

Red Flags to Buying a Business:

1. The annual gross sales have shown a steady decline over the past 3 or more years.
2. There are no accurate financial statements available. (i.e., the seller keeps the records on yellow note pads)
3. The seller is behind in filing the federal tax returns.
4. The seller tells you that even though the business is showing a loss there is actually a substantial amount of unreported income. Base your buying decision on the financial statements and federal tax returns only - period!
5. The business valuation is based on financial statements and the unreported income.
6. The line of credit item on the balance sheet is continually "maxed" out year in and year out. Find out why the business cannot support itself. The use of a line of credit is necessary at times for all business but should not have to be used all the time.
7. The furniture fixtures and equipment are all very old and in need of replacement. The inspection of the equipment is an important part of your valuation process, if you proceed with the purchase of the business make the necessary adjustments in the final sales price.
8. The buyer is unable to negotiate a favorable lease with the landlord.
9. The seller refuses to sign a non-compete agreement.
10. The business has had more than one owner in the past year.
11. The owner is selling only a part of his business and keeping a part of it. Look the financial statements over carefully. If the sale is being conducted on those terms more often than not the necessary financial documentation is difficult to get.
12. Bad debt is excessive or cannot be explained.

If you choose to continue the buying process even with the above red flags be careful and good luck. Always use the services of Cunningham Group, Inc. Business Brokers