YOUR EXIT STRATEGY

BUSINESS SALE PREPARATION

The 5-Year Checklist for Illinois Business Owners

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Important Notice

This guide is provided for informational purposes only and does not constitute legal advice. The information contained herein is general in nature and may not apply to your specific situation. Reading this guide does not create an attorney-client relationship between you and Burhanuddin Law LLC.

Every business situation is unique, and legal outcomes depend on the specific facts and circumstances involved. Before making any legal decisions or taking any action based on the information in this guide, you should consult with a qualified attorney who can evaluate your particular circumstances.

Illinois law governs the topics discussed in this guide. If your business operates in other states, additional or different legal requirements may apply.

For a consultation tailored to your business needs, contact us at (312) 216-5174 or visit burhanuddinlaw.com to schedule an appointment.

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1. The 5-Year Timeline

Selling a business isn't an event—it's a process. The most successful exits are planned years in advance. Here's what to focus on at each stage:

Years 5-4: Foundation

- Define your exit goals (full sale, partial sale, family succession, ESOP)
- Assemble your advisory team (attorney, CPA, business broker)
- Get a baseline business valuation
- Identify key value drivers and areas for improvement
- Begin cleaning up financial records and processes

Years 3-2: Optimization

- Implement operational improvements to boost profitability
- Document all business processes and reduce owner-dependency
- Strengthen customer and vendor relationships
- Clean up legal issues (contracts, IP, employment)
- Address any real estate, environmental, or regulatory concerns

Year 1: Preparation

- Final valuation and pricing strategy
- Prepare confidential information memorandum (CIM)
- Identify potential buyers (strategic, financial, internal)
- Finalize all documentation for due diligence
- Tax planning with CPA for transaction structure

Sale Process: Execution

- Engage business broker or M&A; advisor
- Screen and qualify potential buyers
- Negotiate letter of intent (LOI)
- Manage due diligence process
- Negotiate and close definitive agreements

2. Financial Records Preparation

Buyers and their advisors will scrutinize your financials. Clean, accurate records increase value and reduce deal risk.

Essential Financial Documents

- 3-5 years of tax returns (business and personal if pass-through)
- 3-5 years of financial statements (P&L;, balance sheet, cash flow)
- Monthly financial statements for current and prior year
- Accounts receivable and payable aging reports
- Inventory records and valuation
- Equipment and asset lists with depreciation schedules
- Debt schedule (all loans, leases, obligations)
- Budget and projections for next 2-3 years

Common Issues to Address

- **Personal expenses through the business:** Remove or document add-backs
- **Cash transactions:** Ensure all revenue is reported
- **Related party transactions:** Document and ensure arm's-length terms
- **Unusual or one-time expenses:** Identify and explain for normalization
- **Inconsistent accounting practices:** Standardize before going to market

Pro Tip: Consider a Quality of Earnings (QoE) report before going to market. It identifies issues early and builds buyer confidence.

3. Legal Entity Cleanup

Legal issues discovered during due diligence can kill deals or reduce price. Address these early:

Corporate Governance

- Ensure entity is in good standing with Illinois Secretary of State
- Confirm all annual reports are filed and current
- Review operating agreement/bylaws for transfer restrictions
- Document all ownership interests and any outstanding options
- Resolve any shareholder/member disputes or buy-out issues
- Confirm authorized signers and corporate resolutions are current

Subsidiaries and Affiliates

- Document structure and purpose of all related entities
- Eliminate dormant or unnecessary entities
- Ensure inter-company agreements are documented
- Consider consolidation if structure is unnecessarily complex

Intellectual Property

- Confirm ownership of all trademarks, patents, copyrights
- Ensure IP assignments from employees and contractors are signed
- Review and document all licenses (in and out)
- Address any infringement concerns proactively

4. Contract Review & Assignment

Buyers acquire your business based on the value of your contracts and relationships. Ensure your key contracts are transferable.

Key Contracts to Review

- **Customer contracts:** Your most valuable assets. Check for assignment clauses.
- **Supplier/vendor agreements:** Critical for operations. Confirm continuity.
- **Lease agreements:** Real estate and equipment. Assignment and assumption terms.
- **Employment agreements:** Key employees. Non-competes, change of control provisions.
- **Loan documents:** Acceleration clauses, change of control triggers.
- **Insurance policies:** Coverage continuity during and after sale.
- **Licenses and permits:** Many are non-transferable; check requirements.

Assignment Issues

Many contracts require consent from the other party before assignment. Some prohibit assignment entirely. Identify these contracts early and develop a strategy for obtaining consents or restructuring the deal.

Change of Control Provisions

Even if a contract is technically assignable, a change of control may trigger notice requirements, consent requirements, or termination rights. Review all material contracts for these provisions.

5. Employee & Customer Retention

Your people and your customers are core to your business's value. A sale only works if they stay.

Key Employee Retention

- Identify employees critical to business operations and customer relationships
- Implement retention agreements with stay bonuses tied to closing
- Review and update non-compete and non-solicitation agreements
- Plan for management transition and knowledge transfer
- Consider which employees the buyer will want to retain

Customer Concentration

If any single customer represents more than 10-15% of revenue, buyers see risk. Strategies to address concentration:

- Diversify your customer base before going to market
- Secure long-term contracts with major customers
- Document the depth of relationships (multiple contacts, history)
- Plan for customer introductions during transition period

Confidentiality During the Process

News of a sale can spook employees, customers, and vendors. Maintain confidentiality until closing is imminent. Use NDAs with all potential buyers. Limit knowledge to essential parties.

6. Valuation Enhancement Strategies

Small improvements in profitability or risk profile can significantly increase your sale price.

Improve EBITDA

- Increase revenue through pricing, new customers, or expanded services
- Reduce costs where possible without harming operations
- Eliminate owner perks and personal expenses from the business
- Normalize one-time expenses to show true earning power

Reduce Risk Factors

- Diversify customer and revenue concentration
- Document processes to reduce owner-dependency
- Strengthen management team and organizational structure
- Address legal, environmental, or regulatory issues
- Secure long-term contracts with key customers and suppliers

Build Recurring Revenue

Buyers pay premium multiples for recurring revenue (subscriptions, service contracts, repeat business). Look for ways to convert one-time transactions into ongoing relationships.

7. Tax Planning Basics

Transaction structure significantly impacts your after-tax proceeds. Work with your CPA early.

Stock Sale vs. Asset Sale

Stock/Membership Interest Sale: You sell your ownership interest. Generally more favorable tax treatment for sellers (capital gains). Buyers inherit all liabilities.

Asset Sale: The company sells its assets. Buyers prefer this (step-up in basis, no hidden liabilities). Can result in double taxation for C-corps. S-corps and LLCs often have better outcomes.

Key Tax Considerations

- Capital gains vs. ordinary income treatment of proceeds
- Allocation of purchase price among assets (impacts both parties)
- State tax implications (Illinois has no capital gains preference)
- Installment sale considerations for deferring gains
- Qualified Small Business Stock (QSBS) exclusion if applicable
- Opportunity Zone reinvestment for deferral

Warning: Tax planning must happen BEFORE the deal closes. Once the transaction is complete, your options are severely limited.

8. Due Diligence Preparation

Due diligence is when buyers verify everything you've told them. Being prepared speeds the process and maintains buyer confidence.

Typical Due Diligence Categories

- **Financial:** Tax returns, financials, AR/AP, debt, projections
- **Legal:** Corporate docs, contracts, litigation, IP, compliance
- **Operational:** Processes, facilities, equipment, technology
- **Human Resources:** Org chart, employment agreements, benefits, payroll
- **Customers/Sales:** Customer lists, contracts, concentration, pipeline
- **Real Estate:** Leases, environmental, zoning, condition
- **Insurance:** Policies, claims history, coverage adequacy

Prepare a Data Room

Create a virtual data room (Dropbox, Google Drive, or dedicated M&A; platform) with all documents organized by category. This shows professionalism and speeds the process.

Anticipate Buyer Concerns

Review your business objectively. What questions would you ask if you were buying? Address issues proactively rather than having them discovered during due diligence.

9. Illinois-Specific Requirements

Selling a business in Illinois involves specific legal requirements:

Bulk Sales Compliance

While Illinois has repealed the Bulk Sales Act for most transactions, buyers may still require compliance procedures in the purchase agreement. Understand what representations and indemnities you'll be asked to provide.

State Tax Clearances

- Illinois Department of Revenue lien search and clearance
- Unemployment tax (IDES) clearance
- Sales tax compliance verification
- Chicago/local tax obligations if applicable

Employment Law Considerations

- WARN Act notification (federal and Illinois versions)
- Final paycheck timing under Illinois Wage Payment Act
- Benefit continuation obligations
- Non-compete enforceability under Illinois law

Professional Licenses

Many professional licenses are non-transferable (contractors, healthcare, financial services). The buyer may need to obtain new licenses, which can take time.

10. Your Exit Planning Checklist

Use this checklist to track your exit preparation progress:

- ■ Advisory team assembled (attorney, CPA, broker/advisor)
- ■ Exit goals and timeline defined
- ■ Baseline business valuation completed
- ■ 3-5 years of tax returns organized
- ■ Financial statements clean and consistent
- ■ Corporate governance documents current
- ■ Entity in good standing with state
- ■ All material contracts reviewed for assignment provisions
- ■ Intellectual property ownership documented
- ■ Key employee retention strategy in place
- ■ Customer concentration addressed
- ■ Owner-dependency reduced through documentation
- ■ Legal issues identified and resolved
- ■ Real estate and lease issues addressed
- ■ Tax structure planning completed with CPA
- ■ Due diligence data room prepared
- ■ Confidentiality protocols established
- ■ Post-sale transition plan outlined

Ready to Plan Your Exit?

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We guide family business owners through successful exits.