

FOR EXECUTIVES SEEKING TO BUY, SELL, OR RECAPITALIZE BUSINESSES

## Stock Sale Vs. Asset Sale

### An Overview of Tradeoffs

There are two primary ways of structuring the sale of mid-market companies: Stock Sale and Asset Sale. This document compared the trade offs involved with each of these approaches. Acquirers should keep in mind that regardless of the tradeoffs shown below, asset sales may not be practical in some cases for contractual or other reasons. In such cases, stock sale is the only way to go.

#### Stock Sale Vs. Asset Sale Table

	<b>Asset Sale</b>	<b>Stock Sale</b>
<b>Legal Risk</b>	No legal liability for the corporation prior to the purchase	Legal liability for the corporation prior to the purchase can be mitigated if seller is willing to sign an indemnification agreement
<b>Cash Flow</b>	Most of the assets purchased will be depreciable over 3-30 years with the average being approximately 10 years. This means that you may write off approximately a tenth of the purchase price every year. When you sell, you typically pay back the government for all the deductions you took.  Advantage: Time value of money	Low depreciable asset base means you do not get benefits of the excess depreciation you can take. On the upside, there is no depreciation recapture tax at the time of sale.
<b>Governmental</b>	Administrative work to the extent you need to file Corporation, tax & employment application before the close of escrow.	Corporation, tax & employment numbers & documentation in place – any changes can be done at a convenient time at your own pace.
<b>Other Taxes</b>	Sales Tax on FF&E	No Sales Tax
<b>Employees</b>	Rehire employees – administrative hassle with hiring, benefits, payroll processing, etc. before the close of escrow	Employee contracts continue. Any changes can be made at a convenient time and pace.

<b>Workers Comp</b>	Workers comp rate could potentially be higher – sometimes significantly – you need to determine the impact and the net cost.	Workers comp rates lower than yours? If so, you benefit from the lower cost and you may even be able to move some of your staff under this umbrella if it makes sense.
<b>Customers</b>	May need to renew or renegotiate contracts	Customer contracts likely to continue with minimum hassle
<b>Vendors / Suppliers</b>	Re-establish contracts – negotiate transfer of leases and contracts – at the minimum you have administrative hassles and in some cases you may need to come up additional money for deposits.	Vendor contracts continue. If any of the vendors offer superior services at better rates, you may move some of your existing business under the same umbrella.
<b>Bulk Sale</b>	Need to conduct bulk sale in most cases – costs approximately \$600 at current rates and takes about 20-25 days – this process delays the transaction.	No need to do bulk sale – which means you close the transaction faster, cheaper and thus enjoying the benefits of the cash flow sooner. None of the creditors are aware of the transaction unless you choose to tell them.
<b>Other</b>	Could consolidate book keeping, tax, and other regulatory filings with current entity to simplify operations.	Need to continue the book keeping, tax, and other regulatory filings necessary to keep the entity in compliance.

Sellers and acquirers need to be aware that while several of these elements can be structured to the mutual benefit of both parties, some of the elements have less favorable impact to one of the parties and negotiations are necessary to structure a win-win deal.

**Where it applies:**

- ❖ The intent behind establishing a type of sale (stock vs. asset) is to pick the most beneficial way to structure the transaction.

Chak Reddy is a Mergers and Acquisitions Advisor with Elite Mergers & Acquisitions, Inc. [Elite Mergers & Acquisitions](#) specializes in selling businesses with revenues between \$5 million and \$100 million - Businesses too large for business brokers to adequately handle but too small for the national M&A firms. Mr. Reddy is a business M&A and Marketing expert, and is the chief deal maker at Elite. You can reach Mr. Reddy at 916-220-3052 or by email at [creddy@elitemanda.com](mailto:creddy@elitemanda.com) .

**For assistance with selling or recapitalizing your mid market company, contact:**

Chakradher (Chak) Reddy  
 Elite Mergers & Acquisitions  
[creddy@EliteMandA.com](mailto:creddy@EliteMandA.com)      [www.EliteMandA.com](http://www.EliteMandA.com)  
 2260 E. Bidwell St #1114, Folsom CA 95630

Ph: 800-335-3068; Fax: 888-502-3817

*Disclaimer: This document is for informational purpose only and should not be construed as tax or legal advice. Please contact your CPA/attorney for advice on your specific situation.*