Title: Preparing for the Sale
By: Matt Manske

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In the best scenario, the business owner begins to prepare for the sale at least one year in advance. The owner should start by working with his or her accountant to create clear-cut financial statements that illustrate the company's revenues, expenses and growth potential. Owners typically try to minimize taxes during their careers. But, when its time to sell, owners need to “lean-up” their operations to ensure they can show the best possible cash flow to prospective buyers. Their records should clearly document all transactions so that potential buyers can easily evaluate the company. This will also give the new owner the ability to take over with minimal training.

Following are some additional recommendations for making your company more attractive to potential buyers:

- Eliminate any potentially difficult situations when possible. The new owner will not want to face customers expecting special treatment or, worse yet, be the one that cancels a long-standing verbal agreement with the company's oldest customer.

- Examine all supplier and customer contracts. Make sure terms and conditions will not expire or require re-negotiation just as a new owner steps in. Terminate contracts that might be trouble for a potential buyer, or that drain the company financially and serve little purpose.

- Start recording company policies and procedures that exist as unwritten rules. If necessary, create a procedure manual that documents exactly how to best run the business, and be sure to include your unspoken, undocumented techniques. Your payroll service may be able to prepare a comprehensive procedure manual for you at very little cost to you.

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- Review real estate leases, especially if your business is tied to its location. Make sure the lease does not expire or require re-negotiation at the same time you plan to sell the company. If the company's location will discourage buyers, consider moving the location before you place the business up for sale.

- Analyze equipment leases and other material contracts from the buyer's perspective. Evaluate and catalog your company assets, from property to inventory to employees. If you delayed investing in computer upgrades to help with operations, now may be the time to modernize.

- Address any employee issues. The loss of key employees during a sale can kill a transaction. Key employees may be crucial to the new owner's success, so it's important to determine which employees are prepared to stay with the company during and after the transition. It is also important that employees don't hear about the pending sale of the company from a third party.

- Once you begin the process with a potential buyer, be sure to make a complete disclosure of all aspects of your business. Open up your books for inspection. Show all of your leases and other relevant contracts. Let the buyer see everything, good and bad. Business sales most often go awry if the buyer feels the seller is failing to disclose an important aspect of the operation – an act that may constitute fraud. By making a full disclosure, you ensure that no one can accuse you of anything down the road.

- Discuss tax consequences of the pending sale with your accountant as soon as you can. After you sell your business, the amount of tax you owe will depend on the internal structure of your company and how you structure the sale. If you plan wisely, you can minimize your tax liability. (Your tax advisor or accountant will determine what's best for your company.)

The following tax issues should be discussed with your advisor or accountant to help minimize your tax liability on any gains from the sale: the structure of your sale; re-structuring your company prior to the sale; selling the stock vs. the assets of your company. And, if you do not wish to sell out completely, there may be tax-saving benefits in a tax-deferred re-organization where at least half the equity in the target company is acquired in exchange for the stock of the acquiring company.

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In closing, preparing for the sale takes time and it is not something that should be done on a whim. You should consult your accountant and advisors to help you prepare ahead of time. Your goal should be to maximize the cash flows from your operations and be able to provide clear-cut financial statements and tax returns to potential buyers. The more detail and cash flow you can show a potential buyer, the better chance you have of getting the price you want.

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