

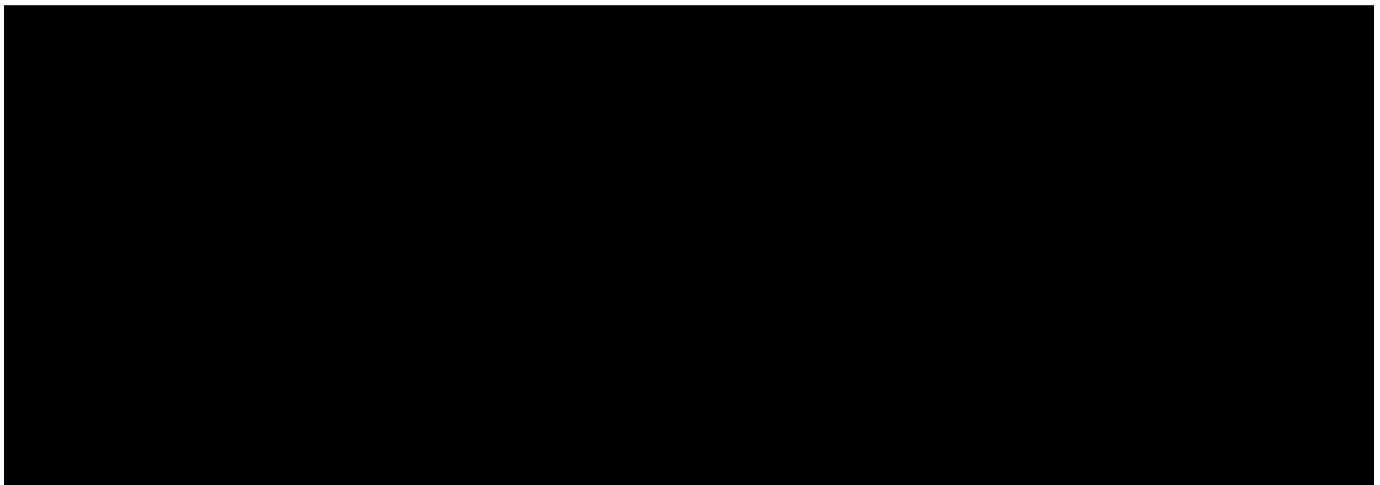
General Due Diligence Guide

This guide has been established for you to understand the pieces to a true due diligence as well as know your ultimate goals for performing this step in the buying process. This guide is general in nature and not specific to any particular industry.

The toolkit also comes with industry specific guides to use as well. If you think you need a specific guide not included, please contact us about it from the business-buying-help.com website.

Pre- Due Diligence Work & Reminders

- Have the broker, or you/your attorney if there is no broker involved, remind the Seller that due diligence will not begin until you have all of the requested documentation in your hands.



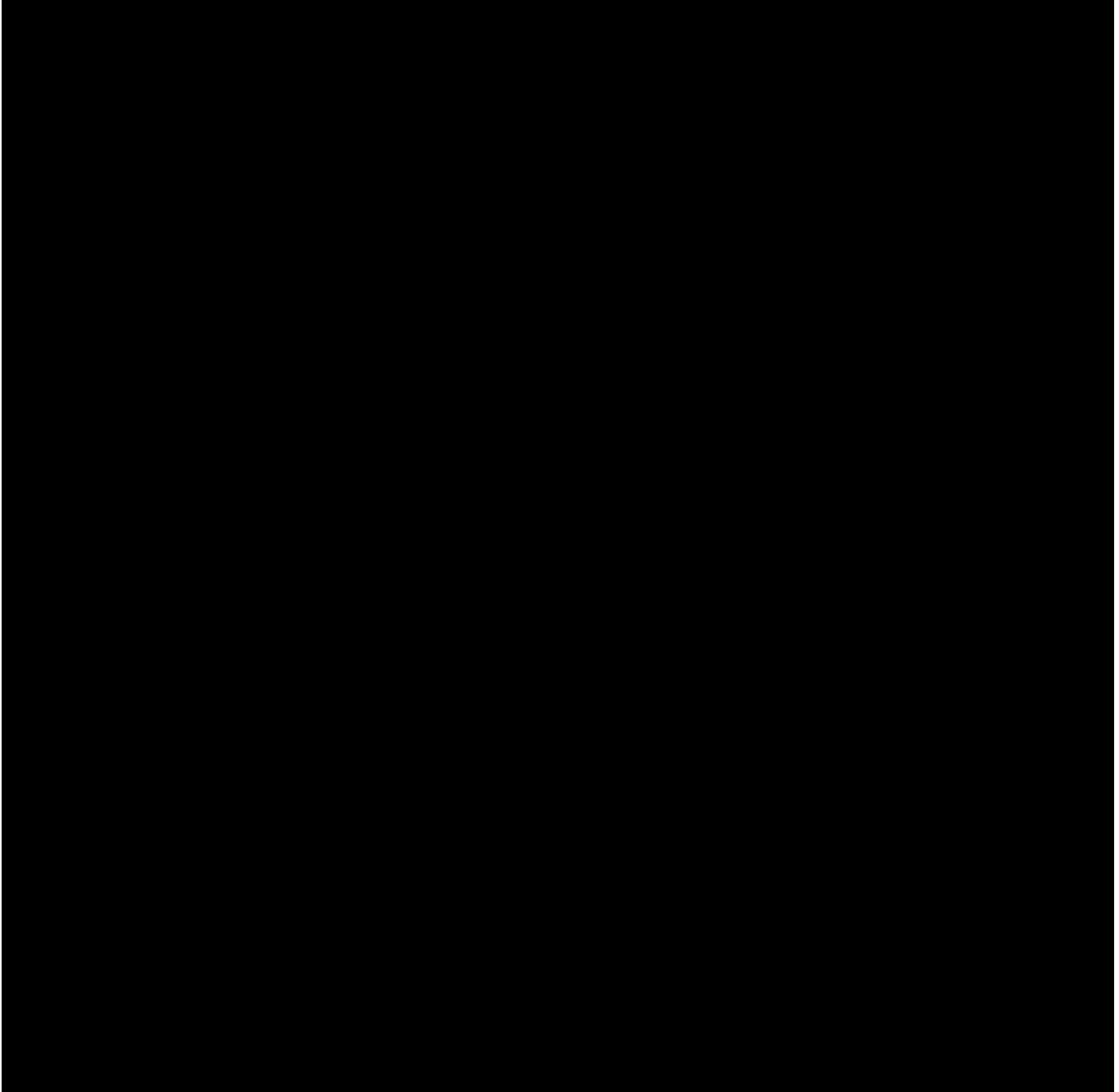
- Plan on finishing with a few days to spare so you have time to go over questionable items and have the time to make your decision on proceeding to contract or not without being rushed.

Topics To Cover:

- Financials
- Assets
- Marketing
- Sales
- Employees
- Competition
- Customers
- Location
- Vendors & Suppliers
- Licenses/Insurance
- Ultimate Analysis

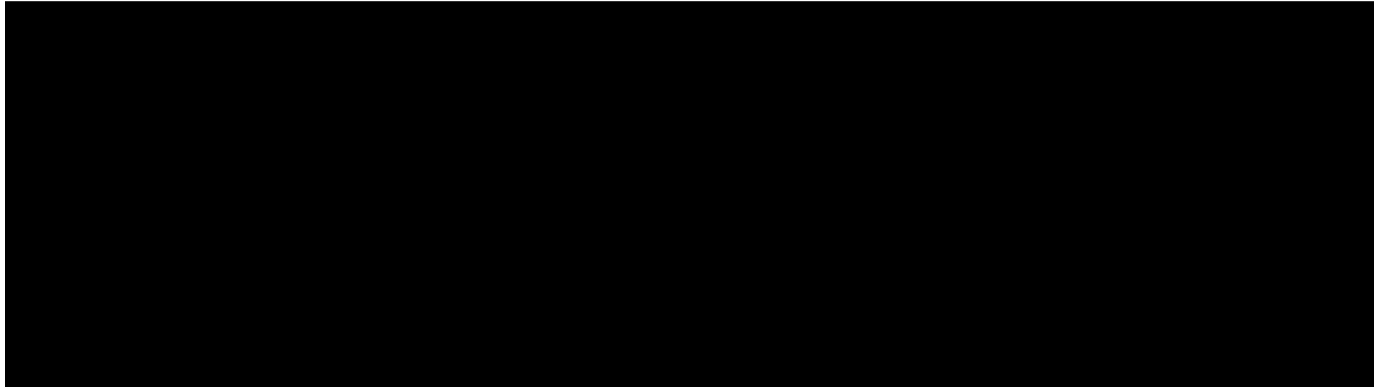
Ultimate Goals:

1. Are the financials you were originally shown from the profile of the business accurate in portraying the true performance of the business (gross, COGS, expenses, net)? How is the cash flow on a weekly and monthly basis?
2. Are the furniture, fixtures and equipment (FFE) as well as any other stated assets in a condition that allows them to not need replacement in the near future (3 years or less)?



17. What can you do to increase the Revenues and Profits?

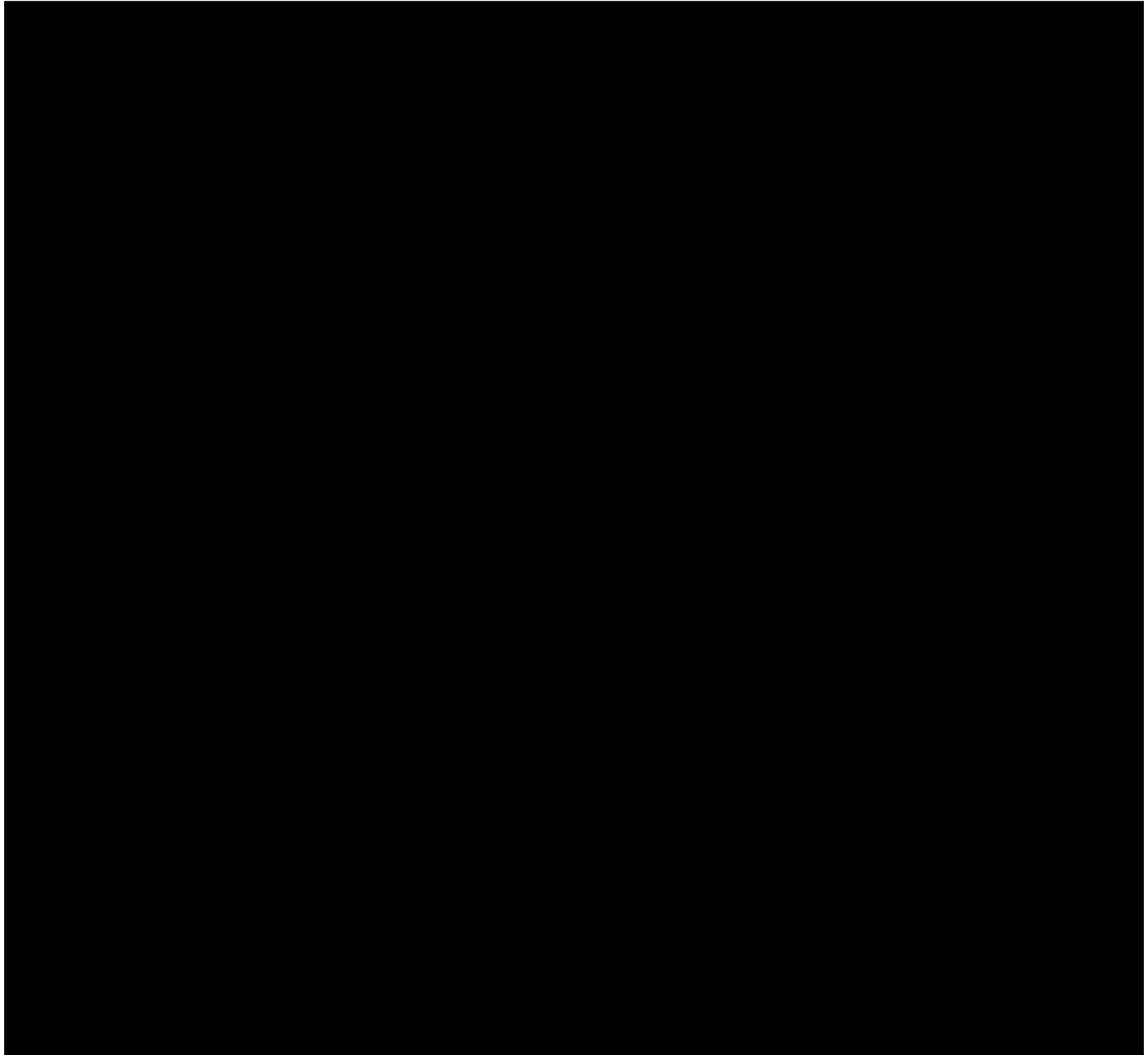
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22. Would you be able to turn around and sell this business for more than you paid for it in 3 years?

Financials

Verify the Seller financials claimed verbally and from the listing profile. Besides bank statements, actual bills and receipts, great sources include accountant verified income and balance sheet statements as well as getting these statements from an accounting



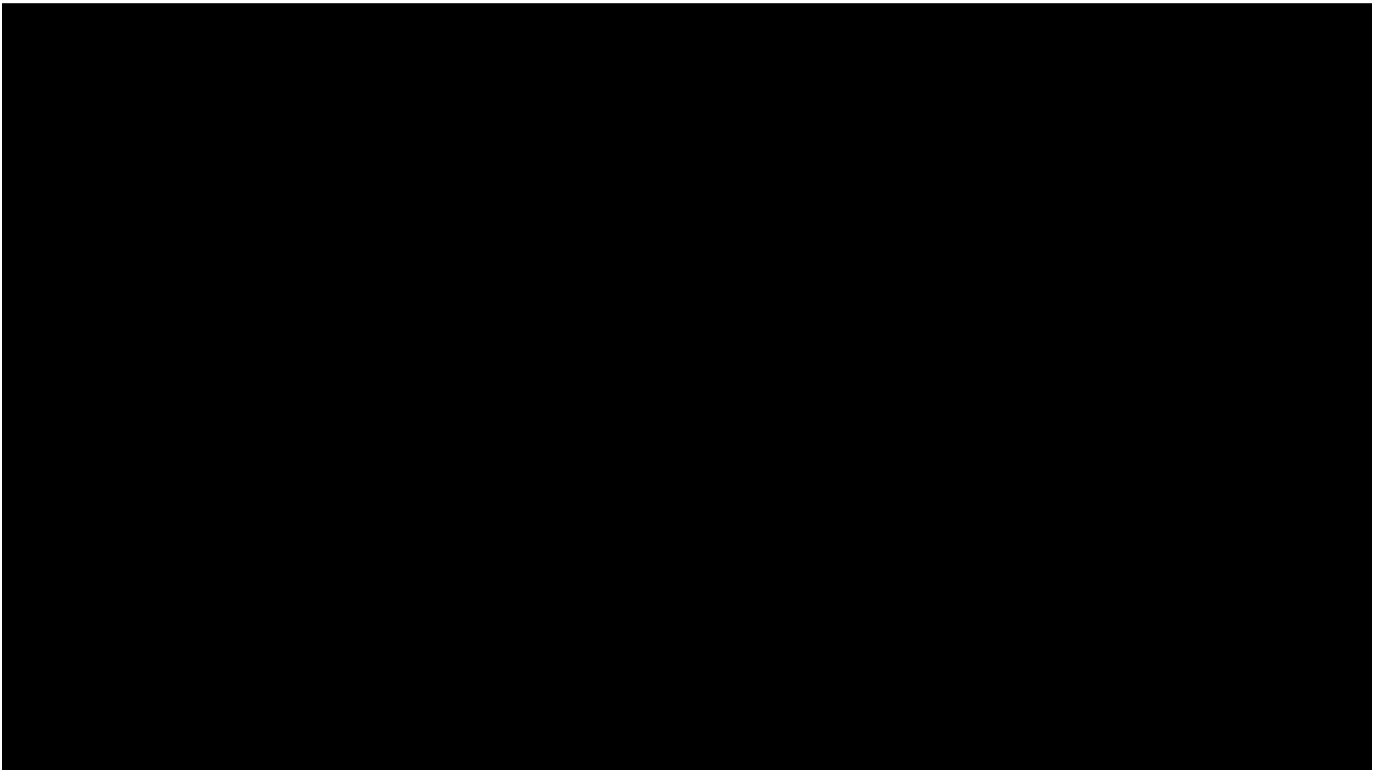
- Has the account receivable been getting worse or better this year and in comparison to previous years?
- Is this a business that absolutely requires you to have an established line of credit (very important with a typically long sales cycle, payment cycle or season business).

Assets

Assets being purchased separately (such as inventory) or inside of the purchase price (such as furniture/equipment) can often cause a problem. Pay close attention to what is included and what is not as well as the points below.

You will most likely need an inventory report, an asset list including when purchased, manufacturer and for how much, any maintenance reports/contracts, leasing documents and a depreciation schedule that has been used for tax purposes.

- Inventory counting is not necessary at this point but take a look to see if claimed inventory seems to match



- If this is a stock sale instead of an asset sale, verify with any suppliers how much is owed. Your portion should reflect only what is being taken over and nothing that has already been used/diminished (i.e. if they owe for 10 boxes of paper and there are only 5 left, you can only be responsible for half the bill).

Marketing

How a business gets its customers is extremely important. This is the life-blood of the company and something you as the owner should always have a hand in. Marketing is how you find your clients/customers, not how you close the deal. It has a distinct difference from sales and must be done consistently and in a manner that does not waste your cash flow, but keeps it coming in.

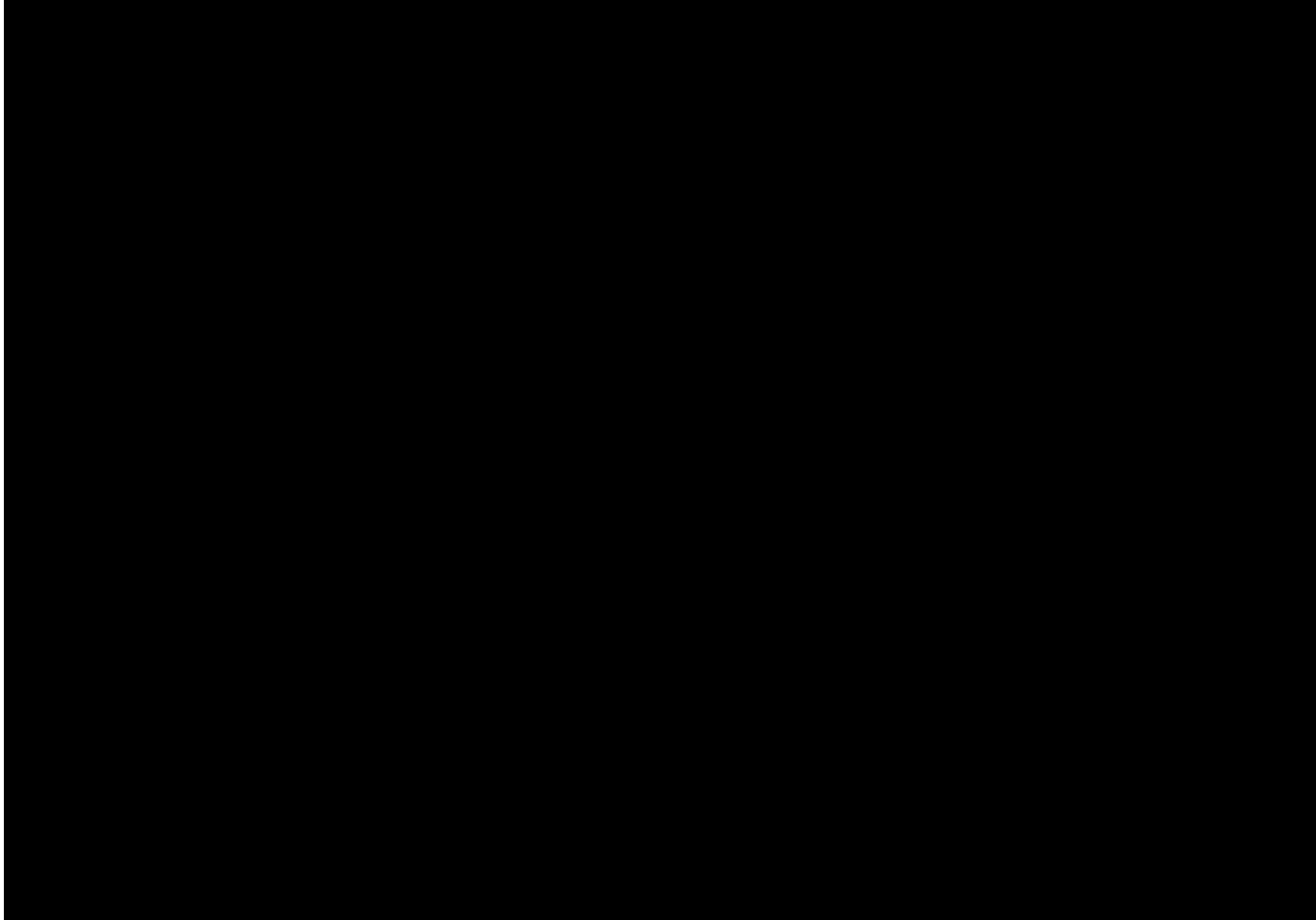
- What forms of marketing are used (newspaper ads, magazine ads, yellow pages, website, web ads, coupons, direct mail, word of mouth, tradeshow, seminars, joint ventures, etc.)
- Do they track their marketing to see what works and what doesn't (if they don't you may



Sales

Once you know how a business is getting its leads and dealing with its clients and prospects, you need to know how the sales are actually handled.

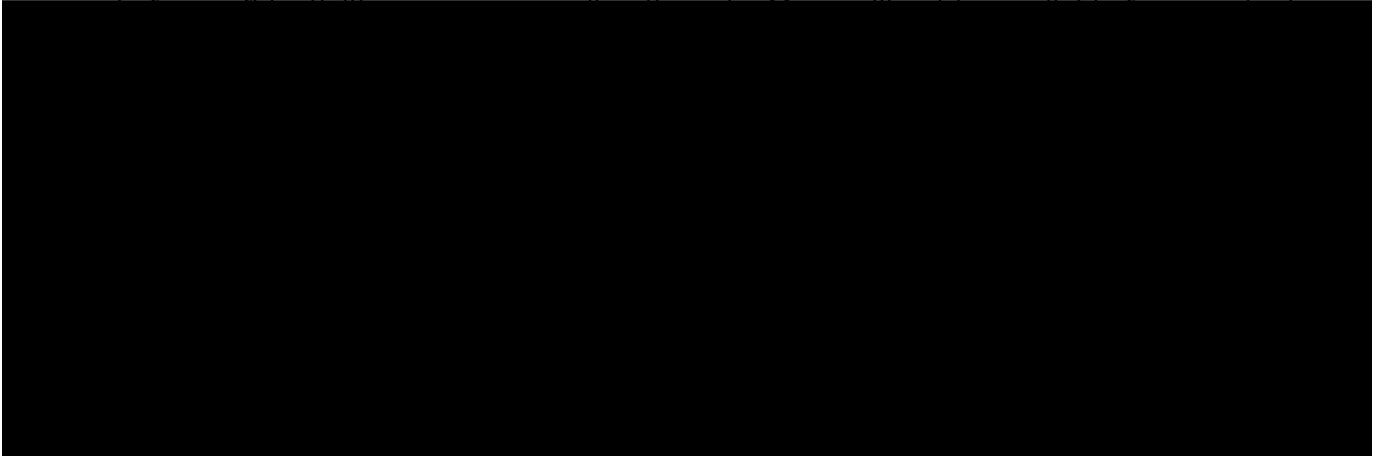
- Does the business have an actual sales force? If the sales force is strictly the seller, be ready to jump into their shoes or hire someone? Either way this should be somewhat of a



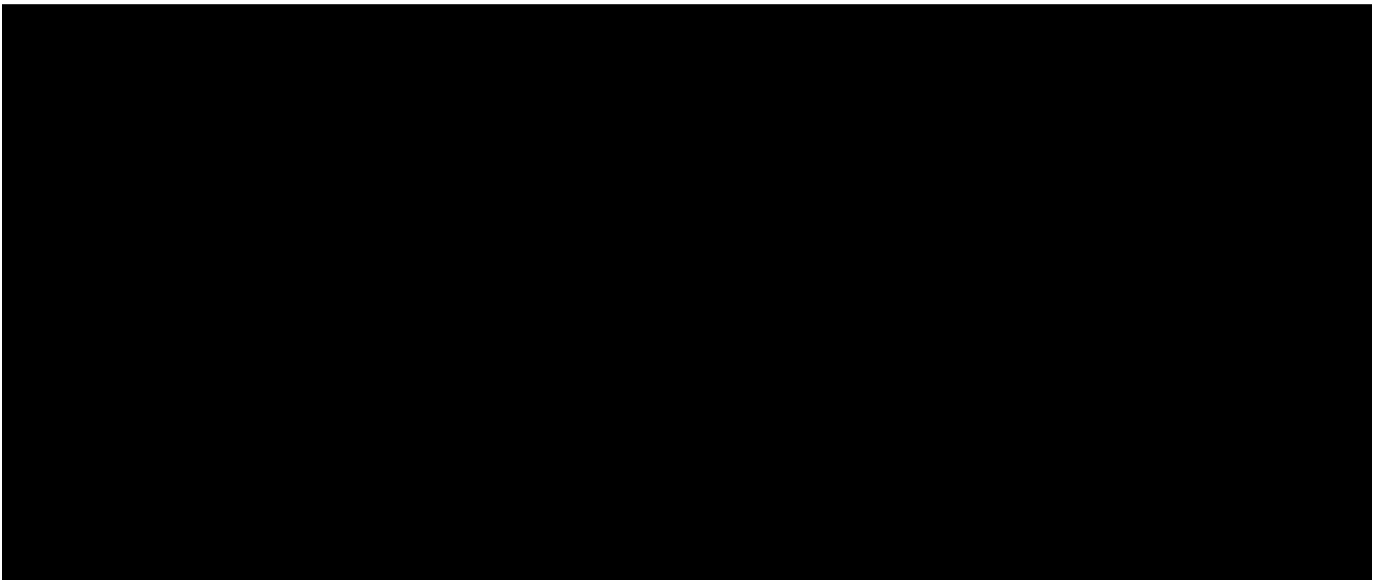
Contractors and Employees

Any business that you buy should have employees of some sort. If not, it really isn't much of a business. Even an internet based business needs some sort of help such as outside contractors for webmaster, graphic, or hosting services. Many businesses these days often have very little "inside" employees but hire independent contractors and businesses to perform many duties that cost less than an actual employee would. You need to know how this whole business keeps itself humming.

Keep in mind that during due diligence, you will probably have limited access to these



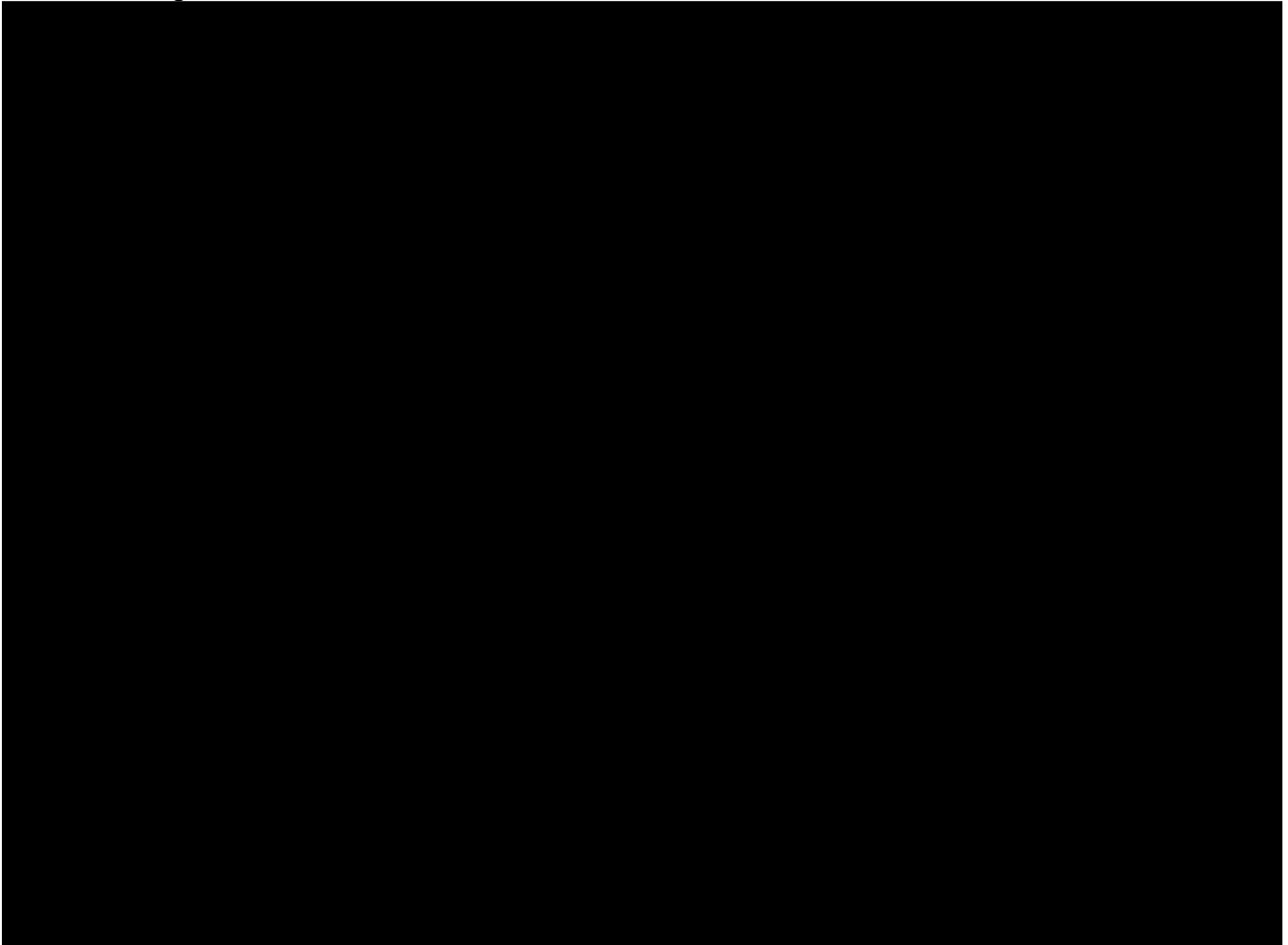
- How many contractors and virtual employees? (this includes regular services such as managed service contracts to IT people or occasionally used "virtual" assistant services)
- Are contractors on long term contracts?
- Can problem employees be readily seen or do you have people ready to replace anyone in a particular position?
- Who are the key employees and are they going to stay on?



Competition

In this part of the due diligence process, I guarantee that you will not get a lot of help from the seller so be prepared to do some research. There may be a hidden reason why they are selling and a tough competitor working their way into the territory may be the reason.

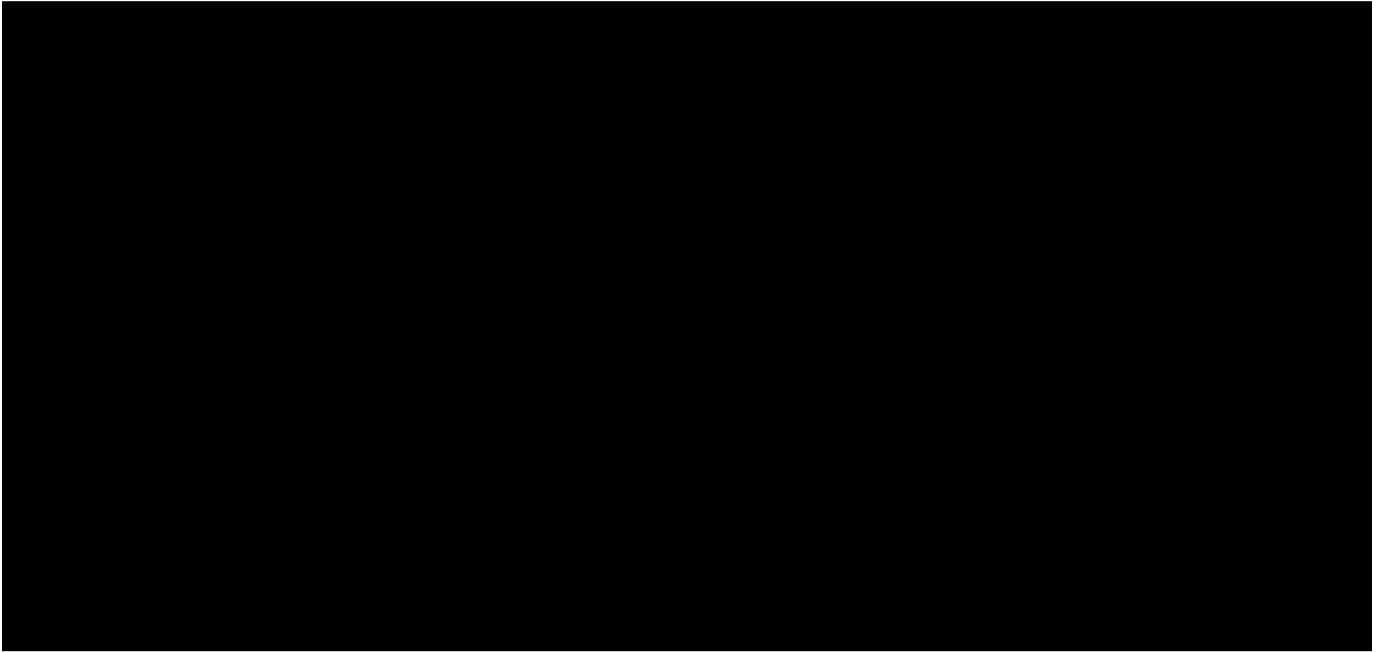
- Are there competitors in business serving the same target market in the same area as the business you are looking to buy? Is there customer base exactly the same (i.e. do they serve a different niche such as affluent households versus middle class for the business you are looking at)?



Customers

This is sacred territory. The odds are very strong that you will not be introduced to any clients/customers or even showed who they are on paper. If this is a retail type environment, you will most likely also be forewarned not to hang around the shop and speak to customers going in or out. You shouldn't be offended and should also understand the position of the Seller.

With this said, my advice is this:




Lastly check to see if they have and utilize a customer database. Besides contracts, these are one of the most valuable assets a business has and it should absolutely be included in the sale. See the Marketing section again for more on customer lists/databases.

Location/Building

This subject is more important to retail and in-house service type businesses (like auto repair for example). If the location is really just for office purposes, then it only becomes important if meetings would typically be held there or if it needs to be a favorable location to attract new employees. Obviously, a good spot for manufacturing is also important for several factors including environmental issues and ease of transportation/shipping.

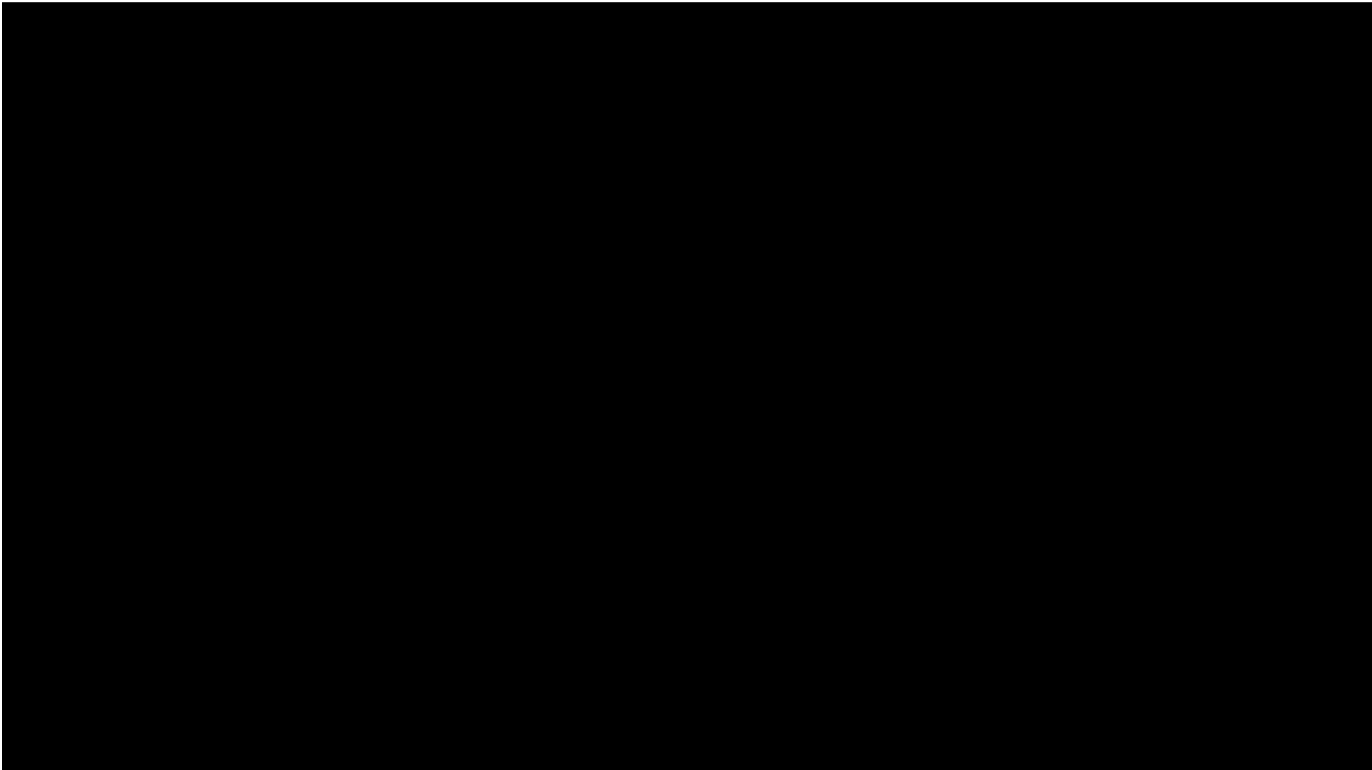
Retail Issues

- Are there "anchor" businesses in the area? Many retail businesses, especially those that rely heavily on walk-ins, need to have other businesses in the area that attract these people. For example, an card/stationary store would love to have a big retailer like a Home



General Issues

- What is the condition of the building? If not good, will the landlord/Seller make necessary repairs? (a smart Seller would have taken care of this type of issue before hand but Sellers are funny people and may refuse even if encouraged by a Broker))



Vendors and Suppliers

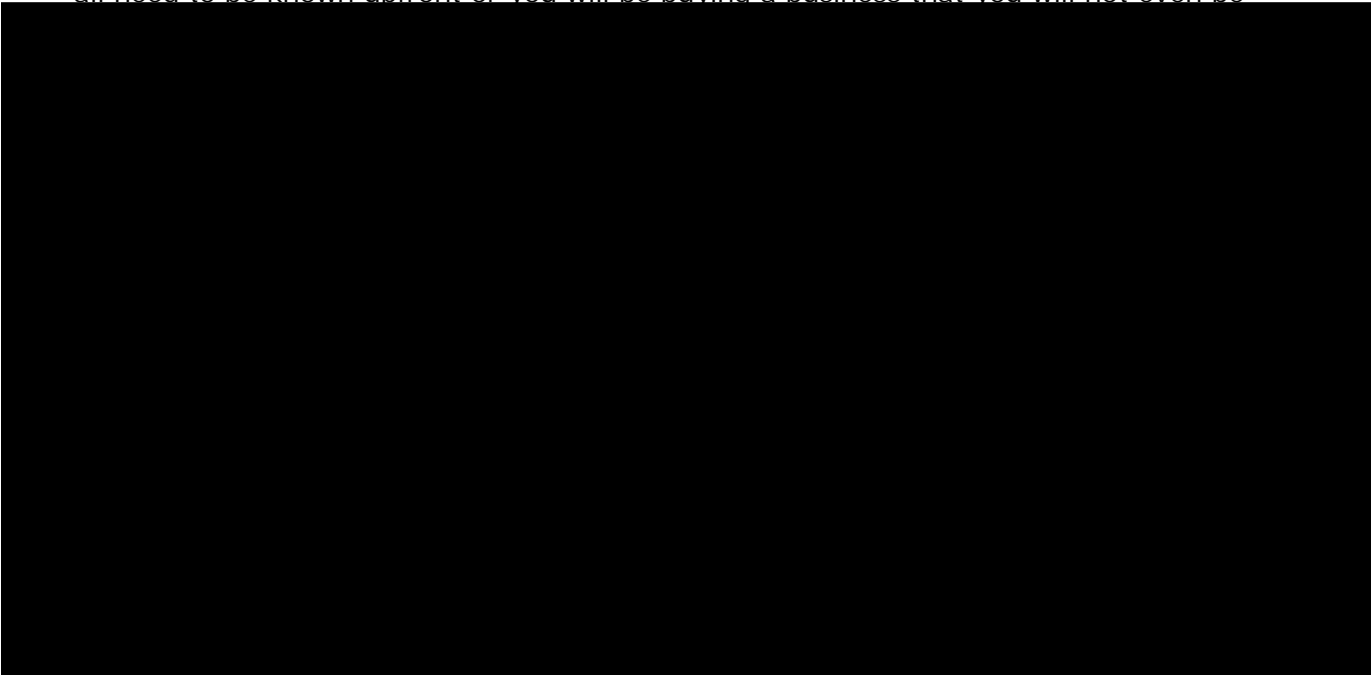
You may have vendors and suppliers in mind to use, but either way you must do a little checking to who is already being used. Suppliers especially should be looked at. There are very important factors that may be considered for certain merchandise that you, as the new owner, may need to qualify for and therefore may no longer be able to sell if you do not qualify due to your lack of experience or poor personal credit worthiness.

- Get all contract copies from vendors and suppliers and look at the prices and terms. Are they favorable deals?



Licenses & Insurance

Many businesses require various licenses to be obtained by the owner/business and may vary based on each state if not a federal type of license. Also, every business utilizes some sort of insurance with many being required depending on the type of business. The licenses all need to be known upfront or you will be buying a business that you will not even be

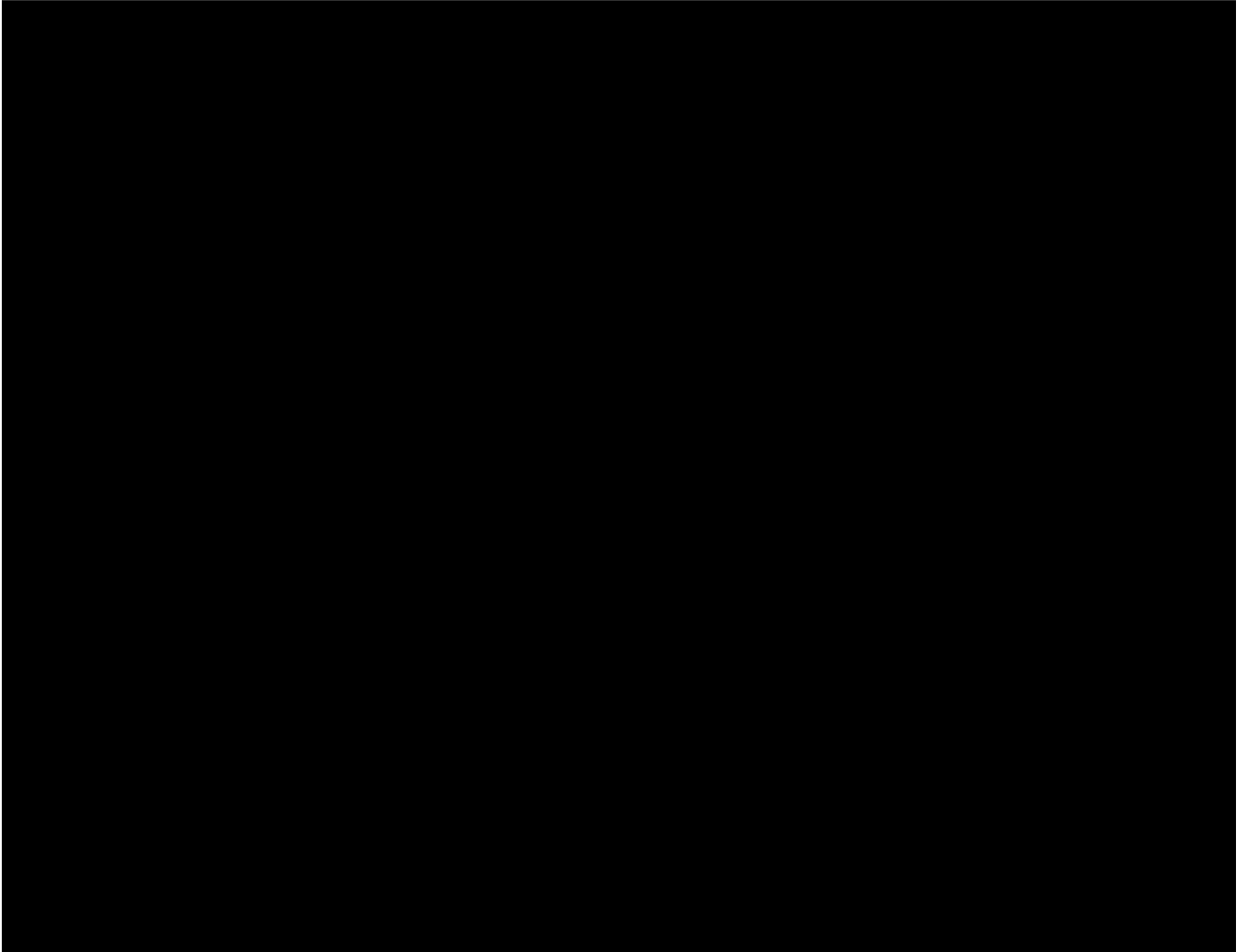


- Verify with the Seller/landlord/lease what the minimum coverage is for the leased building.
- Once you know the possible total cost of insurance to you, it's time to determine if the expense is too high compared to what the Seller is not paying. This would signal a post due diligence offer adjustment or outright dropping the deal unless some kind of other favorable adjustment can be agreed upon with you and the Seller.

Ultimate Analysis

So now you have done your due diligence work and have a pile of data to see if your decision to buy is the right one as well as determining if your original offer still makes sense. In some rare cases you may actually be getting a bargain and a half. Often though, you will find that some things didn't quite pan out as you thought or items such as income could not be completely proved.

Now is the time when you must be clear and unwavering on what the business is really worth to you.



For some hints and help with negotiating points and such, make sure you refer back to the Toolkit Book as a reference.