASE: Right to use property for a set time by paying an agreed amount for its use.

LIABILITIES: What you owe others. For example, the balance you still owe on your business loan is a "liability." So are other bills you haven't yet paid.

LIEN: Claim recorded in the public records, usually by a creditor, against real or personal property.

LIQUIDITY: Speed and ease with which you can convert your assets into cash at market value.

MARKET VALUE: Price that a buyer and seller agree upon in the sale of a particular property in the open market.

NET PROFIT: Amount of money available after expenses have been deducted from total income.

NET WORTH: The sum of money you'd have if you sold all your assets and paid off all your debts. Market value of your assets less your liabilities.

NOTES RECEIVABLE: Money owed to you and documented by promissory notes.

OTHER ASSETS: Any property other than the business that has cash value, estimated in terms of what it is worth day. To find an item's value, check classified ads for comparable items or get estimates from dealers or special appraisers.

PROMISSORY NOTE: Written promise to pay someone money on demand or at fixed times. Courts accept such notes as evidence the money was loaned or advanced.

REAL ESTATE: Any land and/or structures affixed to land. Also, legal rights you may have to resources in the land: growing crops, water, minerals, etc.

REBATES/REFUNDS: Money owed to you for refundable deposits, sales or tax refunds or rebates.

SECURED DEBT: Where a lender takes a security interest in property as collateral for a loan. That property becomes an encumbered asset since there is a claim on it under the security agreement.

SECURITIES: Certificate or other document—such as a stock or bond—that shows holder owns a share in or has financed part of a debt of a business or government.

UNSECURED DEBT: Where a lender does not require you to put up security or collateral to assure repayment of the loan.

I Understanding Financial Statements

A **The Audited Statement**

(1) Specific period – usually one year

(2) Limited scope of CPA opinion because of incomplete exam

(3) Read opinion carefully – it may spell out problems

(4) Prepared by CPA – reliability based on degree of competence of auditor

B **The Interim Statement**

(1) Usually not audited

(2) Used by businessmen to evaluate performance

C **The Unaudited Year-End Statement**

(1) Signed by company officer (or unsigned)

(2) “Dangerous” – Should have internal book audited

D **The “Estimated” Statement**

(1) Dangerous to base decisions on estimates – need figures that are clearly defined and precisely executed.

II Items on the Financial Statement (Balance Sheet)

A Assets

(1) Current Assets

Cash plus those items which the company plans to convert to cash in the course of its normal marketing process in the regular conduct of business. They are available for conversion to cash as needed.

(a) Age accounts receivable

(b) Accounts and notes receivable from officers = bad news

(c) Notes receivable = account receivable not able to pay

(d) How collectible are receivables?

(e) Inventory – (damaged stock and obsolete stock)

(f) Change and petty cash not available for paying bills

(g) Beware of marketable securities at cost (may now be worth less than cost)

(2) Fixed Assets

The tangible physical facilities utilized by the company in performing its function. These assets usually represent a permanent investment in such items as land, buildings, equipment, autos, furniture and lease hold improvements.

(a) Equipment value – original cost or owner's value or book value or "real value"

(3) **Intangible Assets**

Difficult to define because in some cases they represent definite money value, while in others they do not have any measurable cash value. Examples are organization expense, patents, franchises and goodwill.

(a) Patents and copyrights have limited life

(b) Trademark good forever

(c) Patents – 17 years

(d) Copyright – life of owner plus 50 years

(4) **Miscellaneous Assets (Other assets)**

Identified by process of elimination. If they don't fit into the other categories, place it here. Items in this category are cash surrender value of life insurance, deferred charges and prepaid expenses.

(a) Prepaid asset – can you use it or is it worthless? (Example: stationery with old business name)

B **Liabilities**

(1) **Current Liabilities**

Obligations which mature within one year from the closing date of the financial statement. Includes demand notes which have no fixed maturity date, accounts payable, notes payable, tax liabilities, accrued items.

(a) Age accounts

(b) Taxes due? Past taxes not paid?

(c) Are these mechanics liens on business?

(d) Are notes past due?

(2) **Long-Term Liabilities**

Any claim falling due beyond one year is long-term

(a) Beware of contingent liabilities

(3) **Net Worth**

Excess of total tangible assets over total debt (current and long-term)

(4) **Working Capital**

Current assets minus current liabilities.

ABC Company, Inc.

Balance Sheet

December 31, 198X

Assets

Current Assets:			
Cash on hand			$ 30,000
Notes receivable			65,000
Accounts receivable			120,000
Inventory (at cost)			85,000
Prepaid expenses			15,000
	Total current assets		$315,000
Fixed Assets:			
Leasehold expenses		$ 70,000	
Equipment, fixtures, furniture		140,000	
		210,000	
Less allowances for depreciation		-(35,000)	
	Total fixed assets		$175,000
Intangible Assets:			
Patents			25,000
Other Assets:			
Prepaid paper goods			5,000
	Total assets		$520,000

Liabilities

Current Liabilities:			
Accounts payable			$115,000
Notes payable (to banks)			20,000
Taxes payable			10,000
	Total current payables		$145,000
Long-Term Liabilities:			$155,000

Net Worth

Capital Stock		$ 10,000	
Retained earnings		210,000	
	Total net worth		220,000
	Total liabilities and net worth		$520,000

SCHEDULE OF ACCOUNTS RECEIVABLE

Page No. ______ of ________ Pages _______

Name ABC Company Date-as of December 31 19 8x Prepared by Bill

LINE NO.	NAME OF ACCOUNT	TOTAL		MONTH OF ___ CURRENT		MONTH OF ___ 30 DAYS PAST DUE		MONTH OF ___ 60 DAYS PAST DUE		MONTH OF ___ 90 DAYS PAST DUE		120 DAYS AND OVER DATE	120 DAYS AND OVER AMOUNT		COMMENTS	LINE NO.
	AMOUNTS FORWARD															
1	Al's Manufacturing	7000	–	7000	–											1
2	Bob's Retail	5000	–	4000	–	1000	–									2
3	Cal's Deli	12000	–	8000	–	3000	–	1000	–							3
4	Doris's Hardware	4000	–	4000	–											4
5	Edith's Plumbing	6000	–	6000	–											5
6																6
7																7
8																8
9																9
10																10
11																11
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14																14
15																15
16																16
17																17
18																18
19																19
20																20
21																21
22																22
23																23
24																24
25																25
	AMOUNTS CARRIED FORWARD															

SCHEDULE OF ACCOUNTS PAYABLE

Page No. ______ of ________ Pages _______

Name ABC Company Date-as of December 31 19 8x Prepared by Bill

LINE NO.	NAME OF ACCOUNT	TOTAL		MONTH OF		MONTH OF		MONTH OF		MONTH OF		120 DAYS AND OVER			COMMENTS	LINE NO.
				CURRENT		30 DAYS PAST DUE		60 DAYS PAST DUE		90 DAYS PAST DUE		DATE	AMOUNT			
	AMOUNTS FORWARD															
1	Ace Hardware	4000	–	4000	–											1
2	Bill's Deli	5000	–	4000	–	1000	–									2
3	Cel Manufacturing	3000	–	2000	–	1000	–									3
4	Don's Distributing	2000	–	2000	–											4
5	Ellie's Retail	1000	–	500	–	500	–									5
6																6
7																7
8																8
9																9
10																10
11																11
12																12
13																13
14																14
15																15
16																16
17																17
18																18
19																19
20																20
21																21
22																22
23																23
24																24
25																25
	AMOUNTS CARRIED FORWARD															

CHAPTER FIVE

PRICING

BUSINESS OPPORTUNITIES

CHAPTER FIVE

PRICING

Introduction

This chapter on pricing will be one of the most difficult to comprehend the first time. We suggest you go through this chapter two or three times before attempting to price a business.

Our experience has shown that by the time you have gotten to your seventh or eighth business you should be able to price the business in ten minutes or less.

Of course, your ability to price with ease will also depend on your knowledge of Chapter Three and Chapter Four, Profit and Loss statement and the Balance Sheet. So as an additional suggestion, also repeat Chapter Three & Four a few times each as you repeat the chapter on pricing.

I **The past**

(a) Gross Multipliers

(b) Net Multipliers

II **The *Hamel* method (See 5-13)**

(a) Value = Hamel value assets + Intangibles
or
Goodwill
or
"Blue Sky"

III Exceptions

(a) Back log

(b) Special contracts

(c) Exceptional year

(d) Other

"M" MANUFACTURING

Profit and Loss Statement

12 months ending December 31, 198X

Account Name	**Percent**	**Year to date Balance**
Sales	100.00	600,000
Cost of Sales		
Materials		150,000
Labor		200,000
Cost of Sales	58.00	350,000
Gross Profit	42.00	250,000
Operating Expenses		
Advertising		3,000
Accounting		2,000
Insurance		2,000
Licenses		3,000
Manager salary		40,000
Payroll		20,000
Payroll taxes		3,000
Rent		10,000
Repairs		1,000
Taxes		3,000
Telephone		5,000
Utilities		3,000
Equipment rental		5,000
Depreciation		30,000
Interest		10,000
(non-recurring) equipment rental		10,000
	Total operating expenses	$150,000
Net profit		$100,000

HAMEL BUSINESS SEMINARS
BUSINESS OPPORTUNITY OWNER'S SUMMARY STATEMENT

BUSINESS

Business Name: "M" Company

Type of Business: Manufacturing

Business Form: Corporation
(Sole Proprietorship)

Address: 320 Main

City: Wishka State: Maine

Zip: 00001 Bus. Phone: 555-5555

Owner(s): A. Nono Res. Phone: 555-7899

Years Present Owner: 10 Years Established: 22

Reasons for Selling: Health

Days Open: 5 Hours Open: 8-5

REAL ESTATE

Land Size/Legal Descr.: 3 acres

Bldg. Size: 30,000 sq.ft. Storage Facility: Open area

Living Quarters: None Zoning: Mfg.

Lease terms: 10 years Lease Security: 2 mo.

Years left on lease: 7 years Renewal Option: Yes, 5 years

Obligations: - Balance: - Per Mo.: -

Parking No.: 32 Location Class: 1 2 3

It is a run-down industrial park

Terms Down Payment: $ Open

Financing Available: Open

GROSS MONTHLY SALES

	Year 1978 $	Year 1979 $
Jan.		40,000
Feb.		40,000
March		50,000
April		50,000
May		60,000
June		60,000
July		50,000
Aug.		50,000
Sept.		60,000
Oct.		40,000
Nov.		40,000
Dec.		60,000
TOTAL	$550,000	$600,000

ANNUAL OPERATION EXPENSES

Rent	$ 10,000
Utilities	3,000
Insurance	2,000
Advertising	3,000
Accounting	2,000
Cost of Sales	350,000
Telephone	5,000
Taxes	3,000
Licenses	3,000
Equip. Rental	5,000
Repairs	1,000
Payroll	20,000
Payroll Taxes	3,000
Depreciation	30,000
Manager	40,000
Interest	10,000
Non-recurring	10,000
TOTAL	$500,000

ANNUAL NET INCOME

Sales	$ 600,000
Expenses	500,000
Net Income	$ 100,000
Price Includes: (Tax Allocation)	
Equip.	40,000
Rolling Stk.	
Lease Value	
Leasehold Improvements	
Goodwill	
Non-Competition	
Accts Rec.	150,000
(-) Accts Pay.	100,000
Inventory	50,000
Work in Prog.	
Building	
Land	
Cash	50,000
TOTAL	$ 190,000

GENERAL:

No Employees 15 Owner Works No No. of Hours 0

Total Payroll ______ Owner's Wages (Draw) 0

Inventory Includes: See Attached List

Equipment Includes: See Attached List

REMARKS:

The owner will stay for up to 3 months to help the buyer

The income and expenses listed above are warranted to be the actual figures for the 12 month period ended 12-31 19 79. The undersigned understands that in reliance on the above listed figures, commitments and obligations may be made by one or more persons which would not have been made but for reliance on these figures.

Date: June 2 19 80 Name: A. Nono Name: ______

Mailing Address: 320 Main City: Wishka State: Maine Zip: 00001

Owner's Phone Number: 555-7899 Broker: ______ Phone Number: ______

“M” MANUFACTURING

Balance Sheet

December 31, 198X

Assets

Current Assets:			
Cash on hand			$ 50,000
Accounts receivable			150,000
Inventory (at cost)			50,000
	Total current assets		$250,000
Fixed Assets:			
Equipment			40,000
	Total fixed assets		$ 40,000
	Total Assets		$290,000

Liabilities

Current Liabilities:			
Accounts payable			$100,000
Taxes payable			0
	Total current liabilities		$145,000
Long-Term Liabilities:			

Net Worth

Capital Stock		$ 10,000	
Retained earnings		180,000	
	Total net worth		$190,000
	Total liabilities and net worth		$290,000

BUSINESS ANALYSIS SHEET

BUSINESS

Business Name: "M" Company
Type of Business: Manufacturing
Business Form: Corporation
(Sole Proprietorship, etc.)
Address: 320 Main
City: Wishka State: Maine
Zip: 00001 Bus. Phone: 555-5555
Owner(s): A. Nono Res. Phone: 555-7899
Years Present Owner: 10 Yrs Established: 22
Reasons for Selling: Health
Days Open: 5 Hours Open: 8-5

REAL ESTATE

Land Size/Legal Descr.: 3 acres
Bldg. Size: 30,000 sq. ft. Storage Facility: Open
Living Quarters: None Zoning: Mgr.
Lease terms: 10 years Lease Security: 2 mos.
Yrs left on lease: 7 Renewal Option: Yes
Obligations: - Balance: - Per Mo.: -
Parking No.: 32 Location Class: 1 2 3
It is a run-down industrial park

EMPLOYEES

Number: 15 Turnover: Once/Year
Union (?): Yes Name: Teamsters *
Local Labor Market (?): Good supply of help
Remarks: * Competitors also have Teamsters

Management Available: Manager will stay
(7 years on job)

INVENTORY

Amount: $50,000
Turnover: 7 times

ECONOMY (Owner feeling):

Local: Strong (very good)
National: You call it (?)

OWNER:

Sell(?): Terms(?):
Reason (yes or no):
Will owner assist new owner? How long?

INDUSTRY:

Type of Industry: Manufacturing
Competition in Industry: None
Age of industry: Over 20 years

REMARKS:

Person Interviewed:
Person(s) Interviewing:

 Form #BA-1

PRICING SHEET

Section I**- Profit & Loss – Summary**

Section II **- Add Bulk of Owners Perks and Benefits**

Section III **- Balance Sheet** (Hard Value Assets)

Section IV - **Return on Investment**

Section V - **The Value**

Arthur Hamel Business Seminars

Description of business: ______________________ Package No. ______________

Value ______________

Net Profit ______________

I	Total Sales (Income)	600,000	III	
	Cost of Sales		Value:	
	Materials	150,000	Assets:	
	Labor	200,000	Cash (Working Capital)	50,000
	Total Cost of Sales	350,000	Accounts Receivable	150,000
	Gross Profit	250,000	Inventories	50,000
	Expenses		Work in Progress	
	Manager's Salary	40,000	Deposits	
	Building Rent	10,000		
	Other	100,000		
	Total Expenses	150,000	Equipment	40,000
	Net Profit	100,000	Furniture and Fixtures	
			Vehicles	
II	(+) Depreciation	30,000	Leasehold Improvement	
	(+) Interest	10,000		
	(+) Non-recurring	10,000	Lease	
	(+) Owners Draw		Licenses	
	(+) Travel & Transportation			
	(+) Entertainment			
	(+) Pension & Profit		Liabilities:	
	(+) Insurance		(-) Accounts Payable	100,000
	(+) ______		(-) Taxes Payable	
	(+) ______		(-) Accrued Salaries	
	Total Adjustment	50,000	(-)	
	Real Net Profit	150,000	(-)	
IV	[Adjustment in Profit for cost of/or return on the following]		Total Value	190,000
	(-) Equipment (P+3) (13 %)	5,200		
	(-) Inventory (P+2) (12 %)	6,000		
	(-) Receivables (P+3) (13 %)	6,500		
	(-) Working Capital (P+1) (11 %)	5,500		
	(-) ______ (%)			
	(-) ______ (%)			
	(-) ______ (%)			
	Total Adjustment	23,200		
	Adjusted Net Profit	126,800		

V **HAMEL BUSINESS VALUE** = TOTAL VALUE + [Weighted Business Value X Adjusted Net Profit]

= 190,000 + [3.39 x 126,800

= 190,000 + 429,852

619,852

Hamel Business Value

	Weighted	Comment
1.	.05, .12, .19, .41, .58	Owner finance 75%/10yr/10%
2.	–.17, .00, .24, .37	" " " " "
3.	1.10, .81, .63, .46, .35, .16, .10, –.20	" " " " "
4.	.08, .16, .31, .43, .52	Supplier finance 25%/0%
5.	.21, .15, .00, –.22, –.31	" " " "
6.	~~.57, .36, .21, .09, –.10~~	" " " "
7.	~~.95, .12, .19, .41, .58~~	N/A
8.	~~-1.0, -.50, -.31, -.22, -.14, .24, -3.7, -3.2~~	N/A
9.	~~.63, .46, .35, .16, .10, -.20~~	N/A
10.	+.24, .00, –.29	Level market in Industry
11.	–.71, –.12, +.27	Age over 20 years
12.	–.93, –.37, +.09, +.36	Average competition
13.	+.27, .00, –.38	Dynamic local economy
14.	.12, .00, –.09	Level economy
15.	+.21, +.16, .00, –.23	Once / year
16.	–.17, .00, +.11	Good supply of help
17.	–1.31, –.45, –.43, –.37, .00	Teamsters / competitors also have union
18.	+.17, +.11, +.07, -.05, -.12	15 employees
19.	–.87, -.52, –.03, +.27, +.41	Manager stats / 2 yrs on job
20.	–.14, .00, +.17, +.26	Manufacturing
21.	.02, .13, .28, .41, .46, .48, .51	Established 22 years
22.	.08, .17, .31, .44, .49	Net Profit / $150,000
23.	–.31, -.09, +.27	Small manufacturing co.
24.	.13, .16, .21	Owner stays 3 months
25.	+.47, .00, –.63	Average manufacturing Location

__________ **(+) Plus Total**

__________ **(–) Minus Total**

__________ **Weighted Business Value Total**

Hamel Business Value

Weighted	Comment
1. Percentage of Bus. Owner will finance	Owner Financing
2. Interest rate – Bus. Owner financing	Owner Financing
3. Payment period on Owner Financing	Owner Financing
4. Percentage of Bus. Supp. Will finance	Supplier/Vendor Financing
5. Interest rate of Supp. Financing	Supplier/Vendor Financing
6. Payment period of Supp. Financing	Supplier/Vendor Financing
7. Percentage of Business Institution Financing	Institutional Financing
8. Interest rate of Institution Financing	Institutional Financing
9. Payment period on Institution Financing	Institutional Financing
10. Type of Market	Industry
11. Age of Industry	Industry
12. Competition in the industry	Industry
13. Local Economy	Economy
14. National Economy	Economy
15. Turnover of Employees	Employees
16. Local Labor Market	Employees
17. Labor Union	Employees
18. Number of Employees	Employees
19. Type of Management	Management
20. Ease of Management	Management
21. Years in Operation	General
22. Net Profit	General (Risk factor above breakeven)
23. Experience skills required	General
24. Owner support after sale	General
25. Location	General
	Weighted Business Value Total

ARTHUR HAMEL BUSINESS SEMINARS
1777 SARATOGA AVENUE • SUITE 107 • SAN JOSE, CALIFORNIA 95129 • (408) 973-1900

PRICING BUSINESSES WITH HAMEL WEIGHTED BUSINESS VALUES

Purpose: To establish a first step to set a standard for pricing businesses and to provide our associates with a tool to help explain to others the details of the value of a business.

Caution: No one is authorized to make copies of this program and this is intended for the use of Arthur Hamel Business Seminar students only. You are forbidden by law to copy this program for any other person or company. This will be checked and strictly enforced.

WEIGHTED BUSINESS VALUES

This pricing system was set up to be the next step forward from the pricing of businesses using multipliers based on sales and multipliers based on net profit.

The staff at the Arthur Hamel Business Seminar office of Business Marketing Corporation have been using this system to assist former students of the Hamel Seminars since 1978. It was first announced publicly at the Institute of Certified Business Counselors meeting in Tampa, Florida in January 1979. It has been tested continually and only implemented in the Hamel seminar in May 1980.

Over the past years many bugs have been worked out of this new pricing system. Unfortunately many still remain. We feel that with your help and your suggestions for improvement we should be able to work out most or all of the small problems.

Warning! This pricing system is not a panacea or the living end to pricing problems. (We are not intending to replace the valuable job done by the professional business appraisers. All we are attempting to do is simplify pricing.) We are only attempting to set standards of prices for businesses in the country. Please keep this in mind; these are standards against which each of you can measure the business.

Over the years as we educate more and more people nationally, we hope to bring more business prices closer to the standards we are hoping to establish.

So, remember, use this only as one of your tools, don't get hung up on an exact price and just use it as a guide. If you find a business that completely falls outside of the range of our program let us assist you with your pricing.

WEIGHTED BUSINESS VALUES

Financing Available Category

A. Owner Financing

1. Percentage of Total Business Value Owner Will Finance

Percentage	Weighted Value
To 20	.05
21-40	.12
41-60	.19
61-80	.41
81-100	.58

2. Interest Rate on Owner Financing

Interest Rate	Weighted Value
Over 10%	–.17
9-10%	.00
7-8.9%	.24
Under 7%	.37

3. Payment Period on Owner Financing

Period	Weighted Value
Over 30 years	1.10
21 to 30 years	.81
16 to 20 years	.63
11 to 15 years	.46
8 to 10 years	.35
6 to 7 years	.16
3 to 5 years	.10
to 3 years	–.20

Financing Available Category

B. Suppliers/Vendors Financing

4. Percentage of Total Business Value Supplier Will Finance

Percentage	Weighted Value
To 5	.08
6-10	.16
11-19	.31
20-29	.43
30% and over	.52

5. Interest Rate on Supplier Financing

Interest Rate	Weighted Value
0%	.21*
6%	.15
7-8%	.00
9-10%	–.22
Under 10%	–.31

6. Payment Period on Supplier Financing

Period	Weighted Value
Over 10 years	.57
8 to 10 years	.36
6 to 7 years	.21
3 to 5 years	.09
Under 3 years	–.19

* *If 0% Used; Do Not Use Category 6, Payment Period on Supplier Financing*

Financing Available Category

C. Institutional Financing

7. Percentage of Total Business Value Institution Will Finance

Percentage	Weighted Value
To 20	.05
21-40	.12
41-60	.19
61-80	.41
81-100	.58

8. Interest Rate on Institution Financing

A. To 40% of Business Value

Interest Rate	Weighted Value
Prime (+ 5%)	–1.0
Prime (+ 3%)	– .50
Over 15%	– .31
12-15%	– .22
10-12%%	– .14
Under 10%	.24

B. 41% and over of Business Value

Prime (+ 5%)	–3.7
Prime (+ 3%)	–3.2

9. Payment Period on Institution Financing

Period	Weighted Value
16 to 20 years	.63
11 to 15 years	.46
8 to 10 years	.35
6 to 7 years	.16
3 to 5 years	–.10
to 3 years	–.20

10. Type of Market

Description	Weighted Value
Expanding, growing market	+ .24
Flat level market	.0
Declining market (a declining industry)	– .29

11. Age of Industry

New industries are get rich quick areas and so very risky.

Description	Weighted Value
New Industry - Still in formative stage; in first two years of development	–.71
Average Industry - This type of industry has been established over two years but up to five years	–.12
Old Industry - Established over five years	+,27

12. Competition in the Industry

Description	Weighted Value
Highly Competitive - (Very cut throat) Example - clothing manufacturing	– .93
Medium Competition Most competition due to overbuild in the area Example – restaurant field	– .37
Average Competition - This is your average business which really does not have much competition in its market	+ .09
No Competition - Because of special product , location, etc.	+ .36

13. Local Economy

Description	Weighted Value
Dynamic Local Economy - Experiencing growth and potential	+.27
Stable Local Economy - Things have leveled off and are running along on an even keel	.00
Declining Local Economy The local economy is turning down and has been for some time Example – decaying down- town area	– .38

14. National Economy

The national economy does influence your ability to generate a maximum profit.

Description	Weighted Value
Growing Economy	.12
Level economy	.00
Recession	– .09

15. Turnover of Employees

Generally, the greater the turnover in the business, the more difficult it is to train, retain and to effectively manage your employees.

Description	Weighted Value
Average employees on board (6-10 years)	+.21
Average employees on board (4-5 years)	+.16
Average employees on board (1-3 years)	.00
Average employees on board (less than 1 year)	– .23

16. Local Labor Market

This could affect your labor cost and ability to hire and keep employees.

Description	Weighted Value
Sharing competition for employees	– .17
Little competition for employees	.00
Many unemployed in our hiring market	+ .11

17. Labor Union

This is only a consideration if the company being considered has union employees.

Description	Weighted Value
Strong Union - Competitors do not belong to the union	– 1.31
Strong Union - Competitors belong to the union	– .45
Weak Union - Competitors do not belong to the union	– .43
Weak Union - Competitors belong to the union	.00

18. Number of Employees

The larger the number of employees in relation to the net profit, the less valuable the business. More employees mean more problems, usually in direct proportion to their numbers. If you don't want to have many employee problems, don't buy a business with many employees.

Number of Employees	Weighted Value
1-5	+ .17
6-11	+ .11
12-20	+ .07
21-50	– .05
Over 50	– .12

19. Type of Management

Description	Weighted Value
Three or more owners are managers - all leaving	– .87
Two owners are managers - all leaving	– .52
One owner is manager - He/She is leaving	– .03
Managed by manager. Owner supervises manager (Manager experience under 3 years)	+ .27
Managed by manager. Owner supervises manager (Manager experience over 3 years)	+ .47

20. Ease of Management

There is a range of difficulty of management based on the amount of sales generated by the direct effort of people. Since people are inconsistent, they are difficult to manage and so people intensive industries such as service industries are more difficult to manage. An equipment intensive business, with fewer people would be easier to manage.

Type of Business	Weighted Value
Service	– .14
Retail	.00
Wholesale	+ 17
Manufacturing	+ .26

21. Years in Operation

The national figures tell us that the longer a business lasts, the better chance it has for success.

Years	Weighted Value
Under 1 year	.02
1-2 years	.13
3-5 years	.28
6-10 years	.41
11-15 years	.46
16-20 years	.48
Over 20 years	.51

22. Net Profit

This takes in account the fact that the higher your net profit, the further you are above the break-even point. It is a proven fact the higher profit businesses have a lower failure rate.

Net Profit After Management (Before taxes)	**Weighted Value**
$1 to $30,000	.08
$31,000 to $49,000	.17
$50,000 to $99,000	.31
$100,000 to $250,000	.44
Over $250,000	.49

23. Experience Skills Required

Description	**Weighted Value**
Extensive specific industry skills required of the owner (very technical)	– .31
Some experience required of the owner	– .09
Little/no experience required by the buyer (Can be easily trained Or the business is large enough to include experts in all areas.)	+ .27

24. Owner Support After the Sale

The amount of time and effort that the seller will give to the buyer after the sale influences the ability of the buyer to succeed. The more support (up to a point) the more chance of success.

Weeks of Consulting	Weighted Value
Up to two weeks	.13
Over 2 weeks and up to 4 weeks	.16
Over 4 weeks	.21

24. Location

One of the most important assets in most businesses.

Description	Weighted Value
Level 1 – Above average traffic such as a regional mall or a key corner	+ .47
***Level 2** – The average Location. It doesn't add to your profit, but neither does it detract.	.00
Level 3 – Below average location. The traffic count is terrible and the business is difficult to find.	– .63

*.Please remember – use Level 2 for businesses in which the location is not important in the business such as many distributorships and manufacturing companies.

OWNER'S SUMMARY STATEMENT

BUSINESS	**REAL ESTATE**
Business Name: ______	Land Size/Legal Descr.: ______
Type of Business: ______	Bldg. Size: ______ Storage Facility: ______
Business Form: ______	Living Quarters: ______ Zoning: ______
	Lease terms: ______ Lease Security: ______
Address: ______	Years left on lease: ______ Renewal Option: ______
City: ______ State: ______	Obligations: ______ Balance: ______ Per Mo.: ______
Zip: ______ Bus. Phone: ______	Parking No.: ______ Location Class: 1 2 3
Owner(s): ______ Res. Phone: ______	
Years Present Owner: ______ Years Established: ______	Terms Down Payment: $ ______
Reasons for Selling: ______	Financing Available: ______
Days Open: ______ Hours Open: ______	

GROSS MONTHLY SALES			**ANNUAL OPERATION EXPENSES**		**ANNUAL NET INCOME**	
	Year ______ $	Year ______ $	Rent	$ ______	Sales	$ ______
			Utilities	______	Expenses	______
					Net Income	$ ______
					Price Includes: (Tax Allocation)	
Jan.	______	______	Insurance	______		
Feb.	______	______	Advertising	______	Equip.	______
March	______	______	Accounting	______	Rolling Stk.	______
April	______	______	Supplies	______	Lease Value	______
May	______	______	Telephone	______	Leasehold Improvements	______
June	______	______	Taxes	______	Goodwill	______
July	______	______	Licenses	______	Non-Competition	
Aug.	______	______	Equip. Rental	______	______	
Sept.	______	______	Repairs	______	Accts Rec.	______
Oct.	______	______	Payroll	______	(-) Accts Pay.	______
Nov.	______	______	Payroll Taxes	______	Inventory	______
Dec.	______	______	Repl. Reserve	______	Work in Prog.	______
TOTAL	$ ______	$ ______	Other	______	Building	______
			Other	______	Land	______
			TOTAL	$ ______	______	
					TOTAL	$ ______

GENERAL:

No Employees ______ Owner Works ______ No. of Hours ______

Total Payroll ______ Owner's Wages (Draw) ______

Inventory Includes: ______

Equipment Includes: ______

REMARKS:

______

______

______

______

The income and expenses listed above are warranted to be the actual figures for the ________ month period ended ________ 19____. The undersigned understands that in reliance on the above listed figures, commitments and obligations may be made by one or more persons which would not have been made but for reliance on these figures.

Date: ______ 19 ______ Name: ______ Name: ______

Mailing Address: ______ City: ______ State: ______ Zip: ______

Owner's Phone Number: ______ Broker: ______ Phone Number: ______

Arthur Hamel Business Seminars

Description of business: ______________________ Package No. ______________

______________________________________ Value ______________

Net Profit ______________

I		III	
Total Sales (Income)	________		
Cost of Sales		Value:	
Materials	________	Assets:	
Labor	________	Cash (Working Capital)	________
Total Cost of Sales	________	Accounts Receivable	________
Gross Profit	________	Inventories	________
Expenses		Work in Progress	________
Manager's Salary	________	Deposits	________
Building Rent	________		________
Other	________		________
Total Expenses	________	Equipment	________
Net Profit		Furniture and Fixtures	________
		Vehicles	________
II			
(+) Depreciation	________	Leasehold Improvement	________
(+) Interest	________		________
(+) Non-recurring	________	Lease	________
(+) Owners Draw	________	Licenses	________
(+) Travel & Transportation	________		________
(+) Entertainment	________		________
(+) Pension & Profit	________	Liabilities:	
(+) Insurance	________	(-) Accounts Payable	________
(+) ________	________	(-) Taxes Payable	________
(+) ________	________	(-) Accrued Salaries	________
Total Adjustment	________	(-)	________
Real Net Profit		(-)	________
IV [Adjustment in Profit for cost of/or return on the following]		Total Value	________
(-) Equipment (%)	________		
(-) Inventory (%)	________		
(-) Receivables (%)	________		
(-) Working Capital (%)	________		
(-) ________ (%)	________		
(-) ________ (%)	________		
(-) ________ (%)	________		
Total Adjustment	________		
Adjusted Net Profit			

HAMEL BUSINESS VALUE = TOTAL VALUE + [Weighted Business Value X Adjusted Net Profit]

= ________ + [x]

= ________ + ________________

____

Hamel Business Value

Weighted	Comment
1. .05, .12, .19, .41, .58	
2. –.17, .00, .24, .37	
3. 1.10, .81, .63, .46, .35, .16, .10, –.20	
4. .08, .16, .31, .43, .52	
5. .21, .15, .00, –.22, –.31	
6. .57, .36, .21, .09, -.19	
7. .95, .12, .19, .41, .58	
8. -1.0, -.50, -.31, -.22, -.14, .24, -3.7, -3.2	
9. .63, .46, .35, .16, .10, -.20	
10. +.24, .00, –.29	
11. –.71, –.12, +.27	
12. –.93, –.37, +.09, +.36	
13. +.27, .00, –.38	
14. .12, .00, –.09	
15. +.21, +.16, .00, –.23	
16. –.17, .00, +.11	
17. –1.31, –.45, –.43, –.37, .00	
18. +.17, +.11, +.07, -.05, -.12	
19. –.87, -.52, –.03, +.27, +.41	
20. –.14, .00, +.17, +.26	
21. .02, .13, .28, .41, .46, .48, .51	
22. .08, .17, .31, .44, .49	
23. –.31, -.09, +.27	
24. .13, .16, .21	
25. +.47, .00, –.63	

_____________ **(+) Plus Total**

_____________ **(–) Minus Total**

_____________ **Weighted Business Value Total**

CHAPTER SIX

FINANCING

BUSINESS OPPORTUNITIES

CHAPTER SIX

FINANCING

Introduction

In financing a business, you will find generally that the financing in the first part of Chapter Six is the best for the buyer (owner) and it becomes less desirable as you proceed through the chapter.

Please keep in mind, as you enter the area of finance that requires that you give up an equity share, it might not be so bad.

Example: Would you rather own 100% of a business with a net profit of $50,000

OR

51% of a business that nets $500,000 (with a buyout clause on the other 49% in 3 years?

Many of these financing techniques may be foreign to you, but keep in mind this financing is the real world of what is really happening. (Not theory!)

In the area of 100% financing, we do not like you to slice the cash flow too thin, it will destroy you. You must start with a business with an ability to service debt and apply conservative financing. If it doesn’t leave enough cash for emergencies, find another method of financing or buy or start another business.

I **OWNER FINANCING**

A **If no owner financing is available:**

(1) Lending institutions consider this a danger sign and will be reluctant to lend their money to you for two reasons:

(a) The owner is usually telegraphing the fact that he things you, “The Buyer,” cannot run the business profitably;

OR

(b) The business does not make enough profit to replay a loan

(2) Remember – If an owner will not provide any owner financing his business loses much of its value when he tries to sell it and he also makes the sale diffuclt if not impossible.

B **25.00% (Average down payment)**

(1) **Steps in Financing**

(a) First ask for 20 year financing.

If the seller refuses, ask for a 20 years amortization on the note and give him his terms by offering a due date on the note. (Also a balloon payment, so beware!!)

(b) If the seller is highly motivated to sell start with 25-30 year owner financing.

C **Interest Rate**

Many of you offer to pay too high an interest rate. Remember, the repayment period on the load will be 10-15-20 years. Even if the going interest rate is high today, it probably will not remain that high. We usually recommend trying to pay 7 or 8% interest. Naturally as a buyer, if the seller is highly motivated, why not offer 8% interest? If you happen to be the seller, naturally you want 10% interest.

II Interbusiness Financing

1. **Unsecured Open-Book Trade Credit** (due in a few days)

2. **Extended Trade Credit**

   (30-90 days more than normal)

3. **Long Term _ Open-Book**

   (Due in 6 months to several years. Sometimes only called when customer drops the supplier)

4. **Inventory Sent to Customer on Consignment** (Supplier retains title and control)

5. **Inventory Sent to the Customer**

   (Secured using a field warehouse)

6. **Dealer's Accounts Receivable Financed by the Supplier**

7. **Accounts Receivable Sold to Supplier**

8. **Supplier Lends Equipment to a Dealer**

9. **Supplier Leases Equipment to a Dealer**

10. **Supplier Sells Equipment to Dealer on Time Plan**

11. **Cash Loan to Buy Equipment**

12. **Short Term Note**

13. **Term Loan to Dealer for any Purpose**

14. **Equity Investment in the Dealer's Business**

15. **Flooring**

III LENDING INSTITUTION FINANCING

1. Types of Loans

   A. Simple Commercial Loans

      Loans for 30-90 days. Based on financial statements. Often unsecured (seasonal financing and building up inventory.

   B. Character Loans

      Made as individual rather than business credit.

   C. Installment Loans

      Used for many business purposes, usually by larger banks. As loan is reduced it is possible to refinance at better rates. Loans may be tailored to seasonal requirements of the business

2. **Lending Institution Financing**

Short Term Loans (1 year or less)

Easier to get than intermediate loans (1-5 years), often unsecured.

A. **90 Day Demand Notes**

B. **180 Day Loans**

3. Lending Institution Financing

Intermediate Term Credit (1-5 year loans)

A. Capital for other than temporary needs without yielding control of this business.

B. Used to purchase equipment, existing businesses, provide additional working capital and to replace long-term loans that carry a higher interest rate. **(May be secured or unsecured.)**

C. While loan is in force, you will have restrictions on managing your business.

   (1) To protect the lender against drastic reductions in the value of collateral or in business income available for repayment of the loan.

D. Borrowers required to submit periodic financial statements.

4. **Lending Institution Financing**

A. **Equipment Financing**

Borrowing money to be secured by the equipment. Usually can only borrow up to 50% of the appraised value of the equipment.

B. **Inventory Financing**

You can usually borrow 50% of value of good inventory. Many institutions are wary because of control problems. You may be able to minimize the problem by placing the inventory in a bonded/controlled warehouse set-up.

C. **Accounts Receivable Financing**

Pledge or assign all or part of your accounts receivable as security; you can borrow percentage of amount pledged. In some industries you can borrow on 50% of the good receivables. We find nationally the average is 80%

D. **Accounts Receivable Factoring**

The factor buys all of your accounts receivable as they arise. They are purchased at a discount and the cost can be very high.

E. **Borrowing on Contracts Not Performed**

Factors (usually not banks) will lend money on contracts not performed.

4. **Lending Institution Financing**

F. Line of Credit – Business

An internal/formal understanding between a businessman and his bank. Bank agrees to grant loans up to a maximum amount. Usually unsecured. Used in business with seasonal need for short-term funds.

(Example: A retail sore during the Christmas season).

G. **Line of Credit – Home**

(1) Home used as security for loan

(2) Will take a second mortgage or TD for security (usually not a third position)

(3) Pay up front fee

(4) Pay percent above prime on money borrowed

H. **Warehouse – Receipt Loans**

Inventory delivered to a professional warehouseman and stored on the premises of the buyer. Receipts issued to borrower to give bank as collateral for a loan. When orders received, the borrower will “buy back” from the bank enough warehouse receipts to fill the orders.

I. **Floor Planning**

Used to finance inventories such as autos and appliances. Delaer has possession of merchandise,, but title remains with the lender. When dealer sells unit, he pays lender the amount due on that unit.

5. **Lending Institution Financing – Long Term Financing**

A. **Usually includes the Small Business Administration (SBA)**

1. **Guaranty Loan:** The SBA guarantees 90% of bank's loan to business (or less — up to $500,000)

   Loans usually 7-10 years (2 ½ - 2 ¼% over prime rate).

   (a) Banks

   (b) Control Data

   (c) Dean Witter Reynolds, Inc.

2. Requirements

   (a) Evidence of ability to operate business successfully

   (b) Cannot finance 100%

   (c) Want additional security (your home, etc.)

IV. **Equity Financing (Venture or Equity High-Risk Capital)**

A. **Small Business Investment Companies (SBIC)**

(1) Provide equity financing, buy stock outright, buy convertible debentures (see C(1))

(2) Also will make lone-term 5-10 year loans and guarantee bank loans

(3) Privately owned corporations licensed and regulated by the SBA

B. **Minority Enterprises Small Business Investment Companies (MESBIC)**

(1) Specialize in lending to minority-owned businesses.

(2) Privately owned corporations licensed and regulated by the SBA.

C. **Venture – Capital Companies**

(1) Buy stock outright or buy convertible debentures, (unsecured) debts incurred by a corporation, convertible into the common stock of the corporation at agreed upon terms.

(2) Sepcialize in their areas of expertise.

(3) Usually want control of the company.

D. **Local Development Companies**

(1) Local corporation whose main interest is expansion of local industry of attracting new industry. No one individual may own more than 25% of corporation. SBA loan limitations are maximum of $500,000 to local development company for each small business. Money is Direct (if available), IP or Guaranty by SBA. Maturity up to 15 years.

E. **Going Public**

(1) Investment house will handle the details.

(2) Discuss in detail with all of your financial advisors.

V. **OTHER FINANCING METHODS**

1. **Joint Ventures**

   A. Usually for one year

   B. Party A = Manager/Owner
   Party B = Investor/Owner

   C. Cash partner usually wants some control

2. **Limited Partnerships**

   A. Buyer is general partner

   B. Limited partners have no say in management

      1. Want to get out in 1-5 years

   C. Buyer ends up with business and control

3. **ESOP – Employee Stock Ownership Plan** (Employee Retirement Income Security Act of 1976)

   A. Can supply equity capital, cash, ownership liquidity

   B. Assist in financing acquisition and divestiture

4. **ESOT – Employee Stock Ownership Trust**

   A. Similar to Number 3

5. **Financing above $1,000,000.00 – "A"**

   A. Off-shore financing

   B. Contact National Business Finance Corp.

6. **Financing above $1,000,000.00 – "B"**

   A. European sources

   B. Contact National Business Finance Corp.

V. OTHER FINANCING METHODS

7. CPA-Accountant-Finance Their Fees

A. If you start a business or buy a mom and pop they usually want a cash retainer in front.

B. If you buy a business making over $50,000 net they ask you to pay at the close of escrow.

C. They will also accept payment after the close.

8. Attorneys-Finance Their Fees

A. If you start a business or buy a mom and pop they usually want a cash retainer in front.

B. If you buy a business making over $50,000 net they ask you to pay at the close of escrow.

C. They will also accept payment after the close.

9. Business Broker-Finance Their Fees

A. Their fees are approximately 10%. The fee represents a large percentage or all of the down payment required.

V. OTHER FINANCING METHODS

10. Create a Note-Real Estate

A. Offer to create a note secured by real estate you own. Use this as a down payment or additional security.

11. Create a Note-Personal Assets (General)

A. Offer to create a note secured by personal assets you own. Use this as a down payment or additional security.

12. Create a Note-Auto

A. Offer to create a note secured by your automobile. Use this as a down payment or additional security.

13. Refinance-Real Estate

A. Refinance the real estate in the transaction and use the case for working capital or as a down payment.

14. Sale and Leaseback-Real Estate

A. Sell the real estate in the transaction to an investment group for a price based on return on their investment.

B. Use the extra cash generated to finance your business purchase.

V. OTHER FINANCING METHODS

15. Industrial Revenue Bonds

A. Cities and states will float bonds to entice you to move your new business to their areas. They will do this if your business creates jobs or creates revenue for the area.

B. These bonds are at favorable rates to you.

(1) Many times the real estate rent is at a token rate.

(2) The tax rates will be favorable.

(3) Good for start-up or existing businesses.

16. Real Estate Guarantee-Cash Return Only

A. Many real estate owners will guarantee part or all of the purchase financing with their real estate.

B. A 10% cash return on their equity pledged will deliver land, apartments, shopping centers, industrial—you name it!

17. Real Estate Guarantee-Cash + Taxes + Piece of the Action

A. Many real estate owners will guarantee part or all of the purchase financing with their real estate.

B. This usually requires a 6% cash return plus tax benefits plus a possible piece of the action (with a buyout clause).

V. OTHER FINANCING METHODS

18. **Savings and Loan Guarantees-5% of Equity**

    A. A Savings and Loan will guarantee the loan on the purchase of the business for an annual fee.

    B. Sometimes they will want a piece of the business.

19. **Insurance Company Guarantees**

    A. An Insurance Company will guarantee the loan on the purchase of the business for an annual fee.

    B. Sometimes they will want a piece of the business.

20. **Trusts (Pension Plans) Guarantees**

    A. A Trust (Pension Plan) will guarantee the loan on the purchase of the business for an annual fee.

    B. Sometimes they will want a piece of the business.

21. **Stock Broker**

    A. Stockborkers have many clients that will invest for joint venture (silent partner) with their funds that are not actively invested in the stock market.

22. **Mommy/Daffy/Friends/Relatives**

    A. Possibly we should start here!

CHAPTER SEVEN

CREATIVE FINANCING

BUSINESS OPPORTUNITIES

CHAPTER SEVEN

CREATIVE FINANCING

Introduction

Read this before starting the cassette.

Although we call this section “creative,” it is not a dangerous area because what we attempt to do in all of our financing is take it from the conservation side.

Even in financing 100% or floes to it, we like to see a large chunk of cash left to feed you and your family and also to cover the future business problems.

If you cut your cash flow too tight, it will always backfire.

I. Large Accounts Receivable and Accounts Payable

Many small businesses have large investments I accounts receivable and accounts payable. Usually the sellers have been advised to keep their accounts payable and receivable. This usually requires the buyer to come up with more cash to make the transaction work.

Example:

Step 1

Accounts Receivable: $200,000

Accounts Payable: $200,000

If these are not assumed by the buyer, the seller will have a difficult time collecting the A/R to pay off all of the A/P before the close of the transaction.

Step 2

Price	$100,000
(+) Accounts Receivable	$200,000
(–) Accounts Payable	$200,000
Total Price	$100,000

Solution:

Have the buyer assume the accounts receivable and the accounts payable. The buyer will assume only the good, collectible receivables, and the seller will guarantee the collectibility of all of them.

ACCOUNTS PAYABLE (SUPPLIERS)

Month	1	$200,000
Month	2	200,000
Month	3	200,000
Month	4	200,000
Month	5	200,000
Month	6	200,000

II. Financial Statement — Real Estate Joint Venture

General Rules for the “Real World”

Example 1

1) You are starting a business—idea only—no detailed business plan.

2) You are buying a business—you haven’t found it, haven’t negotiated it and don’t have a contract.

Rule of Thumb

Financial statement or real estate joint venture partner will keep 90-100% of the project.

a) You buy a job

b) You have a chance to buy back 10% with cash and effort (or given 10% of the project).

Rule of Thumb (cont)

Example 2

1) You are starting a business—have a detailed business plan.

2) You are expanding a business—you have detailed plan to repay loans.

3) You are buying a business—you have successfully negotiated the purchase of it—the offer has been accepted in writing.

Rule of Thumb

Fairness Doctrine Takes Effect

1) The less the risk—the more you keep.

2) The more you bring to the table the larger percentage you keep.

QUESTION — WHICH WOULD YOU RATHER HAVE?

A. Own a business netting $50,000 and own 100%

OR

B. Own a business netting $1,000,000 and own 80% —

 1) With an option to buy the other 20% back in 3-5 years?

III. Financial Statement “Rental”

It’s not uncommon for business brokers, merger and acquisition firms, and sellers to want to see a potential buyer’s financial statement. This is perhaps one of the stickiest problems many of our graduates face when they go out to buy a business. A person can have all the attributes and motivation t takes to own and run a successful business, but may lack an impressive financial statement. If you’ve been a working person for most of your adult life (working for someone else), it’s doubtful that your financial statement of your net worth and borrowing ability would impress many people. You know that you intend to creatively finance the purchase of the business, but you often don’t wish to discuss that information early on in the transaction. The answer is to involve another person in your buying team, a person who has a strong financial statement.

One of our students called the office recently and said, “Art says in the seminar that getting a financial statement is easy.” Those are not my words. Here’s what I tell you in the seminar: “If you don’t have a good enough financial statement to go through a business broker, a merger and acquisition firm, or to get involved in a business, I suggest you find someone to go in with you. Once you do that and you have a financial statement with you, the doors open up and it’s easy.”

Putting together a financial statement is not easy. It’s simple, but not easy. After you get the statement, the rest of the effort is relatively easy.

Financial Statement—Joint Venture

Possible Uses:

(1) Borrowing power—Starting a business.

(2) Borrowing power—Expanding a business—better loans.

(3) Borrowing power—Buying a business.

a) opens more doors, easily.

b) better terms.

(4) Borrowing power—just borrowing money.

(5) Miscellaneous

Categories:

1) Joint venture partner provides financial statement—no guarantees:

If you think that the provider of the document need only put up his statement to open the doors, you're missing an important point. Done that way, you're committing fraud: you're leading the other people to believe that there are two of you.

You should go in with the declared intent of setting up a joint venture with the statement provider. When you get down to the end and are approaching purchase, neither of you is yet tied to the other. You can then make the decision to proceed together (most will) or the statement provider can back out You can then notify the agent or the seller of that event and there's no misrepresentation.

Proceeding together is certainly a favorable action because you can accomplish more, expand faster, and agree to a later buyout.

Categories (cont)

2) Joint venture partner provides financial statement—minimum guarantee:

   a) Example—guarantee equipment.

   b) Example—guarantee inventory.

   c) Example—guarantee accounts receivable.

3) Joint venture partner provides financial statement—total guarantee:

   a) Example—100% guarantee on purchase results in – 100% FINANCING.

Obviously both parties—the one needing the financial statement and the one providing it—will want detailed information about the other. The financial statement (and guarantee) will have to be verified, and the person wanting it will have to meet particular standards of capability. The degree of involvement of the provider and his compensation (fee and/or piece of the business) will be negotiable.

If the person needing the financial statement does not have strong enough management skills to satisfy the provider, you can arrange interim assistance in that area until the person's skills reach the desired level.

Example: a) management firm
b) consulting firm

We hope it is apparent at this point that we're striving for a situation in which everybody—the buyer, the statement provider, and the seller—wins. To paraphrase: we want a win-win-win condition. If you are working with a lender, we want them to win also. If the financing is dangerous, *don't burn the people, us another type of financing!*

COST OF FINANCIAL STATEMENT

Financial statement = $1,000,000 net worth (Above this the figures climb accordingly.)

(1) Category 1 = a) $10,000-$30,000

(Rule of thumb to interest the party)

(2) Category 2 a) $10,000-$30,000 Cash

b) 5-10% of the company

(3) Category 3 a) 25%-(?)% of the company

b) Could be 51% and above if you don't do your share.

How To Find A Financial Statement To Rent:

a. **Family, relatives, friends:**

1) This is the easiest, cheapest & best way

2) Tell them what you need and what you will give up

3) Let them bird dog for you!

b. **Attorney, CPA:**

1) Present your case to them. Tell them what you need, explain the risk and explain the return to them or their client(s).

c. **Advertise in the newspaper:**

1) For *under* $1,000,000 net *worth—small,* local newspaper

2) For *over* $1,000,000 net worth—Wall Street Journal

d. **Advertise in Arthur Hamel Business Report:**

IV. Real Estate Guarantee

At last we can create a marriage between the real estate investor and the entrepreneur. (Don't panic! I'm writing in a business, not biblical, sense.)

The real estate guarantee program has been in use for some time, but on a limited basis. It was created to give the seller the financial and emotional security he wants.

You may have come across a typical situation: the seller would rather have the financing of the purchase of his business based on the business across the street, rather than his own. Often the seller would appreciate real estate as collateral.

If you're able to use real estate (yours or someone else's) as a guarantee, it means you can shift the purchase loan from the business free and clear. Say a $500,000 business requires $100,000 down and the seller will finance $400,000. The carry back loan is transferred to the real estate (for a fee) and you then have a $500,000 business on which you can borrow as needed. Or, if necessary, you could give the provider of the real estate a lien on the business.

Up to now, the real estate guarantee has had three main groupings:

A. **A person puts up real estate as a guarantee and is paid a 10% fee per year.** (Example: $40,000 per year on $400,000 of real estate equity.

B. **A person puts up real estate as a guarantee and receives 6% per year plus a share of the tax benefits.**

C. **A person puts up real estate as a guarantee and receives a portion of the business.** The principle buyer has the option to buy him out at a later date.

Even without a sterling financial statement the real estate guarantee plan allows you to finance almost any business purchase.

Example

$500,000 Business

($100,000 down payment)

($400,000 owner financing)

Step One

Business	**Real Estate**
500,000	1,000,000 value
	200,000 1st TD (Mortgage)
	800,000 EQUITY

Step 2

400,000 owed to business owner	400,000 2nd TD (Mortgage)
	$400,000 Equity Remainder

Step 3

Real estate owner receives

$40,000 per year

1) part cash
2) part equity
3) part tax benefits

Step 4

Buyer borrows $100,000 against the business assets of $500,000

Step 5

$400,000 2d lien given to owner of real estate.

In the past, the real estate guarantee program has had its glitches. A real estate owner would say, "I'll put up my real estate, but you have to guarantee the business."

That forced us into the position of having to send our CPAs out to confirm the business appraisal.

Then the business buyers would respond, "Fine. Now we want you to verify the value of the real estate."

Very much of that and the costs would pile up to a frightening amount and many transactions would cease to make sense.

We backed off from working the program until we could come up with a more pragmatic approach, and we now think we have the answer. We call it "risk matching."

We now place real estate in one of five categories:

1. **Real estate with positive cash flow.** (Apartments, shopping centers, etc.)

2. **Real estate at break-even.**

3. **Real estate with negative cash flow.**

4. **Currency land that's free and clear.** (Land that bolds the world together.)

5. **Encumbered currency land.**

As we proceed over the coming months and years, these categories will be further refined.

The program will match the real estate's category with its business counterpart. (Example: the highest class of business would be one 10 years older or more, netting $100,000, with a very low industry failure rate.)

Our Weighted Business Values already gives us a method of classing businesses. We hope to create a similar system for real estate.

Our goal is to have computerized program in order to quickly "risk match" a business with the appropriate real estate. Because of the public's natural feeling about the safety of business as compared to real estate, we will probably assign a lower risk business to a slightly higher risk real estate.

You will be able to enter a piece of real estate into the computer and get a print-out of all the available businesses it could guarantee. Conversely, the entry of the description of a business would bring a print-out of the real estate available to guarantee it. (The seller will think he's in a candy store!)

The real estate guarantee program will probably take longer to bring to its final state and be ready for use, simply because there are more variables. Again, it's absolutely essential that everybody involved is protected to the greatest degree possible. It has to be another of those win-win-win systems.

How To Find Real Estate To Use As A Guarantee

a. **Real Estate Brokers:**

1) Talk to industrial and commercial brokers and present your case.

2) Talk to real estate exchangers. (These are a very good source.)

3) Listed in Yellow Pages by specialty.

b. **Advertise in the Newspaper:**

1) Smaller real estate—up to $1,000,000 equity—use local newspapers.

2) Larger real estate—over $1,000,000 equity needed—use the Wall Street Journal—Friday Real Estate Section.

c. **Advertise in Arthur Hamel Business Report:**

CHAPTER EIGHT

LOCATION

BUSINESS OPPORTUNITIES

CHAPTER EIGHT

LOCATION

Introduction

Do not be fooled by gimmicks or quick fixes that cover up location problem. If the location is below par, do not get involved. **NEVER! NEVER! NEVER!**

A good location is one of the key ingredients in being in business and enjoying it. If you overlook a business' basic problems you are going to suffer and not enjoy your beautiful opportunity.

LOCATION! LOCATION! LOCATION!

"No amount of ambition, hard work, or good management
will overcome the disadvantages of a poor locations."

I. The Super Owner Manager

Occasionally you'll see a business that apparently is making it, despite an obviously poor location. Your analysis may reveal that its success is entirely due to the superhuman dedication and brilliance of one person. Without him'/her, gross sales and net profits would slump to their true levels and the business would soon fail. You're not superhuman; don't even pretend to be. Picture the business without Super Owner/Manager. Now, how does the location look?

II. The Franchise Location

Most often we're referring to a retail franchise, where foot and wheel traffic are essential to its success. That's when we say the three most important things are "Location, Location, Location." What are the traffic patterns? How fast does the traffic move? Is the traffic seasonal? How is parking and is it easy to get into and out of? The finest franchise in the world will fail if the location is wrong.

III. The Common Sense Approach

Obey your gut-level reaction to a location. As yourself: "Would my family and I find it convenient and worthwhile to patronize a business at this location?" The rest of the buying public is not any different. If you wouldn't why should they? We're all human. Use your ordinary human sense.

IV. **Location Analysis** "Smelling the Air"

In addition to common sense, use the other five as well.

1. **Analyzing the City**

   Drive around walk around, talk and *listen*.

2. **Traffic**

   (a) Amount of traffic

   Count it, graph it and notice the bell-shaped curve; what goes up must come down.

   (b) Character of traffic

   What kind is it? How fast is it?

   (c) Origination of traffic

   Where has it been and where is it going?

   (d) Characteristics

   How easy is it to get out of and into?

   (e) Cross over

   That middle line in the street; can traffic cross it to your place?

3. **Physical Characteristic of Site**

   Is it what this business should have or is the business out of place?

4. **Size of Site**

   Do you have enough parking for now? How about 5-10 years from now?

5. **Accessibility**

   Do you have enough room for cars to get in?

6. **Visibility**

   Do you stand out from the crowd?

7. **Neighborhood**

   Let your manager worry about it.

CHAPTER NINE

FRANCHISE

BUSINESS OPPORTUNITIES

CHAPTER NINE

FRANCHISE

Introduction

We can always tell if we have taught this section properly if half of you think we hate franchising and half this we love it.

To be honest, we love it as a way to go. The failure rate for franchise operations is very low. The help they provide you with really works.

BUT. . . .

If you must go the franchise route, remember, you are adding another boss. (Someone to tell you what to do!) If you don't mind this, the only reminder is to do a good detail job of checking the franchise.

I. **Information**

Check it, double check it, the check it again.

A. State Corporation Commission (in your state)

To determine your stat's laws on franchises or business opportunities. Shtudy them carefully.

B. International Franchise Association
1025 Connecticut Avenue, N.W., Suite 1005
Washington, D>C> 20036
202/659-0790

An industry association, it's a prime source of information on all franchises and their status.

C. Small Business Administration (SBA)

The SBA has many books and pamphlets available, as do other agencies like the Department of Commerce and Transportation. Check for them in your federal government bookstore.

D. National Franchise Laws

Federal law requires "full disclosure" of franchisors. The law is administered by the Federal Trade Commission (FTC).

E. State Franchise Laws

Nearly half of the states have franchise laws. They too have full disclosure laws. Read all full-disclosure documents carefully.

II. The Franchise Profile

It's essential to examine the company's track record.

A. General Analysis of the Franchise

1 Existing Franchises

a) Number in operation
The more the better, indicating a strong company.

b) Geographical spread
If there are none in your part of the country, watch out.

2 Franchises that failed

a) How many failed?
Make certain the market has been established.

b) Why did they fail?
Is there a basic flaw? Check with former owners.

3 Local Market Area

a) Has a franchise been awarded in this area?
How much protection against saturation do you have?

4 New Products

This is vital to business growth. Few businesses can remain static in their product lines.

a) Next year
b) 2-5 years

5 Competition

The franchisor will often say "none." Don't believe him.

a) What competition is there?
See for yourself.

6 Independent vs. Company Owned

In the case of an existing outlet, are you buying it from a franchisee or the company?

a) Are all outlets franchised?
If some outlets are company-owned, are they buy-backs from unhappy franchisees? If so, why?

b) Dates of most recent company acquisitions?
Is the company buying back outlets to head off lawsuits and damaging disclosure statements?

7 **Franchise Contract** (To be reviewed by attorney and CPA)

You want the experts to consider the legal and tax consequences. Don't bring in the contracts for all the franchises you're looking at, only the final one you want to buy.

a) Termination

You won't find any open-ended contracts; all have termination and renewal provisions.

b) Selling and Renewal

What is the duration of the renewal? If you ever want to sell, does the company have first right of refusal and right of approval of sale?

c) Advertising and Promotion

Not all franchisors charge a percentage for advertising; some do, some don't. Some are not even consistent within the same company.

d) Patent and Liability Protection

Is the franchisor going to stand behind the product or service?

e) Home Office Services

Consistency is important and home-office service is the key. Don't argue with success.

f) Commissions and Royalties

Don't knock it; it's the cost of doing business and it keeps the company on its toes.

g) Training

A must. Who does it and for how long?

h) Territory

Must be specific. Read carefully.

i) Exclusive vs. Non-Exclusive

Ties in with Territory. Don't assume anything; understand what you're getting and not getting.

CHAPTER TEN

LEASES

BUSINESS OPPORTUNITIES

CHAPTER TEN

LEASE

Introduction

Rules to remember in leasing

1. **Don't be afraid to renegotiate the lease.**

   The owner of the real estate may be open to negotiating better terms, particularly if it's a "boilerplate" or standardized agreement.

2. **Renegotiate before buyer takes over business.**

   Otherwise it might be a case of "what you see is what you get."

3. **Use an attorney to check the lease (or write it). (It doesn't cost, it pays!!)**

   Your attorney didn't study leases in law school for nothing. He/She is more of an expert than you are; use the expert.

TRIPLE NET LEASE (NNN)

If he has his way, the real estate owner would have you pay everything. Remember, it's all negotiable.

The Three N's Are:

A. **Taxes**

1. Owner of business pays

    a) all

    b) increase over base year

    c) other

B. **Maintenance**

1. Owner of business pays

    a) interior maintenance

    b) exterior maintenance

    c) both

    d) none

C. **Insurance**

1. Owner of business pays

    a) all insurance

    b) increase over base insurance

    c) other

    In most cases, the real estate owner will band you his lease agreement with the blanks filled in. Assume that it's 100% in his favor and consult your attorney, who may wish to rewrite it in your favor. Then the negotiations begin. Don't be intimidated.

I. Building Lease

A new lease may be negotiable with the real estate owner, but do it before you close. Otherwise, what you see is what you get.

A. Percentage Leases

That usually means a percentage of the gross sales of the business.

1) Percentage against minimum.

   A minimum dollar amount or a percentage of gross sales, whichever is greater.

2) Minimum plus a percentage

   A minimum dollar figure with a percentage of gross sales added.

3) Percentage—no minimum

   Anchor tenants like supermarkets and drugstores often get this arrangement as an inducement. Great for the tenant, not so good for the owner.

4) Maximum rental

   A negotiated "cap" on the rental amount, regardless of the charging system.

B. Parties

All those involved in the leasing transaction: buyers, seller and brokers.

1) Security deposit (add to owner financing)

   It could be like money in the bank, but is it refundable and does it earn interest?

2) First and last two months rent in advance

   It's only money but, remember, it's negotiable

C. Terms

1) Option to renew

Long-term options provide security, but at the expense of flexibility.

2) (or) Agreement to agree

Not an option to renew but an agreement to negotiate. Know the difference.

D. Rent

This can be a flat sum or one of the following:

1) Percentage leases (The Book)

This one I prefer because it's based on the gross sales of the business; as your prices go up, so does your rent (and conversely).

2) Cost of living adjustments

I question the accuracy of cost of living and price indexes. Too much politics.

E. Control of Conduct

Give close attention to whether conditions have changed since the lease was first drawn; the business might be in violation of the original terms and not know it. It so, renegotiate with the owner of the real estate before you buy the business.

1) Use of premises

2) Type of business

3) Kind of merchandise

F. Damage or Destruction

Once again, if the lease was written by the real estate owner or is a standard agreement, it's designed totally for his benefit. Read carefully with your attorney.

1) Total destruction—may either party terminate?

2) Partial destruction clause?

G. Condemnation

What happens to your business if some government entity decides to take part of your parking lot? Look ahead and prepare for the worst.

1) Does lease terminate if all or part of the parking area is taken?

H. Option to Purchase

Make certain it's truly an option to purchase and not just an option to talk.

1) Check to see if option is still valid

I. Lessee's Fixtures

Sometimes known as "leasehold improvements." Law and custom may vary from state to state.

1) Rights of Removal?

J. Hours of Business

If you're in a business strip or mall, what are the hours and are they enforced? Don't be the only business open. Talk to other owners.

1) Minimum/maximum hours

2) Specific hours

K. Right to Sublease

This right provides you with a desirable degree of flexibility.

1) Is it valid without lessor's written agreement?

   In other words: is the owner of the real estate willing to let the lessee, the owner of the business, off the lease?

2) Usually *will not* release lessee from liability under the lease. Since you may be liable even if you can sublease, it's yet another point to discuss carefully with your attorney.

3) A 1983 court case.

   Although encouraging for business owners, this is a California case that may not apply in your state, and it may still not be final word in California.

A 1983 court ruling holds that a lessor cannot unreasonably withhold his consent to the transfer of a commercial lease by the lessee, even though the lease states that the lessor's consent is necessary for a transfer, and does not provide that the lessor may not unreasonably withhold such consent.

The decision in *Cohen v. Ratinoff*, 147 Cal App 3d 321 by the California Court of Appeals for the Second Appellate District (Los Angeles) was issued September 23, 1983. This decision reversed a judgment on the pleadings entered in the trial court in favor of the defendant lessor, Ratinoff. On appeal, the plaintiff lessee, Cohen, contended that (1) an absolute prohibition in a lease against assignment by the lessee constitutes an unreasonable restraint on alienation in violation of California Civil Code §711 (the same section on which the *Wellenkamp* decision was based), (2) Ratinoff had no reasonable basis for his objections to Cohen's assignment of the lease as part of the sale of his business, and (3) therefore Ratinoff's refusal to consent to the assignment was not legally justifiable.

The lease provided that the lessee could not assign the lease without the prior written consent of the lessor and any attempted assignment without consent was void and would permit the lessor to terminate the lease. Cohen requested Ratinoff to consent to the assignment of the lease and Ratinoff's attorney said "your lease does not provide for assignment and thus my client (Ratinoff) may be as arbitrary as he chooses." Because of the refusal to consent, the pending sale fell through.

In the Complaint, Cohen alleged that Ratinoff acted in bad faith by purposely preventing Cohen from receiving the benefits to which he was entitled under the lease. This claim was stricken in the trial court in response to a motion for judgment on the pleadings, and an appeal was taken.

Cohen's next argument, based on the implied covenant of good faith and fair dealing in every contract was upheld.

The opinion then recites that (1) Civil Code §711 provides that "conditions restraining alienation, when repugnant to the interests created are void" and (2) this has been interpreted to mean that only unreasonable restraints on alienation are valid. The Court further states:

"Because the Lessor has an interest in the character of the proposed commercial assignee, we cannot say an assignment provision requiring the lessor's consent to an assignment is inherently repugnant to the leasehold interest created. We do conclude, however, that *if such an assignment provision is implemented in such a manner that its underlying purpose is perverted by the arbitrary or unreasonable withholding of consent, an unreasonable restrain on alienation is established.*

“In every contract there is an implied covenant that neither party shall do anything which will have the effect of destroying or injuring the right of the other party to receive the fruits on the contract, which means that in every contract there exists an implied covenant of good faith and dealing. This covenant not only imposes on each contracting party the duty to refrain from doing anything which would render performance of the contract impossible by any act of his own, but also the duty to do everything that the contract presupposes that he will do to accomplish this purpose.”

“The duty to good faith and fair dealing, which is implicit in the lease entered into between plaintiff and defendant, therefore, militates against the arbitrary or unreasonable withholding of consent of an assignment. (emphasis added) A breach by the lessor of his duty constitutes a breach of the lease agreement.”

“Accordingly, we hold that where, as here, the lease provides for assignment or subletting only with the prior consent of the lessor, a lessor may refuse consent only where he has a good faith reasonable objection to the assignment or sublease, even in the absence of a provision prohibiting the unreasonable or arbitrary withholding of consent to an assignment of a commercial lease. (emphasis added) Examples of bases for such good faith reasonable objection should be inability to fulfill terms of the lease, financial irresponsibility or instability, suitability of premises for intended use, or intended unlawful or undesirable use of premises. No such bases were raised by the lessor.

“We note that under the terms of the lease agreement, the lessor’s consent to an assignment does not relieve lessee of any obligation under the lease. Whether the landlord’s security or other rights would otherwise be impaired is a question of fact.”

II. Sign Lease

Generally more leniency here than with building lease.

A. Maintenance, insurance, taxes and utilities are usually paid by the lessor (sign company).

   The lessor (sign company) is usually amenable to transferring the lease when the business changes hands.

B. Is there a right to purchase upon termination of the lease?

   What is the cost?

   Be sure a maintenance contract is included with the purchase.

III. Equipment Lease

Often feels more like ownership than a lease. Easily transferable.

A. Maintenance, insurance and utilities are usually paid by the lessee (business owner)

B. Is there a right to purchase upon termination of the lease?

   What is the cost?

   Most equipment leases have purchase clause built in. If not, insist on it.

   An equipment lease is essentially a purchase financing plan.

CHAPTER ELEVEN

CASH FLOW

BUSINESS OPPORTUNITIES

CHAPTER ELEVEN

CASH FLOW

Introduction

This is one of the chapters that ties together much of what we are trying to teach you.

Notice that there are two cash flow sheets. 11-1 is a cash flow sheet from the seller's position. 11-2 is a cash flow sheet from the buyer's perspective.

You'll be pulling information out of the Profit and Loss (P&L) statements and building back in the owner's benefits to determine the feasibility of the sale or purchase of the business.

Go through this chapter again and again before analyzing one of your businesses. You may have to review the previous chapters on Profit and Loss Statement, Financing and Pricing. Take it easy, take it slow and don't leave anything out.

When you begin to analyze your own businesses, if the number you end up with (cash flow) doesn't make sense:

1) Go back and solve the problem(s)

2) Go on to another business

3) Do not look for a miracle!

Follow these cash flow sheets precisely. They will take the assumptions and guesswork out of your evaluation of a business and keep you on the smooth road to success.

ESTIMATED CASH FLOW

P & L's DATED

Jan. 1, 198X TO *Dec. 31, 198X*

PRICE:	*400,000*
DOWN:	*100,000*
TERMS:	*Owner/20 yrs/10%*
PREPARED BY:	*A. Jones*
DATE PREPARED:	*Feb. 20, 198X*
REVISIONS:	*Mar. 7, 198X*

Sales Income
500,000

(-) Cost of Sales

Gross Profit
300,000

(+) Mgr. Salary (Inc.)

(+) Rent (Increase)
10,000

(+) Other Expenses
210,000

(-) Total Expenses
250,000

(+) Other Income

(+) Sellers Draw

Travel & Transport.
8,000

Entertainment
12,000

Pension &Prof Share
20,000

Insurance
10,000

(+) Depreciation (sell)
15,000

(+) Interest (Seller)
10,000

(+) Seller Perks
50,000

Net Profit (All Cash Sale)
125,000

Loan #1 Debt Service – Yearly		
Amount	Rate	Years
300,000	*10%*	*20*
Principal	Interest	Total
4.741	*30.000*	*34.741*

Loan #2 Debt Service – Yearly		
Amount	Rate	Years
Principal	Interest	Total

Loan #3 Debt Service – Yearly		
Amount	Rate	Years
Principal	Interest	Total

Cash Flow After Debt Service
90,259

2

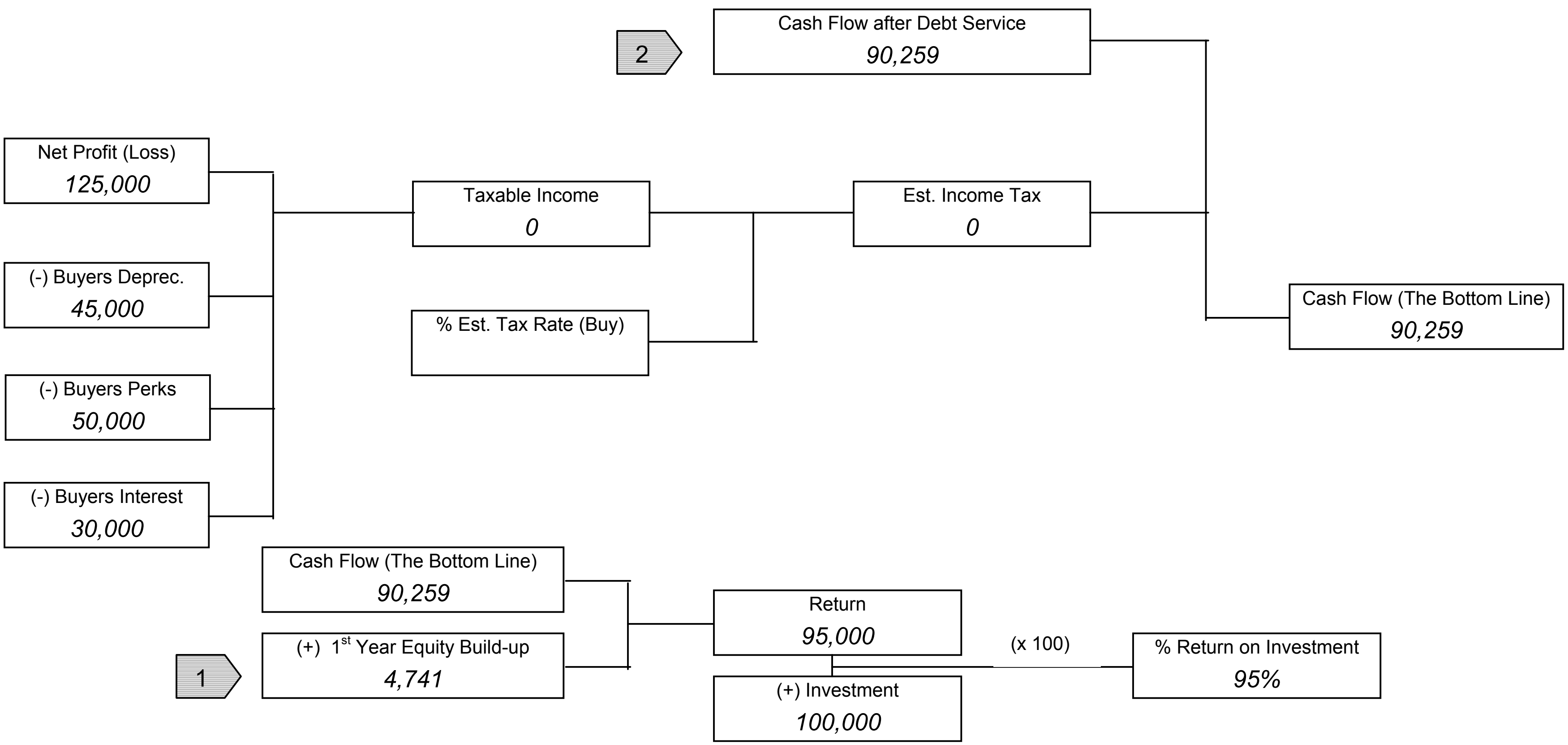
FIRST YEAR EQUITY

1

TOTAL PRINCIPAL: ________________ TOTAL INTEREST: ________________

NOTE: All information is from sources deemed reliable, but is not guaranteed by agent. Package is subject to price change, correction, error, omission, prior sale and withdrawal.

BUYERS ESTIMATED RETURN



DEPRECIATION (Buyer, ACRS)

Cost of Item	Method	Life	%	Depreciation this Year
$				
$				

NOTE: All information is from sources deemed reliable, but is not guaranteed by agent. Package is subject to price change, correction, error, omission, prior to sale and withdrawal. All computations are estimated. Any parties interested should consult with their C.P.A. regarding computations on this and any investment. Again, agent does not guarantee these computations.

BUYER: ______________________________

ESTIMATED CASH FLOW

(See Chart, 11-3)

The purpose of the charts on pages 11-1 and 11-2 is to present a clear picture of the business and its sale. If you're a seller, the charts will help you understand the position of the buyer. If you're a buyer, they will assist you in clarifying whether the purchase, as proposed, will be beneficial to both parties.

The seller wants to be sure that the buyer will be able to make the payments safely and still have a reasonable net profit.

The buyer has to know that the financing plan is workable, that there is enough cash flow to make the purchase worthwhile.

We will now go through the chart on page 11-1, line by line.

In the upper right-hand corner, your example business has a selling price of $400,000 and the owner is asking for a conventional 25% down payment of $100,000. The owner has also offered to finance the $300,000 balance for 20 years at 10% interest. The chart is being prepared by the buyer, A. Jones. He initially prepared it on February 20, 198X and revised it a few weeks later, on March 7, 198X.

The profit and loss statement he used as a full year's statement, from January 1, 198X to December 31, 198X. It's entirely possible that you would want to create a cash flow sheet for a number of individual years in order to compare trends in the business. In this case, we're looking at only one year.

It the upper left-hand corner, our first entry, Sales Income, is taken right off the P&L. It means that the company had sales of $500,000 that year.

The second line, Cost of Sales, $200,000, is the gross cost of producing the company's product or service.

Subtract the cost of sales from the total sales figure. (You've already done this on the example P&L and in Pricing.) Subtracting the Cost of Sales from Sales Income gives you a figure of $300,000. That figure represents the Gross Profit of the business.

The next line on the far left is Manager's Salary, which is $30,000 at the time the seller offered his business for sale. The note regarding "increase" is there to remind you that you should consider whether the manager's salary will remain the same after the sale of the business. If not, you'll want to figure in the increase because it will change the eventual net profit.

Rent is the next line and the amount in our example is $10,000. We isolate rent from the rest of the expenses because it's an item that is often overlooked. Sometimes the owner of the business lso owns the real estate and is not paying himself rent and it does not appear on the P&L. The buyer then receives the unpleasant surprise of having to pay rent after he had not allowed for it.

Other Expenses amounts to $210,000. In preparing this chart, A. Jones had "backed out," set aside, all of the owner's obvious "perks" to be dealt with later. But, he listed Other Expenses just as noted in the P&L, except that Manager's Salary and Rent were listed separately. The three together totaled $250,000 which, subtracted form the Gross Profit of $300,000, would mean that the company was only netting $50,000 in profit, as indicated in the P&L. Based on the debt service necessary to buy the business, it wouldn't be worth it. But, fortunately, the cash flow worksheet permits us to see what the company is really making.

Now, we begin to *add* back in certain items that will change the profit picture.

The line below Total Expenses is Other income. This business had none so the line is left blank.

The seller did declare Depreciation of $15,000. In the Pricing section we were adding back in depreciation to decide on the true wasting of assets. Here we're adding it back in from the seller's standpoint. Later the subject of depreciation will be looked at from the buyer's (new owner's) position.

The next line is Interest (Seller), meaning all the interest the seller is currently paying. A. Jones is buying this business free and clear, without assuming any business debts. It's as though it were an all cash sale. Therefore, the present owner's interest payments must be added back in. The amount is $10,000.

Remember the seller's perks that A. Jones had noted? They're listed on the far left side of the form and total $50,000. As the new owner, you may or may not decide to avail yourself of these listed benefits but, for now, we add them back in. Doing so now results in an improved net profit of $125,000, what the company is truly making.

The seller's benefits that we added back in may or may not be legitimate business expenses. Some are plainly perks. Other can only be determined to be necessary expenses after careful checking and verification. Your CPA can help conclude which is which.

The $125,000 Net Profit is the true amount of cash to work with in structuring the sale of the business. We're now going to see how much profit remains after debt service, the actual cost of the purchase loans being used.

We've allowed for three possible loans: Loan #1 Debt Service, Loan #2 Debt Service and Loan #3 Debt Service. In this example there is only one, the financing being provided by the seller, $300,000 for 20 years at 10% interest. The yearly payment by the buyer to the seller would be $34,741, of which $4,741 would be the Principal payment and $30,000 would be the interest payment the first year.

To arrive at the actual Cash Flow After Debt Service, we simply subtract the Loan #1 Debt Service of $34,741 from the Net Profit of $125,000. Our final Cash Flow figure is $90,259.

Next, the Buyer's Estimated Return.

BUYER'S ESTIMATED RETURN

(See Chart, 11-2)

This form is purely for the buyer's evaluation of his bottom line net profit after taxes and his return on investment.

At the top right of the chart 2 is the Cash Flow After Debt Service (from the previous page), $90,259. That amount is what's left after payment to the seller for the financing being provided. Now we must figure how much money will be left after paying taxes; what will be the bottom line next?

On the first line on the left of the chart we place $125,000, the true net profit of the business (before taxes) that we arrived at on page 11-1.

Next we must *subtract* the items that will not be taxed. First, Buyer Depreciation (ACRS). With the assistance of his CPA, this buyer discovered that conditions permitted a depreciation of $45,0000.

The next subtraction item is the Buyer's Perks of $50,000, the same amount the former owner was taking.

The last item to be subtracted is the Buyer's Interest Paid, which amounts to $30,000. That's the yearly interest the buyer will pay on his $300,000 debt to the seller.

Subtracting all three items from the Net Profit of the business results in *no taxable income*! The $90,259 Cash Flow After Debt Service from page 11-1 remains untouched and becomes the $90,259 Cash Flow (The Bottom Line) on page 11-2.

Working with you CPA on careful tax planning, you will find that in the early years of the ownership of a business, the taxes are minimal. Zero taxable income is not unreasonable to expect. Eventually a business may have a taxable income.

As a buyer, you'll want to know what actual return you're getting on your investment. In this case your investment was the down payment of $100,000. There are two ways to figure return on investment: cash-on-cash and total. Cash-on-cash would be an investment of $100,000 for a first investment. As seen in 1 , we must include the principal payment of $4,741 in the first year as Equity Build Up. That added to our Cash Flow (The Bottom Line) of $90,259 results in a Return of $95,000 on an investment of $100,000 or a 95% Return on Investment.

No example has been included here to show what happens if you're able to buy the business for a lower down payment or are successful in getting other financial assistance to cover the down payment (supplier financing, for example). With changed circumstances regarding the down payment, the Return on Investment could be much higher.

PRICE: ____________
DOWN: ____________
TERMS: ____________
PREPARED BY: ____________
DATE PREPARED: ____________
REVISIONS: ____________

ESTIMATED CASH FLOW

P & L's DATED

Jan. 1, 198X TO *Dec. 31, 198X*

Sales Income

(-) Cost of Sales

Gross Profit

(+) Mgr. Salary (Inc.)

(+) Rent (Increase)

(+) Other Expenses

(-) Total Expenses

(+) Other Income

(+) Sellers Draw

Travel & Transport.

Entertainment

Pension &Prof Share

Insurance

(+) Depreciation (sell)

(+) Interest (Seller)

(+) Seller Perks

Net Profit (All Cash Sale)

Loan #1 Debt Service – Yearly		
Amount	Rate	Years
Principal	Interest	Total

Loan #2 Debt Service – Yearly		
Amount	Rate	Years
Principal	Interest	Total

Loan #3 Debt Service – Yearly		
Amount	Rate	Years
Principal	Interest	Total

Cash Flow After Debt Service

2

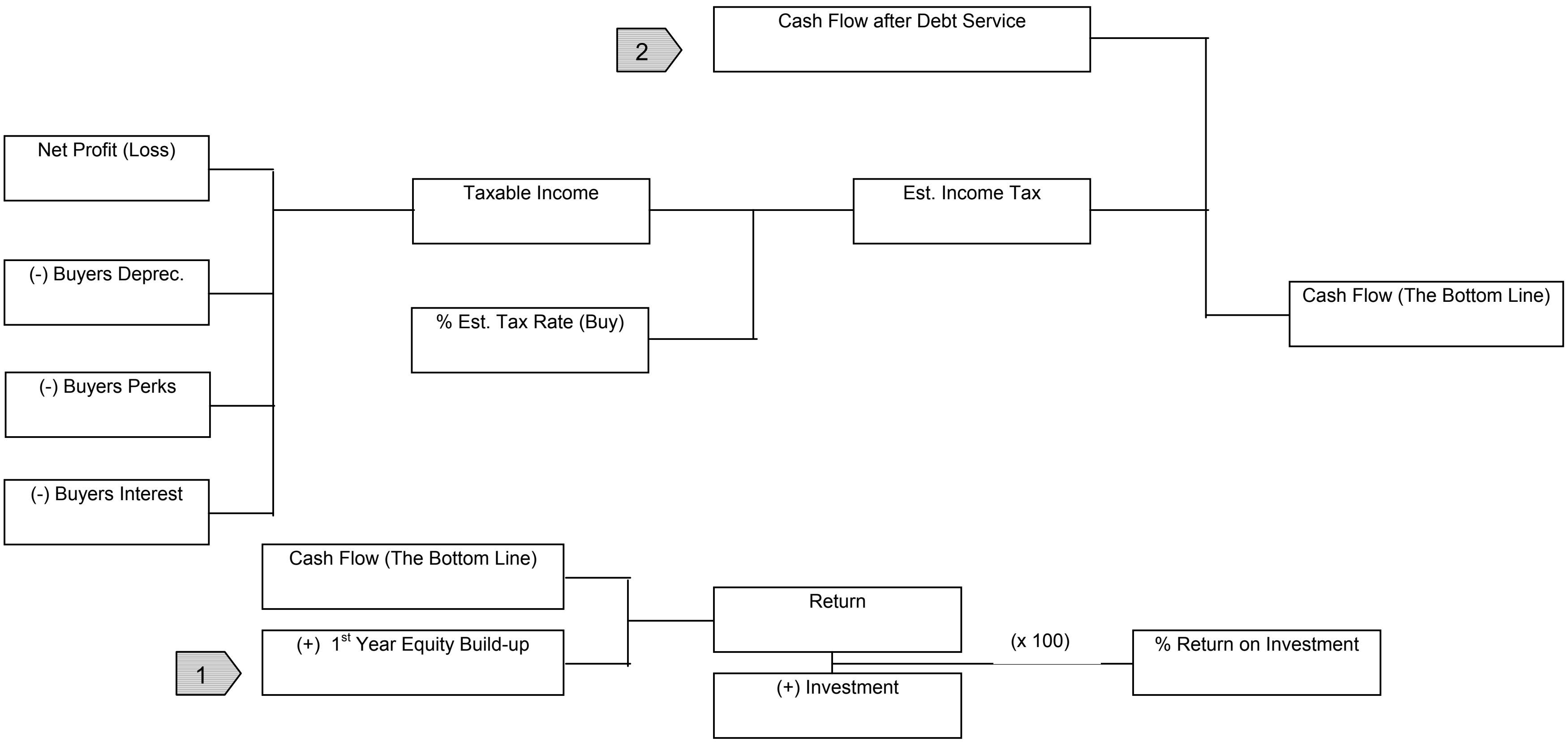
FIRST YEAR EQUITY

1

TOTAL PRINCIPAL: ____________ TOTAL INTEREST: ____________

NOTE: All information is from sources deemed reliable, but is not guaranteed by agent. Package is subject to price change, correction, error, omission, prior sale and withdrawal.

BUYERS ESTIMATED RETURN



DEPRECIATION (Buyer, ACRS)

Cost of Item	Method	Life	%	Depreciation this Year
$				
$				

NOTE: All information is from sources deemed reliable, but is not guaranteed by agent. Package is subject to price change, correction, error, omission, prior to sale and withdrawal. All computations are estimated. Any parties interested should consult with their C.P.A. regarding computations on this and any investment. Again, agent does not guarantee these computations.

BUYER: ______________________________

CHAPTER TWELVE

PURCHASE / ESCROW

BUSINESS OPPORTUNITIES

CHAPTER TWELVE

PURCHASE & ESCROW

Introduction

This is a chapter that will only make sense as you go through your first negotiation and escrow or closing.

You can review this chapter many times, but your first experience for real will do more for you than listening ten times.

SO. . . .

Do a little listening

Do a little doing!

PURCHASE AGREEMENT

Date ______________, 19________

1. **DEPOSIT:** ____ (Seller) has received from ____ (Buyer) the sum of ____________________ __________________________ ($ _______________________) as a deposit on the purchase of that certain business known as ____
and located at ____
Which Buyer agrees to purchase on the following terms and conditions.

2. **PRICE AND TERMS:** The purchase price shall be _____________________________________ _______________ ($ ______________________). A down payment of ______________________ ($ __________________________) (including above deposit) shall be made at closing and the Balance of the purchase price shall be payable as follows: ______________________________
____
____
____

3. **ASSETS**: Assets to be transferred to Buyer include the business, furniture and fixtures, inventory, merchandise for resale, work in progress, tools, supplies, leasehold improvements, telephone number, customer lists, all trade names, transferable permits, leases, franchises, advance lease deposits, customer deposits, accounts receivable, signs, goodwill, and all personal property use in the business, without limitation, including all property listed in Schedule _______________ attached hereto, except those assets disposed of in the ordinary course of business or as permitted by this Agreement and except: _______________________
____
____
____

4. **LIABILITIES:** It is expressly agreed and understood that Buyer shall not be liable for any of the obligations of the business other than those specifically assumed in this paragraph. Liabilities to be assumed by Buyer: ____
____
____
____
____

5. **ALLOCATION:** For purposes of this Agreement the purchase price shall be allocated as follows:

a.	Accounts Receivable	estimated	$	____________________
b.	Inventory, computed at ____________	estimated	$	____________________
c.	Furniture and Fixtures		$	____________________
d.	Machinery and Equipment		$	____________________
e.	Goodwill		$	____________________
f.	Covenant not to complete		$	____________________
g.	Lease valuation		$	____________________
h.	Other (specify)		$	____________________
i.	Other (specify)		$	____________________
		TOTAL	$	

In the event the value of items a and b above, if transferred, shall be less than the estimated value at closing, the purchase price shall be reduced by a like amount. An actual inventory shall be taken by Buyer and Seller at time of closing and adjustments, if any, shall be made at the completion of inventory. Any variation in excess of ____________ % between estimated and actual values of either item a or b shall give Buyer the option of terminating this Agreement.

6. **PRO-RATION:** Unsecured personal property taxes, rents, interest, insurance, pre-paid deposits and similar expenses shall be pro-rated between Buyer and Seller at close of escrow.

7. REPRESENTATIONS AND WARRANTIES OF SELLER: Seller, jointly and severally, represents and warrants that:

   a. Schedule __________ to this Agreement sets forth financial statement to the business for the years __________, __________, and _________. Such financial statements fairly present the financial position of the business as of the respective dates on the financial statements, and the results of the operations of the business for the respective periods indicated.

   b. Since the date of the latest financial statement mentioned above, there has not been any change in the financial condition or operations of the business except changes in the ordinary course of business, which changes have not in the aggregate been materially adverse.

   c. Seller has no debts, liabilities, or obligations of any nature, whether accrued, absolute, contingent, or otherwise that are not reflected in the above mentioned balance sheets.

   d. Schedule ____________ to this Agreement is a complete and accurate legal description of each parcel of real property owned by or leased to Seller.

e. The inventories of raw materials, work in progress, and finished goods (collectively called inventories) shown on the balance sheet dated _______________consist of items that are usable and saleable in the ordinary course of business. Except for sales made in the ordinary course of business since that date, all the inventories are the property of the Seller and are not subject to any security interest except as specifically indicated in Schedule ________ to this Agreement.

f. The books and records of Seller contain a complete and accurate description, and specify the location of all trucks, automobiles, machinery, equipment, furniture, supplies, tools and other tangible personal property owned by, in the possession of or used by Seller in connection with its business. Except as stated in Schedule _________, no personal property used by Seller in connection with its business is held under any lease, security agreement, conditional sales contract, or other title retention or security arrangements, or is other than in the possession and under the control of Seller. The tangible personal property of Seller that is necessary to the operation of its business is in good operating condition and repair, ordinary wear and tear excepted.

g. Schedule _________ of this Agreement is a complete and accurate schedule of the accounts receivable of Seller as of _________________, together with an accurate aging of these accounts. These accounts receivable, and all accounts receivable of Seller, created after that date, arose from valid sales in the ordinary course of business. These accounts have been collected in full since that date or are collectible at their full amounts.

h. Schedule _________ to this Agreement is a correct and current list of all customers of Seller. Seller is not aware of any facts indicating that any of these customers intend to cease doing business with Seller or materially alter the amount of the business that they are presently doing with Seller.

i. Seller has not received notice of any violation of any applicable federal, state or local statute, law, or regulation (including, without limitation, any applicable building, zoning or other law, ordinance or regulation) affecting its property or the operation of its business, and to the best of Seller's knowledge there are no such violations.

8. OBLIGATION OF PARTIES PRIOR TO CLOSING

a. Buyer and his counsel, accountants, and other representatives shall have full access during normal business hours, by appointment to all properties, books, accounts, records, contracts, and documents of or relating to Seller's business. Seller shall furnish or cause to be furnished to Buyer and its representatives all data and information concerning the business, finances, and properties of Seller that may reasonably be requested.

b. Seller will carry on its business and activities diligently and in substantially the same manner as they previously have been carried out.

c. All representations and warranties of Seller set forth in this Agreement and in any written statements delivered to Buyer by Seller under this Agreement will also be true and correct as of the closing date as if made on that date.

9. **CLOSING**

a. The transfer of the assets of the business (the closing) shall take place at the office of ____________________________ at ________ on ______________________________ or at such other time and place that the parties may agree to in writing.

b. At the closing, Buyer shall deliver to Seller the following instruments and documents:

(i) A certificate or bank cashier's check in the amount of ________________________ ($__________________________) and Buyer's promissory note dated the closing date and the principal amount of ___________________ ($___________________) in the form of Schedule ____________ (Buyer's note);

(ii) A security agreement executed by Buyer, dated the closing date, in the form of Schedule ___________;

(iii) A guarantee executed by ____ at the bottom of Buyer's note as set forth in the form of Schedule __________.

c. At the closing, Seller shall deliver to Buyer or cause to be delivered to Buyer:

(i) For all real property and interest in real property, general warranty deeds, properly executed and acknowledged, confirming to and conveying the agreed state of the title,

(ii) Assignments of all leaseholds, properly executed and acknowledged by Seller, and accompanied by all consents of lessors required by this Agreement and leases being assigned,

(iii) Instruments of assignment and transfer of all other property of Seller by every kind and description and wherever situated except as expressly excluded in a Schedule to this Agreement. Simultaneously with the consummation of the transfer, Seller, through his officers, agents, and employees, will put Buyer into full possession and enjoyment of all properties and assets to be conveyed and transferred by this Agreement.

10. **EXPENSES OF SALE:** Escrow fees and charges shall be borne equally by Buyer and Seller. Buyer and Seller shall be responsible for their own legal fees. Sales tax payable in connection with this sale shall be paid by Buyer. If legal action is brought to enforce this Agreement, the prevailing party shall have the right to reasonable attorney's fees.

11. **COVENANT NOT TO COMPETE:** Seller covenants to and with Buyer, his successors and assigns, that for a period of ________________ (__________) years from and after the closing he will not, directly or indirectly, either as a principal, agent, manager, employee, owner, partner, stockholder, director or officer or a corporation, trustee or consultant, or otherwise, engage in any business similar to or in competition with the business hereby sold within a _________________ (________) mile radius of _______________________________________

12. **ADDITIONAL TERMS** (If any): ____

____

____

____

____

____

____

____

____

It is expressly understood that this Agreement contains all the terms and conditions upon which the undersigned agrees to purchase said business and property, and no representations, terms or conditions are to be considered at any time or for any purpose, which are not herein set forth.

I hereby certify that I have read the above Agreement and agree to purchase said business and property upon the above named terms and conditions:

BUYER: ____________________________ **BROKER:** ____________________________

____________________________________ ____

DATE: ____________________________ ____

I hereby approve and accept the foregoing offer and the price, terms and conditions as set forth above, and agree to pay to ____

____

the sum of __________________________________ ($__________________________________

or as per listing agreement, the fee for services rendered. In case of suit or court action is instituted to collect said sum or any part thereof, I further agree to pay, in addition to the costs and disbursement provided by statute, such additional sums as the court may adjudge as reasonable attorney's fees to be allowed in said suit or action.

DATE OF SELLER'S APPROVAL: **OWNER:** ________________________

____ **OWNER:** ________________________

I hereby acknowledge receipt of copy showing Seller's acceptance.

BUYER: ________________________________

DATE: _________________________________

IV. **CONTINGENCIES** (Also known as Weasel Clauses)

A. **Buyers Sample**

1. The purchase is subject to inspection and approval in writing of books and records by the buyer.

OR

2. The purchase is authorized to inspection and approval in writing of the equipment by the buyer.

3. These give the buyer a way out of the contract.

B. **Seller's Counter-Offer**

1. The purchase is subject to inspection and approval in writing of books and records by the buyer.

   Note: Seller to add – (within 10 days)

2. The purchase is subject to inspection and approval in writing of the equ8ipment by the buyer.

   Note: Seller to add – (within 3 days)

V. **Escrow/Closing** (Consummation of the transfer from seller to buyer)

A. **The "Consummation"**

1. **The Attorney** – we usually recommend his/her use since they are also required to handle and expedite legal work.

2. **Banks/Title Company/Escrow Company** – we try them if they specialize in business transactions. Our results to date have been poor.

B. **Purchase Agreement** (Long Form)

1. Pages and pages of protection for buyer and seller and brokers. Do not be tempted to use a short form offer to purchase to carry you through the full transaction.

C. **Bulk Sale** (Division 6 of the California Commercial Code)
(Protects creditors and buyers)

The notice shall be:

a. Recorded in the office of the county recorder in the county or counties in which the property to be transferred is located at least twelve (12) business days before the bulk transfer is to be consummated; and

b. Published at least once in a newspaper of general circulation published in the judicial district in which the property is located at least twelve (12) business days before the bulk transfer is to be consummated; and

c. Personally delivered or sent by registered or certified mail at least twelve (12) business days before the bulk transfer is to be consummated to the county tax collector in the county or counties in which the property to be transferred is located.

   ("Business day" means any day other than Saturday, Sunday or a day observed as a holiday for the California State Government.)

d. The notice must contain:

   1. That a bulk transfer is about to be made; and

   2. The names and business addresses of the transferor and the transferee, and all other business names and addresses used by the transferor within the past three (3) years as far as known to the transferee; and

   3. Location and general description of the property to be transferred; and

   4. Place and the date on/after which, the bulk transfer is to be consummated.

e. If the consideration for the purchase is paid in case or notes, the bulk sales notice must now specify the name and address of a person with whom claims may be filed by creditors before the consummation of the sale.

   1. Creditors filing claims which are approved by the sellers shall be paid in full first before the seller is paid anything.

f. Payment of consideration to satisfy claims of transferor's creditors; disputed claims; attachment; interpleader; notice; security interests

1. This section applies only to a bulk transfer where the consideration consists of cash or an obligation of the transferee to pay cash in the future or a combination thereof.

2. Upon every bulk transfer subject to this section except one made by sale at auction it is the duty of the transferee (or, if the transaction is handled through an escrow, the escrow agent) to apply the consideration in accordance with the provisions of this section so far as necessary to pay those debts of the transferor for which claims are then due and payable and are filed in writing with the transferee or his agent or an escrow agent designated in the notice prior to the date specified in the notice on or after which the bulk transfer is to be consummated. This duty of the transferee or escrow agent runs to each creditor timely filing a claim.

3. If the transferor disputes any claim then due payable, the transferee or escrow agent shall withhold from distribution the amount thereof (of the pro rata amount under subdivision (2) of Section 6106.1) and shall send a written notice to the creditor filing the claim that the amount will be paid to the transferor (or to the other creditors in accordance with Section 6106.1 (2), as the case may be) unless attached within 25 days. If the amount retained is not attached by the creditor within 25 days from the mailing of the notice, it shall be paid by the transferee or escrow agent to the transferor or to the other persons filing claims if they have not been paid in full.

4. If the cash consideration payable is not sufficient to pay all of the claims filed in full, where no escrow has been established pursuant to Section 6106.1 the transferee shall follow the procedures in subdivisions (1) through (3) of Section 6106.1.

5. The transferee or escrow agent, as the case may be, shall within 30 days after the transferee takes possession of the goods either pay the claims filed and not disputed (or the applicable portion thereof to the extent of the consideration under subdivision (2) of Section 6106.1.) or institute an action in interpleader pursuant to subdivision (b) of Section 386 of the Code of Civil Procedure and deposit the consideration with the clerk of the court pursuant to subdivision (c) of said section. Such action shall be brought in the appropriate court for the county where the transferor had its principal place of business in this state. Sections 386.1 and 386 of the Code of Civil Procedure shall apply in such action.

6. The notice shall state, in addition to the matters required by Section 6107 the name and address of the person with whom claims may be filed and the last date for filing claims, which shall be the business day before the date specified in the notice on or after which the bulk transfer is to be consummated.

7. Nothing contained in this section shall release any security interest or other lien on the property which is the subject of the bulk transfer except upon the voluntary release thereof by the secured party or lien-holder.

g. Escrow; filing claims; distribution; notice

In any case where the notice states the transaction will be handled through an escrow, creditors may file their claims with the escrow agent and the intended transferee shall deposit with the escrow agent the full amount of the purchase price or consideration. If at the time scheduled for the closing of the escrow the amount of cash deposited in the escrow is insufficient to pay in full all the claims filed with the escrow agent, the escrow agent shall:

1. (a) Delay the distribution of the consideration and the passing of title for a period of not less than 10 days nor more than 20 days from the originally scheduled closing date; and

(b) Send a written notice to each creditor, who has filed a claim, within two business days after the date scheduled for the closing of the escrow stating the amount of cash deposited in the escrow and the percentage which it represents of the aggregate of all claims filed and stating that the escrow will be closed at a specified place, date, and time which shall not be less than 10 days nor more than 20 days from the originally scheduled closing date.

2. Distribute the consideration in accordance with the legally applicable liens and priorities held by the creditors filing claims, and within any class of claims having equal priority distribution shall be made pro rata.

3. To the extent that an obligation of the transferee to pay cash in the future is a part of the consideration and the cash consideration is not sufficient to pay all claims filed in full, apply all principal and interest received on such obligation to the claims filed in full, apply all principal and interest received on such obligation to the payment of claims in accordance with subdivision (2) until they are paid in full before making any payment to the transferor, in such case, the notice pursuant to subdivision (1) shall state the amount, terms and due dates of the obligation and the portion of the claims expected to be paid thereby

   No funds shall be drawn from the escrow, prior to the actual closing and completion of the escrow, for the payment, in whole or in part, of any commission, fee or other consideration as compensation for a service which is contingent upon the performance of any act, condition, or instruction set forth in an escrow.

D. **Financing Statement** (Division 9 of the California Commercial Code)
(California version of Article 9 of the Uniform Commercial Code)

Must be filed to protect the security interest. (Please check with your state for local variations)

1. UUC-1 **Financing Statement**

   Effective for a period of five (5) years from the date of filing. (See copy page 12-25)

2. UCC-2 (See copy page 12-26)

   1. **Continuation** – A continuation statement may be filed by the secured party of record within six (6) months prior to the expiration of the five year period.

   2. **Release** – From the collateral described in the financing statement the secured party releases the collateral.

   3. **Assignment** – The secured party certifies that the secured party has assigned to the assignee, all the secured party's rights under the financing statement.

   4. **Termination** – The secured party certifies that the secured party no longer claims a security interest on the security statement.

   5. **Amendment** – The financing statement is amended as set forth.

3. UCC-3 – Information of Copy Request (See copy page 12-27)

   To be mailed to the Secretary of State to obtain a list of all financing statements currently outstanding against the business.

E. **Inventory** – Taken by independent appraisers

1. They are listed in yellow pages of the phone book under Inventory.

2. Taken at close of escrow.

F. **Sales Use Tax Provisions**

1. Need a clearance for escrow from appropriate state sales tax organization.

2. Successor’s liability.

G. **Utilities**

1. Transfer utilities to new owner before the closing or you may become a new account with larger deposits due.

H. **Special Permits and Licenses**

1. Licenses and permits may require a new application or transfer forms.

I. **Franchise Status**

1. Check with corporation commissioner

J. **Department of Employment**

Need a certificate of release from the State Department of Employment or buyer may be liable for unpaid unemployment taxes and employee benefits such as unemployment and disability insurance contributions.

K. **Local Taxes**

1. Local tax releases should be obtained. (This area is growing rapidly as local governments are seeking new sources of revenue.)

L. **Assume Phone Number**

M. **Assume Post Office Box**

N. **Refile Fictitious Business Name**

1. Refiled by new owner/attorney.

Special: Dissolution – simultaneous

(1) Attorney from new corp.

(2) Go bulk sale.

(3) Dissolve old corporation.

(4) New corp assumes known assets and liabilities.

This **FINANCING STATEMENT** is presented for filing pursuant to the California Uniform Commercial Code

1. DEBTOR (LAST NAME FIRST – IF AN INDIVIDUAL)	1A. SOCIAL SECURITY OR FEDERAL TAX NO.
1B. MAILING ADDRESS / 1C. CITY, STATE	1D. ZIP CODE
1E. ADDITIONAL DEBTOR (IF ANY) (LAST NAME FIRST – IF AN INDIVIDUAL	2A. SOCIAL SECURITY OR DEDERAL TAX NO.
2B. MAILING ADDRESS / 2C. CITY, STATE	2D. ZIP CODE
3. DEBTOR'S TRADE NAMES OR STYLES (IF ANY)	3A. FEDERAL TAX NUMBER
4. SECURED PARTY NAME MAILING ADDRESS CITY STATE ZIP CODE	4A. SOCIAL SECURITY NO., FEDERAL TAX NO., OR BANK TRANSIT AND A.B.A. NO.
5. ASSIGNEE OF SECURED PARTY (IF ANY) NAME MAILING ADDRESS CITY STATE ZIP CODE	5A. SOCIAL SECURITY NO., FEDERAL TAX NO., OR BANK TRANSIT AND A.B.A. NO.

6. This FINANCING STATEMENT covers the following types of items of property **(include description of real property on which located and owner of record when required by instruction 4).**

7. CHECK ☒ IF APPLICABLE	7A. PRODUCTS OF COLLATERAL ☐ ARE ALSO COVERED	7B. DEBTOR(S) SIGNATURE NOT REQUIRED IN ACCORDANCE WITH INSTRUCTION 5A ITEM. ☐ (1) ☐ (2) ☐ (3) ☐ (4)
8. CHECK ☒ IF APPLICABLE	☐ DEBTOR IS A "TRANSMITTING UTILITY" IN ACCORDANCE WITH UCC § 9105 (1) (N)	

9. ▶ SIGNATURE (S) OF DEBTOR(S) DATE	CODE	10. THIS SPACE FOR USE OF FILING OFFICER (DATE, TIME, FILE NUMBER AND FILING OFFICER)
TYPE OR PRINT NAME(S) OF DEBTOR(S)	1 2	
▶ SIGNATURE OF SECURED PARTY(IES)	3 4	
TYPE OR PRINT NAME(S) OF SECURED PARTY(IES)	5 6	
11. Return copy to: NAME ADDRESS CITY STAATE ZIP CODE	7 8 9 0	
(1) FILING OFFICER COPY — FORM UCC 1 – FILING FEE $3.00 Approved by the Secretary of State		

This **STATEMENT** is presented for filing pursuant to the California Uniform Commercial Code

1. FILE NO. OF ORIG. FINANCING STATEMENT	1A. DATE OF FILING OF ORIG. FINANCING STATEMENT	1B. DATE OF ORIG. FINANCING STATEMENT	1C. PLACE OF FILING ORIG. FINANCING STATEMENT
2. DEBTOR (LAST NAME FIRST)		2A. SOCIAL SECURITY OR FEDERAL TAX NO.	
2B. MAILING ADDRESS	2C. CITY, STATE		2D. ZIP CODE
3. ADDITIONAL DEBTOR (IF ANY) (LAST NAME FIRST – IF AN INDIVIDUAL		3A. SOCIAL SECURITY OR DEDERAL TAX NO.	
3B. MAILING ADDRESS	3C. CITY, STATE		3D. ZIP CODE
3. DEBTOR'S TRADE NAMES OR STYLES (IF ANY)		3A. FEDERAL TAX NUMBER	
4. SECURED PARTY NAME MAILING ADDRESS CITY STATE ZIP CODE		4A. SOCIAL SECURITY NO., FEDERAL TAX NO., OR BANK TRANSIT AND A.B.A. NO.	
5. ASSIGNEE OF SECURED PARTY (IF ANY) NAME MAILING ADDRESS CITY STATE ZIP CODE		5A. SOCIAL SECURITY NO., FEDERAL TAX NO., OR BANK TRANSIT AND A.B.A. NO.	

6.	A ☐	CONTINUATION. The original Financing Statement between the foregoing Debtor and Secured Party bearing the file number and date shown above is continued. If collateral is crops or timber, check here ☐ and insert description of real property on which growing or to be grown in Item 7 below
	B ☐	RELEASE From the collateral described in the Financing Statement bearing the file number shown above, the Secured Party releases the collateral described in Item 7 below.
	C ☐	ASSIGNMENT The Secured Party Certified that the Secured Party has assigned to the Assignee above named, all Secured Party's rights under the Financing Statement bearing the file number shown above in the collateral described in Item 7 below
	D ☐	TERMINATION The Secured Party certifies that the Secured Party no longer claims a security interest under the Financing Statement bearing the file number shown above.
	E ☐	AMENDMENT The Financing Statement bearing the file number shown above is amended as set forth in Item 7 below (Signature of Debtor required on all amendments)
	F ☐	OTHER

7.

8. (Date) __________________ 19 ______

____

By: ____
SIGNATURE OF DEBTOR(S) (TITLE)

____

By: ____
SIGNATURE OF DEBTOR(S) (TITLE)

CODE
1
2
3
4
5
6
7
8
9

9. This space for use of Filing Officer
(Date, Time, Filing Office)

10. **Return copy to:**

NAME
ADDRESS
CITY
STATE
ZIP CODE

(1) FILING OFFICER COPY

STANDARD FORM UCC 2 – FILING FEE $3.00
Approved by the Secretary of State

REQUEST FOR INFORMATION OR COPIES. Present in Duplicate to Filing Officer

1. ☐ INFORMATION REQUEST. Filing officer please furnish certificate showing whether there is on file any presently effective financing statement naming the Debtor listed below and any statement of assignment thereof, and if there is, giving the date and hour of filing of such statement and the names ad addresses of each secured party named therein**.**

1A. DEBTOR (LAST NAME FIRST)		1B. SOC SEC OR DED TAX NO.
1C. MAILING ADDRESS	1D. CITY, STATE	1E. ZIP CODE

1F. Date: ______________________19______ Signature of Requesting Party: ______________________

2. CERTIFICATE

FILE NUMBER	DATE AND HOUR OF FILING	NAME(S) AND ADDRESS(ES) OF SECURED PARTY(IES) AND ASSIGNEE(S) IF ANY

The undersigned filing officer hereby certifies that the above listing is a record of all presently effective financing statements and statements of assignment which name the above debtor and which are in my office of _______ 19 __ at _____ __M.

_________________ 19 _________ (DATE)

______________________________ (FILING OFFICER)

By: ______________________________

3. ☐ COPY REQUEST. Filing officer please furnish _____ copy(ies) of each page of the following statements concerning the debtors listed below. ☐ Financing Statement ☐ Amendments ☐ Statements of Assignment
☐ Continuation Statements ☐ Statement of Release ☐ Termination Statement ☐ All Statements on file

FILE NUMBER	DATE OF FILING	NAME(S) AND MAILING ADDRESS(ES) OF DEBTOR(S)	DEBTORS SOC. SEC. OR FED. TAX NO.

Date: ______________________19______ Signature of Requesting Party ______________________

4. CERTIFICATE**:**

The undersigned filing officer hereby certified that the attached copies are true and exact copies of all statements requested above**.**

_________________ 19 _________ (DATE)

______________________________ (FILING OFFICER)

By: ______________________________

5. Mail Information or Copies to

NAME
MAILING ADDRESS
CITY, STATE AND ZIP

Uniform Commercial Code Form UCC-3

Rediform 5S803