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Doron F. Eghbali Buying and Selling of Businesses

[How Should You Prepare to Sell Your Business](#)

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Selling your business is often times a complicated process. It requires preparing your business to sell from the moment you decide to launch. Selling your business could even be more complicated than selling your house. There are documents to prepare and actions to take to make your business as attractive as possible to potential buyers. Let us review this in more depth.

1. PREPARE YOUR IMPORTANT BUSINESS DOCUMENTS

Probably, the first step in your preparation to sell your business is to put together the necessary documents for potential buyers to review and for you to see if your business has the potential to be sold at a price you desire.

These are *some* of the documents you need to prepare:

- *Your Tax Documents from the Past Five Years*
- *Your Internal Financial Documents from the Past Years*
- *Your Comparison of previous Year's Financial Statement with This Year's Statement*
- *Your Board Meeting Minutes or Annual Minutes, If a Corporation*
- *Your Customers' List*
- *Your Vendors' List*

2. PREPARE BY RECASTING YOUR BUSINESS: SOME LAWFUL ADJUSTING OF YOUR STATEMENTS FOR TRUE VALUATION

Many businesses would legally take advantage of many business deductions and credits to show lesser taxes and take home more money. However, when you decide to sell your business you might want to show your business is even more profitable. For example, you might have put your

family members on your payroll, paid yourself some perks and taken advantage of some of the profits for capital improvement. You have made the business deductions and credits all legally. Now, you would want to put some of that money for the new year back into your business to demonstrate the true value of business. You might have to pay more taxes, but your business is worth more. This process is usually legal and an accepted business procedure called recasting.

3. PREPARE YOUR CONFIDENTIAL FINANCIAL MEMORANDUM

Selling your business is certainly more than just preparing some preliminary documents including your tax returns and paying your back taxes. The real process involves preparing a confidential financial memo for potential buyers to educate themselves about your business. Some of the details you might want to include in such confidential memo are as follows:

- *A brief history of your business such as when you started, how you started, how you hired your first employees and even how you secured patents, if applicable.*
- *A guide as to who is who in your business including yourself detailing everybody's responsibilities, salaries, job experiences and even whether they are unionized.*
- *A guide as to your customer's base detailing their location, their preferences, their size, their tastes and the amount of business you conduct with them.*
- *A guide as to your constant payment obligations such as your lease and if your lease is assignable, i.e. could be taken over by the new owner.*
- *A guide as to what you owe and what you own including any equipment, trucks or trailers with a precise description of their status.*
- *A guide as to whether you have faced any legal or regulatory problems before or you are facing now. This forestalls any lawsuits down the road alleging you knew about problems but you failed to disclose.*

CAVEATS

- **THE SALIENCE OF SECRECY:** You do not want to divulge your plans to sell your business to your employees, vendors or customers. They will desert you and make it much harder, even impossible, to sell your business.
- **THE SALIENCE OF GETTING YOUR BUSINESS IN ORDER IN TOUGH TIMES:** Especially in tough times, it behooves you to demonstrate profitability and rein in profligacy.
- **THE SALIENCE OF STRUCTURING YOUR DEAL:** Your deal should be structured in the most tax-favorable way.
- **THE SALIENCE OF BROKERS:** For sale of your house you need a broker, for sale of your business you also need somebody who is expert and trustworthy.

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