Buying a Business
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For some entrepreneurs, buying an existing business represents less of a risk than starting a new business from scratch. While the opportunity may be less risky in some aspects, you must perform due diligence to ensure that you are fully aware of the terms of the purchase.

If you have decided to buy an existing business, you will want to be sure you are making the right choice in your new venture. Only you can determine the right business for your needs; however, the following topics can help guide you make the best decision.

The Steps to Starting
There are many different types of businesses to buy. Take these steps to narrow down the list of potential businesses you may want to purchase.

1. Identify Your Interests If you have absolutely no idea what business you want to invest in, first eliminate businesses that are of no interest to you.
2. Consider Your Talents Being honest about your skills and experience can help you eliminate unrealistic business ventures.
3. List Conditions for Your Business Consider if a business has a condition that is unfavorable to you, such as location and time commitment.
4. Quantify Your Investment Finding profitable businesses for sale at reasonable prices can be difficult. Ask yourself why this business is for sale in the first place.

Advantages to Choosing an Existing Business
There are many favorable aspects to buying an existing business such as drastic reduction in startup costs. You may be able to jump start your cash flow immediately because of existing inventory and receivables.

Disadvantages to Choosing an Existing Business
There are also some downsides to buying an existing business. Purchasing cost may be much higher than the cost of starting a new business because of the initial business concept, customer base, brand and other fundamental work that has already been done. Also, be aware of hidden problems associated with the business like debts the business is owed that you may not be able to collect.

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Doing Due Diligence
As you become a business owner, there are items that need to be addressed before entering into any business agreements or transactions.

- Obtain all Licenses and Permits: Most businesses need licenses and permits to operate. The type of license or permit you need depends on your industry and the state in which the business is located. Use SBA's licenses and permits finder tool to get a listing of federal, state and local permits and licenses you will need to run your business.
- Zoning Requirements: Zoning requirements may affect the type of business that you are intending to operate in a particular area. Visit the Basic Zoning Laws for more information about zoning and to ensure your business is abiding by all laws in your area.
- Environmental Concerns: I f you are acquiring real property along with the business, it is important to check the environmental regulations in the area. Visit EPA's Small Business Gateway for more information.

Determining the Value of a Business
There are a number of different methods to determine a fair and equitable price for the sale of the business. Here are a few:

- Capitalized Earning Approach: This method refers to the return on the investment that is expected by an investor.
- Excess Earning Method: Similar to the capitalized earning method, except that it separates return on assets from other earnings.
- Cash Flow Method: This method is typically used when attempting to determine how much of a loan the cash flow of the business will support. The adjusted cash flow is used as a benchmark to measure the firm's ability to service debt.
- Tangible Assets (Balance Sheet) Method: This method values the business by the tangible assets.
- Value of Specific Intangible Assets Method: This method compares buying a wanted intangible asset versus creating it.

Doing Research for Purchasing a Business
Once you have found a business that you would like to buy, it is important to conduct a thorough, objective investigation. The following list includes important information you want to include when researching the business you want to buy.

Letter of Intent: The letter of intent should spell out the proposed price, the terms of the purchase and the conditions for the sale of the business.

Confidentiality Agreement: A confidentiality agreement indicates that you t will not use the information about the seller's business for any purpose other than making the decision to buy it.

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Contracts and Leases: If the business has a current lease for the location, be aware that you may have to work with the landlord to assume any existing lease on the business premises or negotiate a new lease.

Financial Statements: Examine the financial statements from the business for at least the past three to five years. Also make sure that an audit letter accompanies the statements from a reputable CPA firm. You should not t accept a simple financial review by the business itself.

Tax Returns: Review the business's tax returns from the past three to five years. This will help you determine the profitability of the business as well as any outstanding tax liability. Include property documents, customer lists, sales records, advertising materials, employee and manager information and contracts.

Professional Help: A qualified attorney should be enlisted to help review the legal and organizational documents of the business you are planning to purchase. Also, an accountant can help with a thorough evaluation of the financial condition of the business.

Sales Agreement for Buying a Business

The sales agreement is the key document to finalize the purchase of the business. This agreement defines everything that you intend to purchase including business assets, customer lists, intellectual property and goodwill. If you do not have a lawyer to help you draft the terms of the sale, you should at least have one review the agreement before you sign it.

Checklist for Closing On a Business

The closing is the final step in the process of buying a business. Keep in mind that you should have legal counsel available to review all documentation necessary for the transfer of the business.

The following items should be addressed in a closing:

- Adjusted Purchase Price This will include prorated items such as rent, utilities, and inventory up to the time of closing.
- Review Required Documents These documents should include a corporate resolution approving the sale, evidence that the corporation is in good standing, or any tax releases that may have been promised by the seller. Check with your local department of corporations or Secretary of State for more information
- Signing Promissory Note In some cases, the seller will have back financing, so have an attorney review any note documentation.
- Security Agreements A security agreement lists the assets that will be used for security as a promise for payment of the loan.
- UCC Financing Statements Uniform Commercial Code documents are recorded with the Secretary of State in the state you will be purchasing your business.
- Lease: If you agree to take over the lease, make sure that you have the landlord's concurrence. If

you are negotiating a new lease with the landlord instead of assuming the existing lease, make sure both parties are in agreement of the terms of the new lease.

- Vehicles: If the purchase of the business includes vehicles, you may have to complete transfer documents for the vehicles. Check with your local Department of Motor Vehicles to determine the correct procedure and necessary forms.
- Bill of Sale: The bill of sale proves the sale of the business. It also explicitly transfers ownership of tangible business assets not specifically transferred on their own.
- Patents, Trademarks and Copyrights: If there are any patents, trademarks and/or copyrights associated with the business, you may need to complete the necessary forms as part of the transaction.
- Franchise: You may need to complete franchise documents if the business is a franchise. See the Consumer Guide to Buying a Franchise for more information.
- Closing or Settlement Sheet The closing or settlement sheet will list all financial aspects of the transaction. Everything listed on the settlement should have been negotiated prior to the closing.
- Covenant Not to Compete It is a good idea to have the seller sign an agreement to not compete against the business. This will help prevent any interference from the previous owner.
- Consultation/Employment Agreement: If the seller is agreeing to remain on for a specified amount of time, this documentation is necessary for legal purposes.
- Complete IRS Form 8594 Download Adobe Reader to read this link content Asset Acquisition Statement This document will indicate how the purchase was allocated and the amount of assets, which are important for your tax return.
- Bulk Sale Laws: Make sure that you comply with bulk sale laws, which govern the sale of business inventory.

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