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Exit Planning for Business Owners

The Ten Deadly Mistakes

Part Nine:

An Agreement to Sell is Made With the Dream Buyer Because the Owner has the Tax and Retirement Issues Covered, but the Buyer Reduces the Offer After Finding Aged Accounts Receivable and Owner Loans on the Books. In Short, the Company's Books Were Not in Order.

The cash flow of the company is good so little attention is paid to the receivables. Slow pays are tolerated and some customers start to fall into the 90 and 120 day categories. To a buyer this is a serious red flag. So too are owner loans. These are just two examples of what buyers look for during the initial due diligence study, and what can cause the buyer to reduce the offer. The buyer doesn't know if the customers will stay when normal payment terms are imposed and won't pay to find out.

The company books and statements show cash flow and trends along with historic earnings, all of which help to determine the value of the business. They show what makes the business tick, as well as flaws that need correction. Keeping books and statements in order is a must if you are to maximize on the value of your business.

The ultimate financial report is the CPA-audited statement with full disclosures. The cost however, is not affordable for most small to medium sized companies. If your business is worth more than \$1 million dollars, CPA-reviewed statements with full disclosures should be seriously considered as they will give potential buyers and their lenders a high degree of confidence and, if necessary, can be up-graded to audited statements at a reasonable cost. The more reliance a buyer has on your financial statements, the more likely they will be to pay more for your company.

In this challenging economy, good planning is a must, and the value drivers that determine what your business is worth need your constant attention. When the company is ready for the owner's exit, the seller can negotiate an even better price and look forward to a quick and clean closing.

If you have questions about exit planning, please contact us for an initial free consultation to discuss your particular situation.

Call Louis A. Kastelic, MPBC at Jordan-Crandus, P.A. for a free initial consultation. Lou Kastelic is a Master Primary Business Consultant.

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