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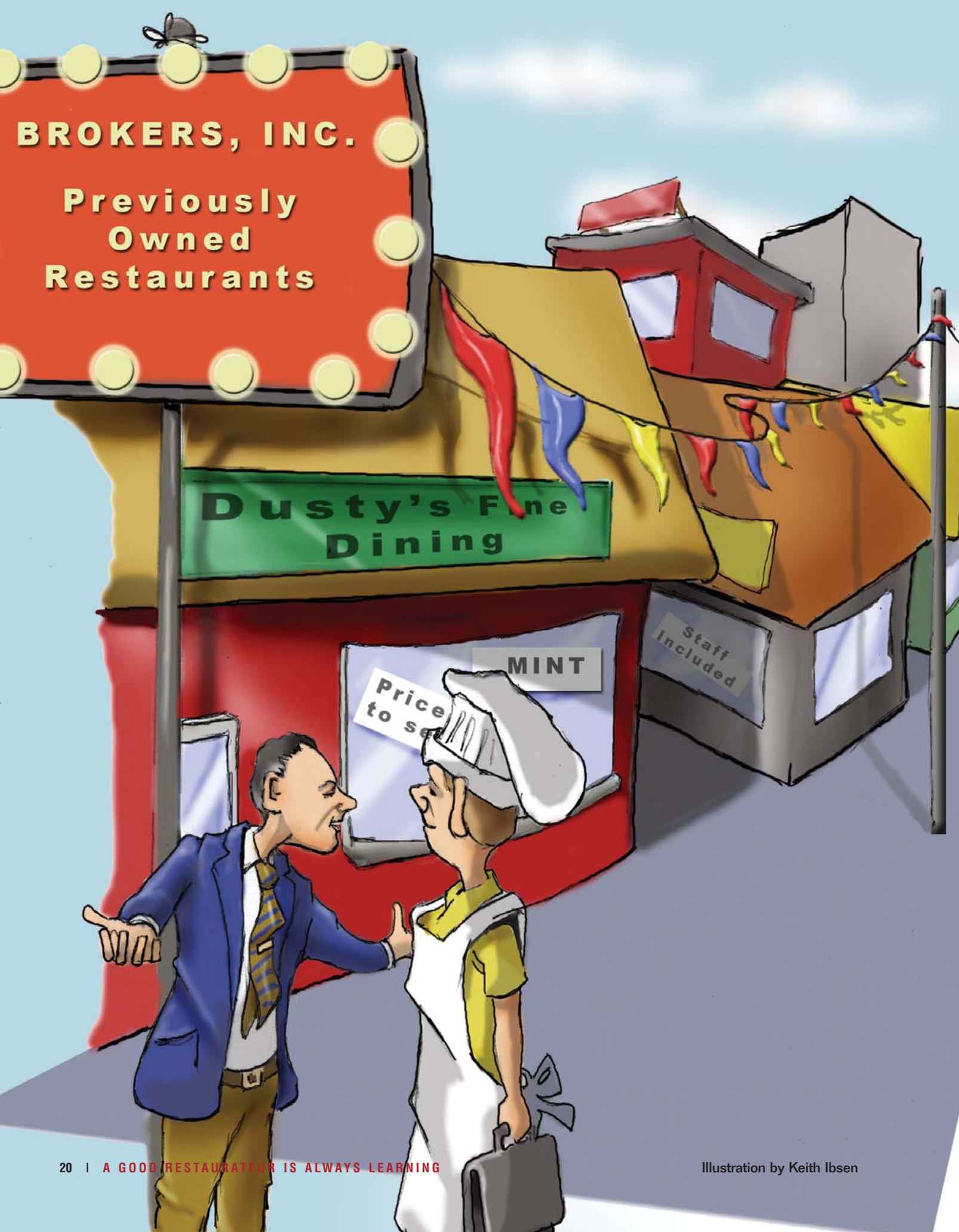
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12 Points of Due Diligence When 'Kicking the Tires'
on a Prospective Restaurant Purchase

Hey Buddy, You Wanna Buy a Used Restaurant?

By Jay Goldstein

Creating a restaurant from scratch is a heady proposition, and one that taxes creative, culinary and business smarts. It's done all the time, but unless you have solid restaurant experience under your belt, it is a particularly risky venture.

Fortunately, it's not the only way to get into the business. Many new restaurateurs — perhaps you included — climb aboard with a great deal of desire to own a restaurant and significant experience in another industry, but are neophytes to running an eatery. For them, there is no dearth of existing restaurants for sale. There are a number of reputable brokers who want to bring the existing owners together with potential buyers. With some investigation and the help of accountants and attorneys, you can manage your exposure to risk; however, to coin an old phrase, caveat emptor (buyer beware). After you have done a deal, it can be impossible to undo it without pain and loss.

In this article, we will look at the “due diligence” process when purchasing a restaurant. From the buyer's perspective,

due diligence is gathering information about the condition and legal status of assets to be bought. You wouldn't buy a home without a licensed inspector evaluating the structure, a lawyer performing a title and lien search, and at least a couple of walk-through inspections by you and your family. The purchase of a business is a much more complex purchase, since it has to generate income to be of value. You're not only looking at the facilities, but also its finances, market, reputation and operations.

12 Points of Proper Due Diligence

Now you have arrived at one of the most critical points in the process: doing your proper due diligence. Proper due diligence enables you to discover what you need to know about a business to make the right decisions, keeps you from making emotional decisions, and helps you avoid pitfalls in buying an existing business. You will eliminate most of the surprises that could be waiting for the next owner. This is the single

most important exercise you will do, so do it well and do it thoroughly. Each one of the points discussed in the due diligence process will have an effect on the value of the business, which you will be establishing, so uncovering and understanding each of these issues is both relevant and crucial.

1. Evaluate the Site

First, you must determine whether the site meets your guest profile. Examine the demographics including age, income, education, home ownership, number of people per household, gender and ethnicity. You will need this data for the one-, three-, and five-mile radius rings around the restaurant. This information is usually available through the chamber of commerce, or you can use a service that specializes in this data. One source is Claritas, a company that provides demographic software products, marketing research data, market segmentation systems, and marketing research analysis software. You may want to start your information search at the U.S. Census Bureau's Web site, www.census.gov.

You may also want to investigate the *psychographics* within these rings. Whereas demographics are a measure of hard data about people, psychographics refers to how people behave. It addresses lifestyle, interests and other categories. Psychographics looks at things like activities, sports interests and magazine subscriptions. This is how people see themselves and what they do. You need to determine the relevance of your concept to this market.

Now you will look at several characteristics of the site. Access and visibility are keys to success. The location must be easily accessible for both ingress and egress. Parking issues must be addressed. Ensure there is adequate parking for both your patrons and your staff. Know the other businesses in the center that will compete with you for parking spaces. Establish how many dedicated spaces you will have for your restaurant.

Remember that "emotions" come first before "facts" only in the alphabet. Due diligence helps you evaluate the business on a number of levels. In the end no deal is better than a bad deal.

2. Assess the Stability of the Market

Are there any changes occurring in the market? Is there a new onslaught of competition moving in? Is there any roadway and/or infrastructure work planned for the area that will disrupt traffic for a long period? What is the projection for population growth, business growth, new schools, new churches, etc? Is the area growing or dying? What is the outlook for demographic changes? Will the area still support your restaurant concept

three years from now, five years from now, and longer? Once you answer these questions you can deal with or take advantage of any of these potential changes.

3. Evaluate the Lease

How much time is left on the lease? Are there options that have been negotiated or will you have to negotiate with the landlord for the options? Are the renewals at a reasonable rate for the market? The length of the lease terms and options should be long enough for you to recoup your investment and achieve the desired return on that investment. You will most likely need at least seven years to accomplish that. It is important to ensure that you have an exclusivity clause in the contract that ensures the landlord will not lease space in the center to a like restaurant. For example, if you operate a sandwich shop you would not want to see Subway coming into the center. Know the triple net costs and how they are calculated. Most landlords simply pass on your proportionate share of the property taxes and property insurance, and the charge for "common area maintenance." There is an opportunity to have an annual cap on common area maintenance increases from 4 percent to 8 percent. The lease needs to be assignable, meaning that it allows you to take over the lease space upon purchasing the restaurant, and in the future sell the business to a suitable new tenant. Without this contract clause it is difficult to buy or sell a business. If possible, it is wise to keep the seller as the "personal guarantor" on the lease and most landlords will want to do so.

4. Evaluate the Financials

You want to get as true of an overall picture of the business' financials as possible. Ultimately, the price you will pay to purchase the business will be based on a multiple of earnings and you want to be able to verify those stated earnings. Business valuations are done based on a number of different metrics. The most common valuation method is a combination of a multiple of earnings plus the value of the FF&E (furniture, fixtures, and equipment). FF&E value will be a factor of the initial cost to purchase, its age and condition. Again, be wise and get an appraisal from a

certified appraiser. Tim Clark of Ryan's Realtors and Business Brokers in Houston says the general range of multiples is between two times and four times earnings. Although you may find some businesses sold at higher or lower multiples it will be rare. Generally the smaller the restaurant, the lower the sales and the more limited the growth opportunities, the lower the multiple will be. The higher multiples are paid for larger businesses with higher sales and an opportunity for significant growth.

It is also a wise practice to "get under the hood" of the financials and understand as much of the detail as possible. This will help you understand how the place has been operated and how the financial results have been achieved. For example, if labor has been running at a low percentage, that could indicate a short-staffed situation, people working off the clock, overtime pay not correctly calculated and paid, or just low wages. As the potential new owner you need to know the cause to correctly evaluate the situation and develop a plan to deal with it once the contract has been signed on the dotted line.

Net cash flow typically refers to EBITDA (earnings before income tax, depreciation and amortization). It will be important to know what "extras" the business has been charged on behalf of the owner. This would include things like automobile expenses, cell phone charges, and personal business expenses like dining out or travel. These charges would be added back to cash flow for valuation purposes as they are not direct expenses of the ongoing business.

You will want to examine the record of profits. It is optimal to see the last three to five years of profits so that you can determine the trend. Are they growing, flat or shrinking? Attempt to discover the main reasons for the trendline.

5. Review the Sales Records

What are the comp sales (this year's sales compared with last year's sales for the same period) for the last two to three years? Again, it is wise to establish a trendline and examine the reasons for the direction of that line. Things to look for include menu price increases, drink price increases, new competition and competi-

Are you tired of the national chains stealing YOUR customers?

“Pennsylvania Couple Shocks Accountant By Making \$239,382.84 From Their Restaurant AFTER Husband Diagnosed With MS”

Free Report Reveals Their Simple Secret....

Ligonier, Pennsylvania -

My name is ReNae Morse and I live in a town of 5,000 and draw from a surrounding population of 30,000. I'm 50 minutes west of Pittsburgh and 20 miles from Johnstown. My husband Doug and I have been in the Restaurant Industry for over 21 years. Our ex-spouses left us with 4 children and about \$1,000 that we scraped together to start our "dream" restaurant called Ivy's Cafe. I waited tables and Doug was the chef.

Doug was diagnosed with Multiple Sclerosis (MS) several years ago and had serious numbing in his hands and feet. It later went into remission but for the next 4 years our restaurant was just doing "Okay". To grow our business we tried virtually every type of advertising that you could think of.

We listened to all the advertising sales reps and let them run the ads they said would bring us tons of new customers. I never noticed any difference their ads made in our business other than that I was now giving them money. The little money we were able to spend on the marketing of our restaurant was going up in smoke.

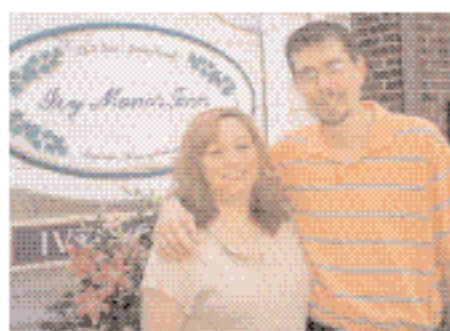
Doug's MS soon came out of remission and he could no longer run the kitchen full time. In order to pay someone to help him, we needed to increase our business dramatically. We had always been able to rise above numerous previous setbacks (new restaurants opening around us, problematic staff, the list was endless.) With Doug's MS we could no longer run our business the way we had in the past. We both felt there HAD to be a better way.

Doug saw an article in one of the trade publications we get. I found it hard to believe the promises it made. At first I was very skeptical, but I decided I didn't have anything to lose. When I got the information I was quite excited. I tried a couple of tests. The results from this are UNBELIEVABLE!

My first test cost \$74.12 and it generated \$4,812. My second test generated 341 New Customers, \$13,129 in sales with a net profit of \$4026. I then figured out a way to expand on my first test which cost \$247 and generated \$19,759.24, of which \$12,673.01 was pure profit! Now I do this every month! That's not the only thing. I found a way to generate \$104,457.92 per year that now happens AUTOMATICALLY. It's enough money to pay my heat, light, water and gas before I even open my restaurant doors every month. I couldn't believe the numbers of new customers this generated.

Since I learned this secret, sales are up consistently every month and the opportunity to expand this is enormous. The best part is that I'm seeing the biggest increase in the bottom line. I also decided to track all this for my stingy, bean-counting accountant who couldn't believe what had happened to our bank account. During the 92 days that I tracked every penny our profits have QUADRUPLED. Our accountant, who thought we were crazy, is ASTONISHED!

All this only took a few hours to learn. Wow, I mean, never ever, ever, in the 21 years I have been in the restaurant business, have I



How did ReNae And Doug Morse Go From Doing "Okay" To Making \$239,382.84 From Their Restaurant? Call 24hrs 7days a week 1-800-735-1978 for a Free Recorded Message To Find Out How:

ever been able to actually measure such results from my marketing.

Now I look forward to getting up in the morning because I'm excited again. I actually have time to take off. I am able take vacations all over North America with Doug and our kids without worrying about the restaurant.

Here's a couple of other things I've learned since learning that little secret.

- Two ways to get people to flock to your restaurant that cost you nothing.
- How to find a great staff to help you run your restaurant
- How to double profits on your existing customers.
- How to get free publicity for your restaurant in the local media. Since I figured this all out I've been written up in all our local papers, got a letter of congratulations from our Senator and our local Mayor.
- How to beat the cheapest price restaurants & avoid price competition altogether
- How to find out who our best customers are and how to get more just like them
- How to drive the national chains crazy
- How not to make the big mistake that costs restaurant owners thousands of dollars a year
- How to get a Free Website That Drives New Customers In Your Door
- How to get your customers excited about referring your restaurant to your friends and business associates.
- How to get 54.6% of the people who see one of your ads to come to your restaurant
- Why boring, traditional advertising is a waste, how to avoid using it forever and how to quit being a victim of advertising sales reps.
- How to lock an iron cage around YOUR customers so the National Chains can't steal them and to make sure they keep coming back.
- How to get so many new customers you'll have line ups during your slow times.
- If you aren't already doing it how to profit from catering to your existing customers.

I wrote this without any compensation.

Because one, its time to fight back against these national chains that are trying to put us independents out of business. Two, I have suffered along with you before finding this secret and it's only fair that I share it. Other restaurant owners know I am onto something big. And three, I promised the person who taught me this secret that I would tell my story if it worked. Telling my story is just my part of the bargain.

Please be reasonable about this: I have a restaurant to run and a life of my own so don't try to track me down and call me. What more do I need to say? You can find out all you want to know without spending even one cent of your money. Call the toll free phone number like Doug and I did, listen to the free recorded message, then leave your name and address and you'll get a complete 20 page report. "How To Double Your Restaurant's Profits In 119 Days Or Less Even In A Tough Economy", a collection of fascinating success stories like mine, plus a terrific audio CD and a letter from me all free.

Unless you are already taking all the money you want out of your restaurant...already have zero worries about keeping a steady flow of good new customers coming...and are already living a successful entrepreneur's lifestyle... why wouldn't you call and get this giant, FREE package of information?

Over 4,693 restaurant owners throughout the US, Canada and Australia just like me have learned this secret and given their restaurant and incomes a makeover. Can 4,693 people all be wrong? Why not investigate what so many of us have already discovered-how this secret can work in your restaurant too. Oh, and it doesn't matter whether you're suffering, or doing okay, or even doing well but would like to do better, or just want to work less, make more and enjoy it more.

This secret works in all types of situations. How do I know? Because I've talked to many other people who have learned this secret and it's being used in big cities, small towns and everywhere in-between all over the country.

Don't let anyone get in the way of what you want out of your business, and out of life. Don't let pride get in your way either. It's easy to confuse effort with results. Even if you have lots of experience in this industry, it's very dangerous to close your eyes to new ideas. To check out what I have said is FREE - doesn't it just make good sense to look into it?

Here's all you have to do: Just pick up the phone and dial toll free 24 hours a day 7 days a week 1-800-735-1978. It's a free call. You will NOT be connected to any kind of pushy salesman-in fact, you'll hear a brief recorded message, then you can leave your name and address on the voice mail and you'll get the information in the mail. Or just fax a copy of your business card or letterhead to 1-800-735-1085.

Nobody's ever going to call and bug you! What are you waiting for?

ReNae and Doug Morse
Ivy's Cafe

What are You Thinking?

There are a number of reasons why you may want to buy an existing restaurant. No matter what the reason there is a process that will help you achieve your objectives. First, let's look at why you would buy an existing restaurant versus creating or building a new one.

Consider that you will most likely be confronted with one of two scenarios. Either a successful restaurant business is selling, or one is failing or has already closed. Regarding the first scenario, consider the benefits of a proven business with a positive track record of sales and profits:

- You will be able to step right in and continue operating from Day One.
- There will be little to no downtime and no interruption of business, which is important when considering the potential effect on the current customers, as they should not be inconvenienced nor sent to another restaurant in the area, as this could lead to an erosion of current sales trends.
- You will walk into an immediate cash flow rather than having to go through the entire preopening process with a new restaurant constantly feeding the investment with no cash registers ringing until you finally open for business.
- You are *potentially* buying into a well-trained staff with developed skills and customer loyalties.

In either scenario, begin with the end in mind. Establish your goals and what you want to accomplish. For each individual there will be a particular motivation. Here are a few examples and ideas of businesses to fit.

You want to 'buy a job.' This venture is meant to provide you with a steady income and something to do every day. If so, you may be looking for something that is a bit smaller and more "mom and pop." You won't need anything too large and the sales volume can be moderate, thereby requiring a lower total investment.

You are trying to create wealth. This is about taking care of you and your family both today and tomorrow. This could not be done with that smaller "mom and pop" establishment. You need a business with higher sales volumes and major opportunities to build that volume, or one that could be replicated and built out a number of times over.

You may be thinking of creating a lifestyle for you and your family. With this being the case, location may mean more than anything else. You may want to be in the mountains or at the seashore. You may love being around great food and wine and this is your way of being able to do that. You enjoy the customer contact, community involvement, or politics. Each of these can be afforded to you with the right restaurant location.

You are setting your sights on a vehicle for growth. Then you are looking for a concept more than a specific restaurant. You may have identified a market need and have an idea for how to fill it. You can be quite clear on the type of business you want and be able to communicate that to a business broker who will help you find the business you want.

You may own a restaurant and want to lock out the competition or move your operation to a superior location. When you find a sight in your trade area that comes available, you buy it as a defensive move so that your competitors won't be able to enter the market. You can then decide on how best to use the space.

Whatever your motivation, a well-thought out, well-written business plan can be your roadmap to success. Build a clear picture of the business venture so that you know what you want, where you are going, how much it will cost, and what you should expect to make in return. Most successful businesses know their customer. By clearly defining your target customer, you will be better armed to find the right restaurant concept and location to meet your needs. (For more information on creating a restaurant business plan, see "Mapping Your New Restaurant's Journey," *RS&G*, May 2005.)

tive closings. Probably the best measure of the health of the sales trend is the comp guest counts. If each year the guest counts have been positive then you are looking at a business that is truly growing and not artificially propped up by rising prices.

You should verify sales, and there are a number of fairly simple ways to do so. They should be readily available in the municipal tax rolls, the business tax returns, audited accounting statements, and unit-level books. To verify the business expenses you will want to look through checkbooks, canceled checks, and the audited financial statements.

6. Review the Status of the Accounts Receivables and Payables

What is the status of accounts receivables? How much cash is outstanding, how old is the debt, and what are the chances of collecting the receivables? Next, it is critical to know the status of accounts payables, as these are liabilities against the business. Not only do you want to know the amount of the payables, but you also need to understand whether they are current or if there are some past due. If there are past-due accounts, what is the status of the relationship between the restaurant and the vendor? Can you continue conducting business with that vendor? The best way to find out is to get a list of the vendors and call them. You can obtain the list from the seller or from his checkbook. When you talk with your vendors ask how they and their delivery people perceive the restaurant. This can provide some useful insight into their daily and weekly dealings with the business.

7. Determine Commercial and Tax Liens

Find out if there are any liens against the business. This can be easily accomplished by examining public records and performing a lien search, or by employing an attorney to do so. Are the business taxes paid to date? What is the status of payments of federal taxes, payroll taxes, sales taxes and alcoholic beverage sales taxes? Any one of these entities could cause major troubles for you and the new business if they have not been paid.

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Our commitment to innovation continues with our industry-first programmable electronic controls. Whether you use the pre-programmed settings from the factory or your own customized settings, electronic

controls take the guesswork out of temperature and speed control.

You'll appreciate the difference our exclusive forced convection system makes. Only Holman toasters have it. The system keeps your toaster cooler to the touch and extends the life of critical components. Our quartz heaters ensure consistent toasting and require minimal heat-up time.

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If you know which side your bread is buttered on, you will too. To learn more about our extensive line of toasters, call or visit www.star-mfg.com.



✓ Checklist Existing Restaurant Due Diligence

Evaluate the Site

- a. Know your guests and who you are trying to attract
 - Demographics
 - Psychographics
- b. Accessibility
 - Ingress and egress
- c. Visibility
 - Signage
- d. Parking
 - Adequate spaces for guests
 - Adequate spaces for employees
 - In good repair and well marked
 - Conflicts with other businesses in the center
- e. Stability of the market
 - New competition opening
 - Competitive closings
 - Planned roadway or infrastructure work
- f. Development in the area
 - New schools
 - New offices
 - New businesses
 - New churches
 - New home growth
- g. Population and demographic projections

Evaluate the Lease

- a. Current length of time left on lease
- b. Options negotiated for the future
- c. Exclusivity clause
- d. Additional costs beyond the base rent
 - Common area maintenance
 - Property taxes
 - Property insurance
- e. Lease assignment clause
- f. Personal guarantees of landlord warranties and representations

Evaluate the Financials

- a. Three-year profit trends
 - Verify profit statements
- b. Three-year sales trends
 - Verify stated sales
- c. Three-year guest count trends

- d. Verify expenses
- e. Check status of Accounts Receivable
- f. Check status of Accounts Payable
 - Check with each vendor
- g. Perform a lien check on the business
- h. Ensure all taxes are paid current
 - Federal taxes
 - Sales taxes
 - Alcoholic beverage taxes
 - Payroll taxes

Evaluate the Operations

- a. Current management
- b. Current staff
- c. Operating systems
 - Documented systems, procedures and policies
 - Written recipes and product specifications
 - Training programs and job descriptions
 - Management systems
- d. Health Department review
 - Last three inspections
 - Meet with inspector
- e. ADA requirements

Evaluate the Hard Assets

- a. Furniture, fixtures and equipment appraised by certified appraiser
 - Condition
 - Value
 - Useful life

Facility Review

- a. Mechanical and electrical
- b. HVAC
- c. Structure

Valuation of the Business

Get Professional Help

- a. CPA or accountant
- b. Attorney
- c. Building inspector
- d. Equipment supply company
- e. Restaurant industry consultant
- f. Business broker

8. Evaluate the Operations

Evaluate the current management and staff. Identify the key players and understand their value in the business. What would happen if they left? How would you replace them? Would you lose any business as a result of their departure? Are there people in the business who could be developed to replace them or would you have to look outside? Are there any people you will want to eliminate or replace? What is their history and is it documented? How hard will it be to remove them from the business? Do you have people you want to bring into the business? What is the best way to do that, when will they come in, and how will they be trained?

9. Evaluate Current Operating Systems

Are the systems, procedures and policies documented and are the current operations sustainable? Are there written recipes, product specifications, job descriptions, training programs, service standards, and management systems? The value of the business is improved if there are and diminished if there aren't. Without proper documentation the information resides with the staff. If they leave you lose that information. You do not want to be in a position in which you are held hostage to this type of situation.

A call or visit to the health department can reveal any potential problems with that group. You should look at the last three health inspections and see how the restaurant has done. Were any of the inspections prompted by a problem reported by one of the restaurant's customers? If so, what was found and how was it dealt with? Has progress been made or have the problems grown? What are the main violations and are they repeat offenses? Has anything been noted regarding codes and what needs to be done to come into compliance? How much will it cost to be in good standing and have a food-safe establishment? What is the relationship with the health department and will it need to be repaired or mended? Are they willing to help you make the transition in ownership as smooth as possible? If possible meet with the person who has performed the inspections to begin a positive, productive relationship.

Creating a restaurant that delivers good food and service is actually the **EASY** part

(the **REAL** challenge is making money at it)



Many good restaurants are lousy businesses. They fail to produce a sufficient profit and return-on-investment for their owners and investors.

RestaurantOwner.com works with thousands of independent restaurant operators who want to turn their good restaurant into a great business.

Our members have access to hundreds of resources to control costs, reduce theft, manage cash flow, develop a marketing system, attract new customers, safeguard cash, purchase smarter, attract & hire better employees, generate more repeat business, create restaurant operating systems and employee training manuals and much, much more!

But don't take our word for it. Go to www.RestaurantOwner.com/members.htm and see what your fellow independent owners have to say!

Restaurant
owner.com

Resources to turn your good restaurant into a great business

Official Website of **Restaurant**
STARTUP & GROWTH

10. Look at the ADA (The Americans With Disabilities Act) Requirements of the Business

If you do any major remodeling (in excess of \$50,000) you will most likely have to come up to current code, which could cost a great deal of money. (For more information on ADA requirements, see “A Startup Owner’s Guide to Title III of the ADA,” *RS&G*, January 2006.)

11. Evaluate the Hard Assets

What is the condition and value of the furniture, fixtures and equipment? The best way to find out is to have a certified broker conduct an evaluation. That way there should be no questions or very little argument over the valuation. The worst-case scenario is that both the buyer and the seller have different companies do valuations and there is a significant variance. If this occurs, a third party can conduct another valuation and you can then determine which of the first two is closest and set a value as a result. You will also need to figure out the expense of ensuring a properly functioning kitchen and bar, what equipment you will need to add, and whether there is any equipment that you could sell.

12. Perform a Full Facility Review

The key points to this review are the mechanical and electrical components, the HVAC (heating, ventilation and air conditioning), and the building structure itself. You are looking at the condition of the facility in each of these areas and creating a list of issues that will need to be addressed. You can then plan on how these issues will be corrected and how they will pay for them.

Professional Help

It would be unwise to try doing this alone. You really should have experts help you in the due diligence process and the negotiations that will ensue. What resources are available to you and how do you best use them?

Business broker. You can purchase a business without a broker, just as you can purchase a home without a Realtor.

A good broker can help identify businesses for sale that fit your strategic vision and needs, help guide you in the due diligence process, to help with what to ask for and what to see, to understand the information and compare it with industry standards, to coordinate your support team, to help establish the value of the opportunity so that you are prepared to make a realistic offer to the seller, and to assist in the negotiations with the seller.

Accountant. You need to meet with a qualified business accountant as soon as you begin the due diligence process to evaluate the financials and the overall health of the business. This needs to be done as soon as possible, since this step can quickly disclose reasons why you would not want to purchase the operation. Also, your accountant can help you determine the tax benefits to you of purchasing either the “entity” (i.e., the shares of the business, essentially stepping into the owners’ shoes, and assuming all assets and liabilities of the enterprise), or simply purchasing the “assets” (i.e., purchasing things like the name, equipment and inventory). For more information, see “Know the Score When Buying an Existing Restaurant,” *RS&G*, June 2005.

Attorney. Many buyers make the mistake of waiting until a week or two before closing to hire the attorney, and expect her to draft and review numerous documents, and conduct searches in an unreasonably short period before the scheduled closing. Many attorneys will simply refuse to handle these matters on short notice. There are numerous legal matters that have to be attended to prior to the closing, including review and drafting of the offer agreement, purchase agreement, guaranties, noncompete agreements, lease and lease assignments, and conducting lien searches. The attorney may have to create a new entity going forward, and provide advice on the liability issues related to purchasing the entity or assets. In some cases, the attorney raises a problem that requires negotiation or repair, such as unreasonable terms and conditions in the purchase agreement, or a tax lien on the business. Bring the lawyer on board as soon as possible.

Building inspector. The building inspector will conduct a review of the facilities. Again, this professional needs to be included early in the process. He may discover building or mechanical problems that the owner will need to remedy or will need to be negotiated in the purchase price.

Equipment supply company. When you buy a restaurant, you buy a small manufacturing facility. You need to evaluate the condition and value of the furniture, fixtures and equipment.

Industry consultant. This is critical if you are an inexperienced operator, or taking over a concept with which you are not familiar. A consultant can also provide valuable counsel if there are problems with the location or market. He could help you turn around a floundering operation and add great value to your investment. Consultants can provide industry-specific knowledge as it relates to the restaurant and site, conduct an operations assessment, conduct a market analysis, complete a competitive audit, review the operating systems and any related materials, provide a gap analysis and recommend appropriate steps, assist in assessing vendor relations, health department issues, and management and staff.

The previous owner. In some cases, the previous owner will be willing to enter into a short-term consulting agreement, to help the new owner take over the reins in a smooth fashion. This can be negotiated as part of the transaction, and if the owner is motivated to sell the business, he may be willing to provide his services for a relatively nominal fee.

Think Clearly

Remember that “emotions” come first before “facts” only in the alphabet. Due diligence helps you evaluate the business on a number of levels. In the end no deal is better than a bad deal. A small family restaurateur trying to buy a small family restaurant in Alvin, Texas, saw that the deal was way too complicated and would take way too much time and too many resources to be a viable purchase, and backed away from a pending deal. Today that family continues its search for the right business to purchase.

RS&G



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