

Virtual Real Estate Tycoon

Fast Track To Buying And Selling Websites

The truth about what it really takes for anyone to make a fortune with virtual real estate



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PDF Format

Discover Proven Tips, Tools and Tactics You Can Use To Become An Expert In The Virtual Real Estate Market!

- Includes Sample Legal Documents
- measure the value of your website
- protect yourself against unscrupulous buyers



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Introduction

Existing Methodologies and Models of Valuation

Buying and selling is the foundation of any business venture – the capitalist business-owner buys the raw materials and supplies (including other equipments and machineries necessary to put together the final product for sale, be it finished goods or services; manufactures the goods, organizes the marketing system and finally brings the product/service to market. Final product selling price is determined by computing the manufacturing costs, overhead administrative and miscellaneous expenses and then adding a percentage of the product cost to come up with the final selling price.

The booming web business is basically similar but typical methodologies and models of product valuation are either non-existent or hardly ever cut-and-dried. After the initial e-business boom, most e-business investors are now more knowledgeable and circumspect.

The main drawback, especially when talking about selling a website, is the lack of a definite model with which to establish website valuation strategies. Some buyers and sellers eventually settle to use two models:

- Cash Flow (Profit/Revenue) Multiples
- Value of Re-creation

Website valuation is one of the most difficult and complex issues in the World Wide Web. Currently, important factors that have to be considered in establishing a website's market value are the site's quantifiable variables, metrics, and instinct. However, where do you draw the line in establishing the value of what you are selling? How do the quantifiable metrics and instinct interplay with each other?

Establishing a website's market value should include all relevant factors and variables that directly impact the site's worth similar to buying or selling established businesses, real estate, stocks and bonds.

Since the sudden increase e-business activity in the World Wide Web, there is no proven and effective method of performing website valuation – yet.

Here are some questions-to-ask, tools, and quantifiable measures, calculations and equations, and general guidelines on how to evaluate a website's market value that is acceptable to both the seller and buyer.

Although there are several metrics available to the general public, the accuracy of these metrics and other recombinant factors to determine a true valuation of a website remains elusive.

A potential gray area that needs careful consideration is a website's actual and potential search engine rankings and market share. A website without actual and/or potential relevant and targeted traffic may not even be worth the space it is hosted on.

The fundamental governing principle for the pricing of any commodity is a mathematical formula that takes into account and computes the present value of the future earnings stream of a particular commodity, product or service including a website. The math and associated assumptions involved take into consideration various risks associated with the stream and other factors such as potential market-wide influences.



Knowing the Basics

Definition of Terms

Website - The entire collection of web pages (document(s) designed for viewing in a web browser typically written in HTML) and other information which may consist of images, sound, and video files, that are made available through what appears to users as a single web server.

Domain Name - A domain name is the unique text name corresponding to the numeric IP address of a computer on the Internet, www.anywebsite.com. Internet users access your website using your domain name, the "address" or URL of your particular web site. It is the unique name to the right of the @ sign in an Internet address, e.g. webmaster@anywebsite.com.

For a web site to gain success, it must own its domain name. More often than not, the choice of a domain name(s) is decisive factor. If you are selling your website, a lot depends on the domain name. Do not settle for 'free' domain names offered by some websites. Free domain names usually come in the form of www.someothername/your-domain-name.com. A free domain name is amateurish and less enticing for users and prospective buyers.

Web Traffic - the amount of activity in a website, usually measured terms of number of visitors or page views. It is also defined as the amount of data sent and received by visitors to a specific web site determined by the number of visitors and the number of pages they visit. Most web sites monitor incoming and outgoing traffic to find out which parts or pages of their site are popular and determine any perceptible trends.

Sources of Income

Advertisements / Memberships / Affiliate Programs /Service / Products

These are the typical various sources of income of any given website.

Website owners generally derive income from a visitor who may or may not click on an ad. If the visitor clicks on an ad, the site owner is paid for hosting ads on a pay-per-click basis. However, if the site owner sells a third-party product, the next step would be whether or not the clicker eventually purchases a product. In this scenario, the website owner hosting the ad gets a commission from the sale of the third-party product whose ad is hosted on his website.

Remember, it is not the banner ad or even the website that hosts the banner ad that is important. It is the successful clicks on the ad that generates a product sale or one that simply paid a website owner for the click itself. The successful click has a value, which is the amount paid by the advertiser to the website owner or the profit made by the advertiser when the product is purchased. The commission payouts received from ad clicks or the profit margin on a purchased product allows us to mathematically derive a value for a visitor, a click, and a successful click.

This allows you to assign generic monetary values for the purpose of logical valuation of your website's actual worth.

In any market, the basic economic law of supply and demand always holds true. The same is true in website selling. In this market, the supply side consists of the website publishers and sellers.

The type of website you have does not really matter; it can be an online store, a hobby site, or simply a topic or seasonal website. Simply put, a website is no different from a mall where the owner sells space, products, goods or services to be buying public.

People visit the mall to shop, but while they are there, they also read advertisements of products and services. The real estate owner supplies the advertising space; the space gains intrinsic value because people visit the mall and subsequently have no choice but to look at the ads.

The basic components of this virtual market are the product; the site's advertising space and the price for the space where the ad is positioned. The price for the space varies depending on the ad product and the demand for the

product or service being offered in the ad. The demand side is the company or individual trying to sell something. The supply side is the website owner.

The most critical step in the process is market observation or market analysis, and acting on the opportunity before it is gone.

Basic Website Components

A website's basic components generally consist of the following pages:

• Main Page / Home Page

The page designated as the main point of entry of a Web site (or main page) or the starting point when a browser first connects to the Internet. Typically, it welcomes you and introduces the purpose of the site, or the organization sponsoring it, and then provides links to the lower-level pages of the site. In business terms, it's the grabber. If your home page downloads too slowly, or it's unclear or uninteresting, you will probably lose a customer.

The Home Page is the most important page in the whole web site since it is the first page that any visitor will view. A homepage can either make or break a web site in a matter of seconds. A good home page is very important for every successful web site. It should set-up the key elements necessary to close a sale or generate an inquiry.

• About Us Page

Usually the page that describes the website's mission statement. Typically, most About Us pages provides a concise description and background of the website including dynamic link of Products and Services on offer.

The About Us page should contain either a Thumbnail or Text list of products or services.

Thumbnail List - displays a list of products or services utilizing thumbnail images as the central element of the list. It allows the user to view the basic characteristics of the product or service by viewing the thumbnail before drilling-down to a full level of detail in the product / service detail page.

Text List - displays a list of products or services utilizing the product name as the central element of the list. It allows the user to view a large list of products by product name.

- **FAQ Page**

Frequently Asked Questions (FAQ) Page is a compilation of answers to the most common questions on a particular subject.

- **Contact Page**

Contact Page contains the information or method which the client/customer needs to get in contact with you. Contact Page details are usually a separate web page located in very prominent positions – like at the top right-hand position of a web page design.

- **Enhancements and Value-Added-Features**

Always make it as easy as possible for clients to purchase from your website. Although credit cards are the best and most common form of payment always provide alternative methods of payment. Most people are wary when making their first purchasing from a web site. They may feel more comfortable with a more traditional method of payment. Allow people to fax or phone-in their payment details with a 0800 number.

- **Check** - The customer places their order through the web page design, then sends you a check. You ship the goods once the check has been received and processed.
- **Purchase Orders** - Purchase orders are useful for B2B web sites or for transactions with account customers. The customer enters a purchase order number and the goods are shipped to the customer. The customer is billed at the end of the month for their purchases.
- **Cash on Delivery** - The customer places their order through and goods are shipped to the customer and the customer pays via check or cash on delivery.



Appraising a Website's Value

Real

The type of website determines the Website Revenue Model on how to determine its value. A web site can either be a Business to Business (B2B) or Business to Consumer (B2C). The type of site plays a key role in determining the most applicable valuation criteria.

The primary factor for consideration is verifiable traffic data; website content plays a very important role in the value of traffic. Second is the website's search engine rank.

Most website owners take the one-dimensional approach in valuing their websites by applying a price based on a multiple of present revenue; although this may be acceptable, it contributes to most owners selling their websites at a lower value than they should.

Using price-multiple valuations should never be utilized by a website owner as the sole financial valuation method and consideration establishing the market value of his site.

Establishing the value of a website must be based on a formula of a combination of the objective and subjective (based on available data and statistics).

Perceived

This is the subjective factor of website valuation based on an individual's gut-feel and personal inclinations; however, this should be backed up, reinforced and complimented by measurable factors that are discussed throughout this report.

The report's additional variables of the valuation process synthesizes the financial metrics into an understandable and easily identified factors to make valuation easier and acceptable to both the seller and buyer of websites.

Never rely on perceived value factors that are unquantifiable since they are simply that – unquantifiable therefore any value assigned would be arbitrary and not based on good judgment.

Future Potential Projection Key Factors

Some people mistakenly believe that if a web site is in the high rankings of more search engines, the better. If you are selling your web site, the first thing a buyer wants to know is to be able to determine the value of the website – is it actually worth more or will it be worth more in the future than your current selling price? This projected valuation is arrived at using potential *future income sources* not by using the current income source(s).

Most buyers do not use web site ranking in making their web site acquisitions because Search Engine Optimization is a peculiar and unpredictable variable. Majority of sellers use some multiple of *historical* traffic growth to forecast a web site's future traffic growth. Factoring in a hypothetical search engine ranking equates to a big jump in a web site's value as opposed to factoring in the natural growth rate in traffic.



Key Value Indicators

Quantifying and establishing the following measurable variables and characteristics of a website as the starting point of an acceptable valuation procedure between the owner and prospective buyer will definitely swing the deal in favor of the seller.

Why? Because right off from the start, a prospective buyer will already be able to determine that the owner knows what he is doing and what he is talking about, backed up by the important factors in any financial valuation process – performance and financial data.

A first-rate valuation of any business requires the availability of one very important variable – data. Without any data from which to proceed in order to arrive at a logical and acceptable conclusion, any valuation process is simply an exercise in futility.

Brand

The Brand variable is generally concerned with the website/domain name's appeal to the web surfing public (e.g. www.msn.com, www.yahoo.com, www.google.com, etc...). When the dot com business took off, most Internet-savvy entrepreneurs profited from the recognizable reselling domain names since they registered most popular names in the dot com genre.

A site that has gained the cachet of being branded is normally more expensive because it would take a longer time to replicate in terms of content and more importantly, client trust is already established. The length of time a site has been in existence is also contributory to its claim of being branded.

Content

Content pertains to everything the website contains – articles, video/movie clips, and images.

All these content-related variables contribute immensely to a website's popularity with visitors, Internet searchers and more importantly, Search Engines.

Relevance, uniqueness and accessibility of content are customary website factors that must be factored in any valuation process.

Architecture

This deals with the website's web hosting provider and other factors such as Linux, Windows or Mac OS integration, bandwidth, data storage, email and autoresponder systems, client database set up and accessibility, customer relations management (CRM) capability, FTP, domains and sub domains, security, accessibility (uptime factor), e-commerce capability, and other related variables.

The importance of a website's architecture and web hosting provider's backend support systems are of important consideration to a prospective buyer to negate any newbie issues and misapprehensions on what the prospective buyer is letting himself into.

The seller has to convince the prospective buyer that his investment will not require a steep and frustrating learning curve once the documents have been signed and the website transferred to his name.

Popularity

This is one of the most important factors in establishing a website's value. In the long run, it is popularity or traffic that creates and contributes greatly to a website's profitability and income potential.

A website with a traffic of 1,000 per day with an average of 1% hit-to-sales conversion ratio generates 10 sales daily or approximately 3600 sales annually.

With this in mind, if per sale/transaction amounts to \$10, the example website has a current earning capacity of \$36,000!

- **SEO**

Most websites rely on Search Engine Optimization (SEO) to secure a high ranking on most popular search engines like Google and Yahoo!. This is a relatively expensive and costly practice to gain search engine ranking and popularity. Normally, SEO is practiced only by companies with deep pockets and unlimited resources in order to gain the necessary targeted traffic to their sites. Very few individual website publishers use SEO but rather rely on other means of generating traffic to their site like blogging.

- **Pay Per Click (PPC) Advertising**

Pay Per Click Advertising is one of the effective ways to generate targeted traffic to your website in a short period. Yahoo! Search Marketing and Google Adwords are two of the currently most popular and effective PPC advertising programs available on the Internet. PPC advertising programs allows you to bid for top rankings based on the keywords/keyword phrases of your choice. When an Internet searcher enters a search word or phrase that matches your keyword in the PPC search engine and presses the search button, your contextual ad will appear on the sidebar of the search results page. If the visitor clicks on your contextual ad to visit your website, only then will you be charged base on the amount of your bid.

Sources of Website Income

- **Advertisements**

Web Advertisements are another source of income for a website. Often, these advertisements are in the form of affiliate program's text or banners wherein the website has an affiliate agreement with.

Populating a website with affiliate banners and text does not necessarily mean that the potential is maximized to the fullest and that the earnings are good. A website that is nothing more than a banner or text farm may actually earn less than it can potentially because it aims to be everything for everybody, and loses integrity from a buyer's point of view.

Advertisements are normally paid by the advertiser per click or per impression (wherein there is no need for the Internet user to click thru to go to the advertiser's website). Revenues from these can range from .01 per click to .05 per hundred (or per thousand) impressions. Taking the number of visitors of our hypothetical website, this translates into approximately an earning of \$5 daily:

$$((1000 \text{ visitors}) \times .05) \div 100 = 5$$

• Links

It is customary practice for website publishers to establish reciprocal links with other complimentary or topic-related websites. This contributes to an increase of potential directed and targeted traffic since even if the Internet searcher did not use your website's keyword/keyword phrase a reciprocal link creates the possibility of getting targeted traffic directed to a publisher's site.

This type of targeted traffic is more useful since the visitor is already interested in the type of service or product the website sells or promotes.

• Products and Services

A website publisher may not be necessarily engaged simply in PPC or affiliate marketing programs. The website may have other products and services on offer that compliments whatever affiliate marketing programs or advertisers that are displayed on the page.

A website publisher could just as easily provide free information and solutions, newsletters, book reviews, how-to tips and techniques in order to generate targeted traffic and be able to promote and sell the various product affiliates and advertisers on his site.

• **Affiliate Programs**

Affiliate marketing is basically an extension of the traditional marketing promotion technique adapted to the Internet's virtual marketplace where businesses sell products and services online to clients.

In an affiliate marketing program, a merchant permits website publishers (sub-merchants) to promote their products or services; in return the website publisher gets a percentage of each sale generated through their efforts (the website links). The affiliate is responsible for sending targeted visitors to a vendor to buy the product, which in turn generates the sales from which they get commissions. This is one of the primary reasons webmasters affiliate their sites with complimentary products and services. The residual income generated is good.

Financial Structure and Stability

Since most websites not only collect valuable personal information and financial data from its clients and subscribers, it is mandatory to establish the security of a website's financial transaction structure and stability. Website security is easily demonstrated and verifiable. It is standard practice for websites to use a secure connection when collecting sensitive data, such as a visitor's personal information. The levels of security currently used by websites range from none, 40-, 52-, and 128-bit, with 128-bit encryption as the highest level of page security. 256-bit encryption is currently in development.

Encryption is the most effective tool for protecting information. Data is scrambled so that only the intended recipient can unscramble and read the contents ensuring the protection of the information.

Common issuers of trusted website security certificates are VeriSign, thawte, and Entrust.

Clients

A website's database of regular visitors and clients with completed transactions are key indicators of real and actual financial income and potential profitability.

This is a valuable resource in the right hands because a demographic evaluation of the data can be achieved using market-proven metrics in order to design and tailor specific products, services or solutions to a readily available market.

A website owner should never underestimate the true value of his mailing list, which has been compiled over the period of time since the website was originally published on the Internet.

ROI and ROR

Basically, Return on Investment (ROI) is a calculation of a business' profits weighed against the costs of conducting and supporting the business. The calculation measures short-term and long-term ROI and should also reflect the annual ROI for each year during a period of X business years, as well as the cumulative ROI for the entire period of business existence. (Excel Spreadsheet Attachment to help you arrive at ROI calculations).

Rate of Return (ROR) on the other hand is a measure of a business' profitability, calculated as Net Income divided by Revenue:

$$\text{Rate of Return} = \text{Net Income} \div \text{Revenue}$$

ROR data is useful in comparing the profitability of a business from year to year. Basically, the difference between net income and revenue is expenses, such that an increasing ROR implies less expense and higher net income.

Other Variables...

At this point, you now have the basic variables and metrics necessary to establish a fair and acceptable valuation for your website.

Providing your prospective buyer with all the financial and operating data entails a degree of risk. Doing so purely on a basis of trust is not enough, it may

be necessary for you to request your prospective buyer to sign a comprehensive Non-Disclosure Agreement in order preclude sharing of data with others which is a standard practice in business buy-outs and acquisitions.

It is also at this point of negotiation where other variables with unquantifiable costs or values should be discussed and a mutually acceptable value arrived at. These variables ultimately depend on you as the website owner on what they are and how you are going to sell them to your prospective buyer.



Buying or Selling?

Buyers and Sellers

The following are a list of important tips that can help BOTH the buyer and seller of a website in order to arrive at a mutually acceptable and negotiable agreement of sale:

• Buyers

- Make sure that all revenue information you receive actually come from the site you are buying. Targeted traffic to the site on which the owner is making money from can very well be the result of multiple sites owned by the owner. Request for a new and separate tracking ID to be setup for the site you are interested in for a month, and closely monitor the traffic.
- Evaluate the website's content and calculate how much it would cost to recreate the same content including the number of days. A value of 70% to 80% of the total cost is normal.
- Decide early on, if you will agree to assume the website's existing web hosting agreements. If you plan to transfer the website to your own web hosting provider, make sure that there are no complex technical issues involved that would prevent transfer from one web hosting provider to another, Linux-based servers vs. Windows-based servers.
- Make sure the site has not been associated with spam. Check the site's IP address and domain name on a number of the spam black lists.
- Offer the current owner a percentage of the site's ongoing revenues like 20% of your first year's gross earnings after acquisition, and 15% from the second and 10% from the third year's gross earnings. This way, you are sure that the former owner will be able to assist you in case of any legal or technical difficulties arising from the sale of the site.

- Have your lawyer prepare a simple agreement covering the transfer of the website, and all related intellectual property associated with the site including a *Non-Compete Clause* that the former owner agrees not to create a clone of the site you just bought, or do anything to interfere with or steal any subscriber lists you might be buying for specified period of time.

• Sellers

Prepare all relevant business information for the sale to support your asking price. Following is a basic checklist of the documents and data you should have at the ready for any potential buyer:

- Business Summary – what your website is all about and the why you are selling. You to introduce your website and yourself, including your site’s history, the reason why you want to sell your site, what your site offers to the new owner (current financial and future potential) and any other important factors. Do not include your asking price up in the summary instead note important factors such as traffic figures and your site’s profitability and income potential.
- Business Plan/Marketing Plan
- Asset List – tangible and intangible
- Search Engine Rankings
- Website Traffic Reports
- Related Technical Details
- Financial Statements (previous years including Current Year-To-Date)
- Latest Profit & Loss or Income Statement and Balance Sheet
- Sales Forecasts
- Supporting Documents for the Financials such as Tax, Bank, including Merchant Statements.

If you run a proper business, it logically follows that you should have the above data in some form of accounting package.

Although not all of the above documents may be available, by preparing and having most of them ready for the review and analysis of any potential buyer will definitely indicate to your prospective buyer that the site you are selling is a real business operation and not just a hobby.

By showing to your prospective buyers that you are a real businessperson with all the necessary background materials, operational and financial data readily available for review and analysis adds more value to what you are selling. Why? Because, most buyers are not easily convinced by data – they are more interested in how the previous owner handles one-on-one question and answer discussions, be it on simply on the phone, email or face to face.

Provide as much information as you can to your potential buyers. You should also have the following data available:

- Website traffic statistics including average and totals for unique visitors, page views, growth rates over time, which countries they are from, traffic from search engines and direct bookmarks, keywords your site is popular for and the PageRank of your site, if available. Since most web servers come with a statistics package, you can easily download these data to accurately evaluate site traffic.

Establishing Fair Market Value

• Acceptability of Valuation Model

The importance of a functional method in setting the ground rules of website valuation is without doubt the acceptability of the valuation model. Equally, the variables that make up the valuation model need to be based on historical data that is logical, quantifiable, and performance-based in order for negotiations to even commence, otherwise, without a common ground acceptable to both the seller and the buyer, nothing buy/sell transaction will be consummated.

The most relevant variable necessary to have on hand for both parties involved is the website's historical traffic and revenue statistics. This should not be a problem since majority of all web hosting companies have built in traffic gathering statistics.

Traffic and revenue-related data includes, but are not limited to, daily unique visitors, page views, and visitor clicking patterns.

On their own, these data would simply be an untidy heap of numbers and dates that do not mean anything. However, with proper analysis the true value of a website can be established in the same manner that big-ticket companies establish the values of their acquisitions.

The importance of a website's **historical data** cannot be overemphasized since it is the basis of a website's potential for **future earnings**.

- **Simplistic**

Most newbie website sellers and buyers normally use the simplistic, straightline valuation model; there is nothing wrong with this if the system is acceptable to both parties.

Example:

Monthly Gross Revenue x 12 months = Selling Price

(\$1,000 x 12) = \$12,000

This is a perfectly acceptable pricing scheme if the website you are selling or buying has only been in existence for a few months or less than one year since there are basically no other considerations and factors to take into account.

On the other hand, the situation definitely changes if the site has been operational and in existence for more than twelve months.

- **Doing it by the Numbers: Determining Present Value of Future Earnings**

In the real-life financial, banking and business world, using **Present Value in Future Earnings (PVFE)** is both an established and universally accepted methodology in determining fair market values of businesses. This is the preferred process to use in business acquisitions, which we modify in order to come up with a proven, logical and acceptable valuation system.

The essential principle of PVFE is the theory that money is worth more at present as compared to its value in the future because of the factors of inflation, risk and opportunity cost (IRO). The seemingly uncertain factor here is forecasting the future potential earnings of a website based on the valuation of present-day assets.

Any business' valuation is based and derived from the potential earnings it can bring to its buyers and not the value of its buildings or equipment. The same holds true for a website, the more important factor in valuation is the potential income stream generated by its assets (mailing lists, affiliate programs, content, web hosting provider and the amount of time and money invested by the owner in publishing it on the web. Any company's value is measured in its **potential for future earnings**.

Using the simplistic valuation method will not work since there are three other important factors that have to be taken into account, IRO, in order to arrive at a realistic and sensible value.

In straightline valuation, the \$12,000 value arrived at today will not be \$12,000 anymore six or twelve months from now because of inflation, risk and opportunity cost; it would be definitely lesser.

To arrive at a realistic future value, a business or website's sources of income needs to be **discounted** accordingly into its present value. To be able to do this, however, it is necessary that both seller and buyer first come to terms on each and every applicable stream of future cash flows that are presently on-site.

This is similar to a bank's payment of interest on the amount of money deposited in the bank by any one individual depositor – only it is in reverse! Discounting is nothing more than establishing a future value of the various streams of revenues of a website (based on historical data) in terms of present-day dollars!

If somebody promises to pay you \$100 at a rate of 10% per annum, how much do you have to invest today?

$(\text{Future Value} - 100) / (1 + \text{Interest Rate})^n$ where n is the number of periods (one year): $100 / (1.1)^1 = 90.90$; if you were to increase the period n

from 1 year to 2 years, the result would equal to 82.60 in terms of present value (pv).

The longer the investment period, the lesser the present value is. This takes into account the important factors of inflation, risk and opportunity cost and further reinforces the theory that a dollar today is worth more than a dollar one year from now.

▪ **Present Value of Future Earnings Model of Website Valuation**

Before we get any deeper into the valuation model, it is imperative to initially establish the factors that contribute to a website's cash position at the end of a fiscal period; otherwise, we will be dealing only in hypothetical situations and expect to come up with realistic monetary values that will never work.

Sales revenue is the easiest to determine and forecast because of the availability of a website's historical data. Nonetheless, before forecasting the future based on what is available at present, a site's history must be thoroughly analyzed in order to determine the validity of data and forecasting metrics.

Again, this is where most people make mistakes that eventually translate into large monetary values and they are not even aware of the mistakes committed accidentally.

A website's historical growth rate is a key factor in determining its present and future revenues and at the same time establishing the present value that is acceptable to the seller and the buyer. Remember, the transaction needs to be mutually acceptable in order to bring it to a successful and satisfactory conclusion.

To establish the historical growth rate, you have to calculate the growth rate of cash flow for each given period (months or years) and then calculate the geometric mean of those growth rates. It is necessary to use geometric mean instead of the arithmetic mean of the data set in order to normalize the variance in the actual period-to-period cash flow.

Average vs. Geometric Growth Rate

Period*	Cash Flow**	Growth***
1	500	
2	600	0.20
3	750	0.25
4	1200	0.60
5	2350	0.96
6	2500	0.06
7	3000	0.20
8	3800	0.27
9	3900	0.03
10	4200	0.08
<i>Average</i>		0.29
<i>Geometric</i>		0.18

* Month (Year) as the case may be

** Cash Flow for the specified period

*** Growth of cash compared to the previous period: $[(\text{Current Period Earnings} - \text{Previous Period Earnings}) \div \text{Previous Period Earnings}]$

In the above example, using the average mean of the Growth to forecast Future Value results in an overvalued estimate (0.29) based on historical data whereas using the Geometric Mean returns a more realistic value (0.18). This is the normalization feature of geometric mean, which is very important in making a forecast of future earnings and discounting it to present day value or dollar terms.

It is a given factor that every business, regardless of its kind, reaches a plateau. All businesses, sooner or later, reaches a period where growth levels off as both the business and market matures resulting into lesser opportunities for new growth areas, which brings us to the theory of Terminal Value.

▪ Terminal Value

Determining a website's terminal value is also necessary to arrive at a fair valuation. However, this does not mean that at a certain point in time, growth will stop completely and that the business will fold at that particular time in the future. Terminal Value is the point wherein growth rate levels off.

Using Terminal Value as part of a website valuation process is a logical alternate for not having enough predictive information and data to analyze and forecast period-by-period growth.

There are three methods by which to determine terminal value, these are:

1. *Perpetual Growth Model* – assumes that the at some point in the future the website will ease off from a rapid growth rate and sustain a constant rate of growth in the long run.
2. *Expected Liquidation Value Model* – this is used only if you are aware that the business will be liquidated at a specific time in the future and is not applicable to websites.
3. *Market Multiple Approach Model* – as is simply the multiplying the geometric mean of the website's forecasted present value with whatever is the prevailing (acceptable) market multiple – 5, 10, 15 or any other multiplier.

In determining a website's terminal value, there is no single method that can be used as a de facto standard. As much as possible, it is best to use more than one method in order to arrive at an average terminal value using at least two methodologies independent of one another.

▪ Using Applicable Cash Flows

Keep in mind that you should bring into play only the applicable cash flows in using the historical and forecasted cash flows. Applicable cash refers only to actual cash on hand: revenue less all expenses including tax dues excluding depreciation.

Working capital is a variable that is rather complex. For our purpose of establishing a website's valuation, working capital is fundamentally the amount of cash required in order to sustain business operations for a given period.

In forecasting future value in terms of present value, working capital primarily consists of two distinct components – inventory and the difference between accounts receivable and payable. Keep in mind that you have to forecast the change in working capital not the working capital itself since any change in working capital affects forecasted values.

Cash Flow Calculation

Transaction	Amount
Total Revenues	1000.00
Cost of Goods Sold	300.00
Gross Profit	700.00
Depreciation Expense	150.00
Administrative Expense	100.00
Income Before Tax	450.00
Tax Payment	175.00
Net Income	275.00
Depreciation Add Back	150.00
Cash Flow Before Working Capital	425.00
Change in Working Capital*	64.70
Total Free Cash Flow	360.30

* $(\text{Net Income} \div \text{Cash Flow before Working Capital}) * 100$

With the basics of cash flows and forecasting already under your belt, you are now ready to initiate your website valuation methodology, regardless if you are a seller or a buyer.

Model 1 – Simple Valuation Process

If a website has does not have available long-term historical data that you can use for analysis and forecasting of future revenue then you no other recourse but to use what is available.

If there are only a few months' data (one year or less) available, the valuation process would be simple and straightforward; forecast only up to a maximum of three succeeding periods to arrive at the final valuation.

Multiply the last available period's free cash flow amount by the established historical geometric mean growth rate as follows:

Ending Period Cash Flow	2,000.00		
Geometric Mean of Growth Rate	0.15		
	Period 1	Period 2	Period 3
Forecast*	2,300.00	2645.00	3041.75

Use the simple method, if and only if, there is an absence of data and limit the forecast to a maximum of three periods forward since the lack of predictive data makes the result limited.

Model 2 – Comprehensive Valuation Process

This model is a thorough and systematic approach to website valuation. In making the forecast, the following variables are all taken into account in the process:

1. Historical Growth Rate
2. Overhead Expenses such as hosting fees, web content, advertising expenses, etc.
3. Terminal Growth Value, Risk Premium, Market Multiple
4. Assumption of Additional Capital Infusion

In the report's accompanying spreadsheet, all possible and relevant cash flow variables are itemized and taken into account to arrive at a fair determination of website values (assuming of course, that both seller and buyer agree beforehand on the process).

These variables include:

1. Period (month or year)
2. Hosted PPC
3. Affiliate Program Revenue(s)
4. Direct Sales/Membership Fees
5. Commissions
6. Expenses (general and administrative, taxes)
7. Depreciation Add Back
8. Change in Working Capital
9. Terminal Growth Value
10. Free Cash Flows
11. Risk Rate
12. Present Value

In the accompanying spreadsheet, all possible and relevant cash flow variables are itemized and taken into account to arrive at a fair determination of website values (assuming of course, that both seller and buyer agree beforehand on the process).

The spreadsheet model is user-customizable (it is recommended that you save a backup copy if you plan to make changes to the model) and allows for flexibility to suit your requirements and preferences.

Where to Sell/Buy

• Website Brokers

You can try to sell your site at eBay's Business / Websites for sale section; however, since eBay is an auction site, you may very well be at the mercy of eBay's traffic, which might not be ideal at all for what you are selling.

A better option is to find online sites and forums where you can list your site for sale and get some exposure. One advantage of this method is that it allows

you to perform a search on the site's archives to see what other sites have sold for in the past and for how much.

Alternatively, you can list your website in businesses for sale / brokerage sites such as www.businessbroker.net and www.ebizbrokers.com to drum prospective buyer interest in your website.

There are inherent benefits to registering your site for sale with a third party or website broker.

For a small fee, you can list your site with a broker, greatly enhance your site's exposure to qualified buyers, and at the same time raise the profit potential.

Some of the benefits you will receive by engaging the services of a broker are:

- High visibility to thousands of qualified buyers all over the world.
- Professionally written For Sale ads.
- The assurance of working with a trusted, experienced and highly recommended company.
- Simplification of the sale process including payment handling, escrow, and assistance in domain and registrar transfer procedures.

• **Doing it Alone**

You can also handle the selling of your website by yourself. However, in order to receive the best offer in the shortest amount of time, make sure to list your domain name with a third party otherwise you will have to wait for a long time before somebody happens to get in touch with you regarding buying your website/domain name.

To be prepared right from the start, make sure to do the following:

- Update your domain name registration information. Many potential buyers normally look at the information in the WHOIS database as a first step when investigating a name that they are planning to buy. You can do this by updating your data and including (this domain name is for sale) right after your name. Make sure that all of your contact information is current

and accurate. Contact your domain name registrar to update your WHOIS listing.

- Put up a promotional web page. A potential buyer will try to find out if a domain name is for sale by visiting the website. When you normally register your domain name, you get a one-page starter page showing Under Construction. Instead of Under Construction, design the web page to say that the name is for sale and include an email address so that interested parties can submit offers.

However, if your website is already up and running, the only way to sell it is to get the word out.

Identify the types of businesses or individuals that would be interested in your website and then:

- Visit newsgroups related to websites and domain names and the nature of your business for sale. Post messages and begin discussions.
- Subscribe to e-zines related to the topic and find out where these people are on the web, and how you can contact them.

Once you have contacts, you can send out emails to potential customers or you can participate in forums, ask questions and seek out people who may be interested in buying your website.

Alternatively, you can use search engines to seek out prospective buyers. One of the best Internet resources to find out more information and do your search more effectively is through <http://searchenginewatch.com>.



Sale Negotiations

In due course, you will find an interested party who would like to purchase your website and negotiations will begin. As with any type of negotiation, the mindset of both parties – buyer and seller – play key roles in determining who has the upper hand.

One of the cardinal rules of negotiation is **never negotiate from a position of weakness**. It is always the case that either the buyer or the seller is desperate to finish the deal as early as possible. In this case, the desperate party is always at the mercy of the party who is not. This is the reason why in the earlier part of this report, it is recommended that the website seller be prepared by having all the relevant operational and financial data and statistics on hand. Doing so already puts the seller at an advantage or at least on equal terms with the buyer.

Each situation is different but as a seller, remember to stick to your guns and don't sell unless you are satisfied with the terms of sale.

By being prepared with all the necessary data and by using the attached valuation spreadsheets, any prospective website seller would be able to fairly put a monetary value on the important variables of his website. Considering that the seller would also provide the financial model to the prospective buyer, it follows that a mutually acceptable valuation for each and every variable would be arrived at by both parties.

This already precludes any unnecessary haggling over the price as all aspects of acquisition would be jointly discussed between both parties beforehand and a fair valuation arrived at jointly.

Details such as technical support from the former owner or profit sharing and the like can also be discussed and included in the process.

The key to a successful sale negotiation is patience. Unless you really need the money, there would be offers from third party resellers, which are merely 20% to 25% of the actual potential value of your website.

Once you have agreed to a deal with the buyer, you are obligated to complete the deal. They send you payment, and you transfer the name to them. Since there is undoubtedly a waiting period before money can be transferred, for the protection of both parties, it is best to use an escrow service. Although it may add to the cost and who would shoulder the additional cost will inevitably be another point of negotiation, make sure that both parties agree who will shoulder the escrow fee. It is normal practice for the buyer to pay the escrow fee but there are times when both parties share the cost.

A word of advice to the seller: always prepare a pro forma email document as a First Response tactic to all inquiries regarding your website. Include all necessary information like length of time the site has been operational, number of advertisers, site properties, volume of verifiable traffic – this type of response to a fishing-expedition-type of inquiry subtly informs the buyer that you did your homework before even thinking of selling your site.

Legal Matters

• Documentation(s) and Corollary Agreements

Selling and buying a website is relatively a new frontier in the world of e-commerce. The market is gradually picking up and gaining momentum as more and more individuals and startup businesses are getting into the global e-commerce marketplace.

Aside from the previously mentioned documents and records pertaining to the website, there are other equally important documents necessary in order to make the process as straightforward as possible.

The following checklist of documents that the seller can prepare beforehand to save time once the negotiation process begins is also found at the Appendix Section of this Report.

Although these basic agreement documents are legal, still, it is always best to have them checked by a lawyer.

- Letter of Intent to Sell (A1)

A simple but legally binding agreement indicative of the seller's and buyer's agreement to the negotiation of the buy and sell transaction of the business.

- Non-Disclosure Agreement (A2)

Considering that the seller is obligated to provide sensitive and confidential related to both operational and financial aspects of the business, a confidentiality agreement is necessary to preclude any potentially damaging disclosure of any information and data to a third party.

- Terms of Payment (A3)

A formal agreement on the terms and methods of payment for the sale of the business.

This agreement clearly lays down the full purchase amount and manner of payment – dates, amount and cash, check or escrow.

- Agreement of Transfer of Ownership (A4)

This covers the complete and detailed agreement regarding the sale and other conditions that have been agreed on by both buyer and seller.

Optionally, the Agreement of Transfer of Ownership of the business may include the web hosting provider since the hosting service agreement is an important and fundamental part of a domain name / website publication business.

Other Considerations

After all the fundamentals and nitty-gritty details and processes of the sale and transfer of the website from the seller to the new owner is completed and in effect, it may be necessary for both parties to set down a defined collaboration format within a limited period.

On the part of the seller, this may be in the form of any of the following:

1. Limited technical support in the front-end operation of the website (in case the buyer is new to the business).
2. Assistance in the backend support operation on maintenance and client support.
3. A maximum of 30-day assistance immediately following the transfer of ownership to familiarize the new owner with all aspects of the existing businesses included in the transfer and sale of the business.

On the other hand, the new owner may recompense the former owner for the operational and technical support by providing a percentage of the gross sales of the business (10% to 15%) during the limited period of working together as business partners to make the transition as smooth as possible.

Doing any of the above is not obligatory; however, it is highly recommended and beneficial to both parties.

As a seller, it increases your reliability and integrity since you are more than willing to stand by your creation, be it a website, a product or a service.

As a buyer, it boosts your fairness in making a business acquisition.

Since there are no definite and established game rules as yet regarding website selling and buying, it is always best to apply your own and make them universally acceptable in the e-business world.

Business is not always about making more money than anybody else makes;
it is also about fairness, credibility and integrity.



Other Resources

THERE ARE LITERALLY thousands of sites where you can go to and buy or sell established websites. One noticeable drawback however is that the asking price are considerably high although they are negotiable.

Some of the more popular and active sites on the Internet are:

1. www.ebizmls.com
2. www.sedo.com
3. www.websiteguild.com
4. www.hotwebsitesforsale.com
5. www.bizmp.com

Making a google search reveals that there is a lack of uniform and structured procedure on how website selling and acquisition is done. Most brokers use their own valuation methodology (which may or may not be agreeable to either the buyer or the seller).

Having your own valuation methodology using established concepts and metrics in use in the business world can be a definite advantage.

The above are just examples and are in no way recommended by the report as authorities on the topic. Browsing the sites and checking out their system however can give you an insight on how buying and selling websites is done in the World Wide Web.

Appendix

The following samples can be found in the folder marked (Bonuses)

Letter of Intent to Buy and Sell Business

Agreement made this ___ day of _____ 200___, between

SELLER: _____ and

BUYER: _____

subject to the joint approval of both parties who agree as follows:

1. INTENT TO BUY AND SELL

Seller agrees to sell and buyer agrees to purchase all the assets and property of seller, including its good will in the Business, listed in last part of this document.

2. TIME LIMIT and NON-DISCLOSURE AGREEMENT

This Letter of Intent takes effect immediately on the day of execution and is effective only for a period of ___ days.

Within the predetermined period, seller will provide the seller all necessary data and information pertaining to the business in order to allow him to make a judicious analysis of all aspects of the business.

The buyer on the other hand obligates himself to the following:

- a. Execute and comply with a Non-Disclosure Agreement in favor of the Seller.
- b. That in case on non-performance on the part of the buyer within the effective period of this agreement, seller is effectively and unilaterally no longer bound by the terms of this agreement.

3. WARRANTIES AND COVENANTS OF SELLER

Seller agrees, represents, and warrants as follows:

- a. Seller has the legal capacity, personality and authority to execute this agreement.

- b. All financial statements, documents, data and information provided fully and correctly reflect the financial condition, assets and liabilities, and operation of seller as of the dates stated in such documents.
- c. The list of accounts, notes payable and notes receivable are complete as of the date of this agreement.
- d. Seller has good and marketable title to all assets and property sold hereunder, except as otherwise stated.
- e. Seller agrees to use best efforts to obtain all the necessary consents for the assignment or transfer of any contract, lease, license, or permit to be assigned or transferred and to perform its duties under such contracts, leases, licenses, and permits without default until the closing date.
- f. Until the closing date of this agreement, seller shall not, without the written consent of buyer, dispose of or encumber any of the assets or property to be sold hereunder, with the exception of any transactions occurring in the ordinary course of seller's business.

4. INVENTORY OF BUSINESS TO BE SOLD

For the sake of clarity, an inventory all assets, real or otherwise, of the business to be sold is itemized as an Attachment to this document and is made part of the calculation of the cost of purchase of the buyer.

5. INTERPRETATION OF AGREEMENT

- a. There are no agreements, warranties, or representations, express or implied, except those expressly set forth in this agreement. All agreements, representations, and warranties contained in this agreement shall apply until the expiration of the effectivity.
- b. This agreement shall not be assignable by buyer without the written consent of seller. Subject to this provision, this agreement shall be binding on and benefit the successors and assigns of both parties.

This agreement is to be governed by and construed under the laws of the State of _____.

In witness whereof the parties have executed this agreement in duplicate at _____ (place of execution) this _____ day of _____, 200__.

SELLER: _____

BUYER: _____

CONFIDENTIAL

NON-DISCLOSURE AGREEMENT

_____ [Prospective Purchaser]

_____ [street address]

_____ [city], _____ [state] _____ [ZIP Code]

SUBJECT: Purchase of _____ [Business Name/Company]

Non Disclosure Agreement

Dear _____:

Concerning your expressed interest in acquiring the assets and business of our website operation conducted under the name _____.

In this connection, you have requested certain information concerning the business, operations, finances, properties, and affairs of the Company.

As a condition to furnishing you with this information, you agree that this information and any other information the Company furnishes you or your representatives or which you or your representatives obtain through this access (collectively known as the Evaluation Material) will be kept confidential.

You agree that the Evaluation Material will not be used by you, your employees, affiliates, or your representatives (collectively, your representatives) in any way detrimental to the Company.

The Evaluation Material will be treated as belonging to the Company, and shall not, without our prior written consent, be disclosed in any manner, in whole or in part, to anyone who is not one of your affiliates or representatives and does not have a need to know to help in the Acquisition. The Evaluation Material shall not be used other than for the purpose of the Acquisition.

You agree that you will not, and your representatives will not, disclose to anyone who is not a direct participant in the possible Acquisition, either the fact that negotiations are taking place or any of the terms, conditions, or other facts with respect to a possible transaction.

Non-Disclosure Agreement

If our negotiations with you are terminated for any reason, or if the Acquisition is not consummated promptly, you agree to return to the Company all Evaluation Material including all copies, summaries, and notes of the contents or parts of this material (regardless of who made them), without retaining any copies of any of this material.

No failure or delay by us in exercising any right, in whole or in part, shall operate as a waiver of any other right.

The internal laws of the State of _____ shall govern this Agreement.

It is further understood and agreed that monetary damages may not be a sufficient remedy for any breach of this Agreement by you and that the Company shall also be entitled to specific performance as a remedy for any such breach.

These remedies shall not be deemed the exclusive remedies for your breach of this Agreement, but shall be in addition to all other remedies available and provided for by law to the Company.

If you are in agreement with this, please sign and return one copy to the Company.

It will then constitute our Agreement with respect to its subject matter.

Very truly yours,

[Signature and title of representative of prospective seller]

AGREED:

[Signature and title of representative of prospective purchaser, and date of signing]

Terms of Payment

Domain Name:			
URL:			
Web Hosting Provider:			
CURRENT REGISTRANT		NEW REGISTRANT	
FULL NAME	FULL NAME		
Home/Business Address	Home/Business Address		
Contact Telephone No.	Contact Telephone No.		
Email	Email		

TERMS OF PAYMENT

1. That for and in consideration of the sum of _____, **SELLER** agrees to transfer complete ownership rights of all assets of the **BUSINESS** to the **BUYER**.
2. That the **BUYER** agrees to transfer to the account of the **SELLER** 50% of the total Purchase Price via Paypal, Credit Card or Bank Wire.
3. For the remaining 50% of the Purchase Price, **BUYER** and **SELLER** jointly agree to use an accredited Escrow Service in processing the payment for the sale of the **BUSINESS**.
4. Payment of the Escrow Service Fee will be at the cost of:
 - a. ___ **BUYER**
 - b. ___ **SELLER**
 - c. ___ **Split, 50/50**

5. The **BUYER** will release escrowed fund in favor of the **SELLER** on completion and verification of the transfer of all **BUSINESS** rights to his name.
6. **SELLER** has two (2) days within which to complete all other necessary steps, processes and preliminaries that may be required to effectively transfer the **BUSINESS** to the **BUYER**.

CONFORMANCE

Current Registrant (Seller)

New Registrant (Buyer)

WITNESSES

CONFIDENTIAL

**Agreement of Complete Transfer
of
Business Ownership
Website and Domain Name**

PREAMBLE

Domain Name:			
URL:			
Web Hosting Provider:			
CURRENT REGISTRANT		NEW REGISTRANT	
FULL NAME		FULL NAME	
Home/Business Address		Home/Business Address	
Contact Telephone No.		Contact Telephone No.	
Email		Email	

This Agreement of Complete Transfer of Business Ownership sets forth the agreement between the Current Registrant (**SELLER**) and the New Registrant (**BUYER**) regarding change in ownership of the Domain Name and Website (**BUSINESS**) being transferred (www.your-domain-name.com) with hosting services provided by **WEB HOSTING PROVIDER** as set forth in the Preamble of this Agreement.

This Agreement becomes effective immediately on the day of execution.

Terms of Payment

TERMS and CONDITIONS

1. The **SELLER** and The **BUYER** both agree that they are both entering into this Agreement of their own free will.
2. The **SELLER** and **BUYER**, jointly and severally, assume full responsibility for the legal validity of the transfer of the **BUSINESS**.
3. Upon completion of the change of ownership of the **BUSINESS**, the **SELLER** will notify **WEB HOSTING PROVIDER** confirming the change of ownership stipulated by this Agreement. If the **WEB HOSTING PROVIDER** has any questions or clarification regarding the change of ownership whatsoever, the **SELLER** assumes all responsibility for responding to such questions and provide **BUYER** with a complete historical record of the same.
4. The **SELLER** agrees to release, indemnify and hold **WEB HOSTING PROVIDER** harmless for any issues that arise as a result of an improper change of ownership, whether intentionally or unintentionally initiated, by the **SELLER** or others acting on his behalf.
5. **SELLER** acknowledges that it and **WEB HOSTING PROVIDER** have entered into a Domain Name Registration and Web Hosting Agreement (hereinafter referred to as Registration Agreement
6. The **SELLER** releases and discharges **WEB HOSTING PROVIDER** from any and all obligations and liabilities to it under the Registration Agreement. **SELLER** acknowledges that it is not due the refund of any fees previously paid to **WEB HOSTING PROVIDER** under the Registration Agreement or entitled to receive any other fees or funds previously paid to **WEB HOSTING PROVIDER**.
7. The **BUYER** acknowledges that it agrees to be bound by the agreements that govern all domain names registered and web sites hosted through **WEB HOSTING PROVIDER**, including the Domain Name Registration Agreement; the Uniform Domain Name Dispute Resolution Policy; this Agreement; and **WEB HOSTING PROVIDER**'s policies and procedures as posted on its web site.
8. The **BUYER** hereby agrees that all rights and liabilities of **SELLER** under the Registration Agreement are hereby transferred and assigned to **BUYER**.
9. The **SELLER** represents and warrants that it has good title to the registration of the **BUSINESS**, that it has not received notice from any third-party alleging any violation of any third-party's rights through **SELLER**'s use and/or registration of the **BUSINESS**, that the **BUSINESS** is not subject to any pending or threatened legal dispute with any third-

Terms of Payment

parties, nor subject to any proceeding or order from any judicial or administrative body, that **SELLER** has not and will not purport to grant to any party other than **BUYER** any right or interest in the **BUSINESS**, that the transfer described herein does not conflict with any agreement, contract, lease, license, instrument, or other arrangement to which the **SELLER** is a party or by which **SELLER** is bound or to which the **BUSINESS** is subject.

10. This Agreement and all of its terms shall be binding upon and inure to the benefit of the **SELLER**, the **BUYER** and their successors, assigns, principals, agents and employees and **WEB HOSTING PROVIDER**.
11. There are no third-party beneficiaries of this Agreement.
12. **SELLER** and **BUYER** agree, jointly and severally, to defend, indemnify and hold harmless **WEB HOSTING PROVIDER** from any loss, liability, damages or expense, including reasonable attorney's fees, resulting from any third party claim, action or demand related to the transfer of the **BUSINESS**, jointly and severally.
13. Furthermore, the **SELLER** and **BUYER** agree to indemnify and hold **WEB HOSTING PROVIDER** harmless from any loss, liability, damages or expense, including reasonable attorneys' fees, arising out of any breach of any representation or warranty provided herein. This indemnification is in addition to any indemnification required of either party under **WEB HOSTING PROVIDER's** Legal and Dispute Policy.
14. **SELLER** further agrees that for a period of not less than six months from the execution of this agreement, he will not create or cause the creation of a clone of the **BUSINESS** that the **BUYER** just purchased; do anything to interfere or steal any subscribers.
15. This Agreement shall be enforceable according to its terms, which alone expresses the agreement of the parties.
16. Both parties agree that there are no other agreements, written, oral or otherwise, that are contrary or inconsistent with the written terms of this Agreement.
17. This Agreement may be modified or amended only by a written agreement, signed by **SELLER** and **BUYER**.

CONFORMANCE

Current Registrant (Seller)

New Registrant (Buyer)

WITNESSES

CONFIDENTIAL

Terms of Payment