

INTRODUCTION

Starting a new business can be both exciting and frightening. There are many practical things to consider -- location, size, employees, quality control, etc. And then there are the anxieties and concerns: "Will I make it?" "Am I in over my head?" "Where do I start?"

Start by having confidence! Acquaint yourself with the basic procedures for opening a business in Illinois through this handbook and by utilizing the programs available through the Department of Commerce and Economic Opportunity (DCEO). This publication is designed to answer some of the questions about starting a business. The information is applicable to all business startups, with an emphasis toward small companies, which comprise over 98 percent of all businesses in Illinois.

To help ensure your business' success, it is of the utmost importance that you are aware of all the regulations, requirements and aspects of operating a business before beginning your endeavor. Ensure that you have all necessary licenses, permits or registrations applied for and approved before you open your door. Although this publication offers a great deal of information, it should not be used as the sole reference when starting a business. Legal rules and regulations are constantly changing; updates can be obtained through the many state agencies that are listed within this handbook. Finally, remember that it is important to check with both your city and county clerk before undertaking any business venture.

The Illinois Entrepreneurship Network was established throughout the state to provide business management, counseling and training, assistance in entering international markets, information on competing for state and federal contracts, developing technology related products and providing a supportive environment for new, startup businesses. This network consists of Small Business Development Centers, Procurement Technical Assistance Centers, International Trade/NAFTA Centers, Small Business Incubators and of course Entrepreneurship Centers. Assistance is provided in the areas of preparing business and marketing plans, securing capital, improving business skills, accessing international trade opportunities and addressing other business management needs. DCEO also has programs targeted to assist minority and women-owned business concerns. The Illinois Entrepreneurship Network is a collaborative arrangement among DCEO, the US Small Business Administration, the US Department of Defense, colleges and universities and private business organizations. Pursuant to the Business Assistance and Regulatory Reform Act, the Illinois Department of Commerce and Economic Opportunity (DCEO) created the IEN Business Information Center of Illinois (the Center). The goal of the Center is to enhance the state's business climate by making it easier for businesses to comply with government requirements and gain access to the information they need to be competitive. Whether a startup or existing business, this handbook will inform you of various legal requirements and guide you to additional resources. If you have any questions after reading the handbook, contact the Center or your local Small Business Development Center and a staff member will further assist you. For business information, contact the IEN Help Line at 1-800/252-2923, (TDD 1-800/785-6055). All of the Center's products also are available through the World Wide Web at www.ienconnect.com.

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CHAPTER ONE

SETTING UP THE BUSINESS

FEASIBILITY CHECKLIST

A feasibility checklist should be used to evaluate a business idea before investing extensive time, money and effort in the process. It can be used to analyze an existing business opportunity or a new venture. The questions concentrate on areas you must consider seriously to determine if your idea represents a real business opportunity. A feasibility checklist is located in Appendix A of this handbook for your convenience.

BUSINESS PLAN

Development of a business plan is another important item in starting a new business and should be the second step in establishing the credibility of the venture. The plan should help guide the business owner through the business' goals and objectives, marketing and financial strategies and serve as an introduction to potential investors if outside financing is required. An outline of a business plan is located in Appendix B of this handbook.

FORMS OF ORGANIZATION AND REGISTRATION

There are several ways to organize businesses in Illinois, each having advantages and disadvantages to be weighed against practical needs and goals. Before selecting a form of organization, the following should be explored with an attorney and/or accountant:

- cost and complexity of formation
- tax and securities law implications for each form
- need for attracting additional capital
- investors' liability for debt and taxes
- the goals and purpose of the enterprise

In addition, you might want to consider setting your business apart by registering for a state trademark through the Secretary of State. Any individual, firm, partnership, limited partnership, limited liability partnership, limited liability company, corporation, association, union may do so. The fee is \$10 for initial application. This is additional protection that your business name cannot be used by another entity. For further information, visit:

http://www.cyberdriveillinois.com/departments/business_services/publications_and_forms/trademrk.html

If the trademark is used only within one state (and thus doesn't qualify for federal registration), state registration is a good idea. State registration, however, does not offer the same level of protection provided by federal law.

The main benefit of state registration is that it notifies anyone who checks the state's list that the mark is owned by the registrant. This fact will lead most would-be users of the same trademark to choose another one rather than risk a legal dispute with the registered mark's owner.

If the mark is also federally registered, a would-be user of the same trademark is presumed to know the trademark is federally registered, and state registration isn't necessary.

You can file your trademark application online at the U.S. Patent and Trademark Office (USPTO) website by using the Trademark Electronic Application System (TEAS): www.uspto.gov. You can also call the USPTO for a paper form, but the USPTO cautions that paper forms will not be processed as quickly, and paper applications cost \$50 more to file. For further information, go to the above website.

SOLE PROPRIETORSHIP

A sole proprietorship is a business which is owned and operated by an individual. The advantages of this form of organization include ease of formation and relative freedom from government controls and restrictions. Disadvantages include less access to capital and financial resources. Also, this form of business organization provides less protection with regard to personal liability (if the owner's company should get into a position of owing more to others than the amount of cash and other assets it has, the owner's personal assets -- home, car, etc. -- may be required to be sold to pay the obligations of the business).

REGISTERING A BUSINESS

Registration as a **SOLE PROPRIETORSHIP or GENERAL PARTNERSHIP**. When a business name is different from the owner(s) full legal name(s), the Illinois Assumed Name Act requires sole proprietorships and general partnerships to register with their local county clerk's office. For example, "John Doe" would not need to file, but "John Doe's Cleaners" would. "Susan Williams and Paula Brown" would not need to file, but "Williams and Brown" or "Williams & Brown Speedy Travel Agency" would. In every county where the business is located, a certificate setting forth the name of the business, the full legal name(s) and address(es) of those owning, conducting or transacting the business and the location(s) of the business must be filed with the county clerk's office. Notice of filing must be published once a week for three consecutive weeks in a newspaper of general circulation published within the county in which the certificate is filed. Also, any changes or additions of names and/or addresses must be reported to the clerk.

GENERAL PARTNERSHIP

A general partnership is defined as two or more individuals carrying on an association as co-owners of a business for profit. Types of partnerships include general and limited. Before starting the company, the partners should agree on how much owner equity each partner must contribute the extent to which each partner will work in the company and the share of the profits or losses to be received by each of them. This agreement should be prepared by an attorney in writing to avoid any future misunderstandings. As with sole proprietorships, a general partnership exposes the owners to personal liability. If the business is not successful and the partnership cannot pay all it owes, the general partners may be required to do so using their personal assets.

LIMITED LIABILITY PARTNERSHIP

If organized as a Limited Liability Partnership under a specific section of the General Partnership Act, partners are not liable for the debts, obligations and liabilities of, or chargeable to the partnership arising from negligence, wrongful acts, omissions, misconduct or malpractice committed while the partnership is a Limited Liability Partnership. Contact the LLP Section at:

Limited Liability Partnership
Room 357, Howlett Building
Springfield, Illinois 62756
217/524-4952
TDD: 1-800-252-2904
http://www.cyberdriveillinois.com/departments/business_services/home.html

LIMITED PARTNERSHIP

A Limited Partnership is an organization made up of a GENERAL PARTNER, who manages a project; and limited partners, who invest money, but, have limited liability, are not involved in day-to-day management, and usually cannot lose more than their capital contribution. Usually limited partners receive income, capital gains, and tax benefits; the general partner collects fees and a percentage of capital gains and income. Typical limited partnerships are in real estate, oil and gas, and equipment leasing and family partnerships, but they also finance movies, research and development, and other projects. Typically, public limited partnerships are sold through brokerage firms for minimum investments of \$5,000.00, whereas private limited partnerships are put together with fewer than 35 limited partners who invest more than \$20,000.00 each. This section has a Chicago office for filing purposes and issuing certificates of existence and abstracts from computer record.

Contact the Limited Partnership Section at:

501 South Second Street
Room 357, Howlett Building
Springfield, Illinois 62756
217/785-8960

69 W. Washington
12th Floor
Chicago, Illinois 60601
312/793-2872

TDD: 1-800-252-2904

http://www.cyberdriveillinois.com/departments/business_services/home.html

LIMITED LIABILITY COMPANY

A Limited Liability Company (LLC) is the non-corporate form of doing business that provides its owners with limited liability, flow-through tax treatment and operating flexibility through participation in management of the business. The LLC is well suited for every type of business venture except banking and insurance, which are prohibited by Statute. Examples of acceptable businesses are: farming, agricultural services, mining, construction, manufacturing, transportation, wholesale and retail trade, investment companies, insurance agents, real estate brokers, all types of real estate ventures, hotels, personal and business services, automotive sales and services, amusement and recreation, health services, accounting, architecture and other professions, just to name a few. Many Illinois businesses could obtain personal limited liability protection by restructuring as an LLC with a minimum of one owner. Contact the LLC Section at:

Limited Liability Company Section
Room 351, Howlett Building
Springfield, Illinois 62756
217/524-8008
TDD: 1-800-252-2904

http://www.cyberdriveillinois.com/departments/business_services/home.html

CORPORATIONS

A corporation is a distinct legal entity and is the most complex form of organization. A corporation may sell shares of stock, which are certificates indicating ownership, to as many people as is desirable. The shareholders then elect a board of directors, which elects a president and other officers who run the company on a day-to-day basis. Among the advantages of corporate formation are limited liability of the shareholder and ease of transferring ownership.

Registration as a **CORPORATION**. If the decision is made to incorporate, Articles of Incorporation must be filed with the Secretary of State indicating the purpose of the enterprise. The corporation will be required to file annual reports with the Secretary of State.

If the name of the business will include the word “Corporation,” “Inc.,” “Incorporated” or “Corp.,” you must incorporate. Information on corporate filing is available by telephone, letter, Internet or over the counter through offices located in Springfield and Chicago. Also available are booklets on organizing domestic corporations (head quartered in Illinois) or foreign corporations (head quartered out of state or out of country). Contact the Secretary of State, Business Services:

Room 328 Howlett Building
Springfield, Illinois 62756
217/782-6961

69 W. Washington, 12th Floor
Chicago, Illinois 60602
312/793-3380

TDD: 1-800-252-2904

http://www.cyberdriveillinois.com/departments/business_services/home.html

S CORPORATIONS

Electing S Corporation status is an option that must be made through the Internal Revenue Service (IRS) when starting a business. In general, an S Corporation passes through income and expenses to its shareholders, who then report them on their own income tax returns. To qualify for S Corporation status, a corporation must meet several requirements, one of which limits the number of shareholders to 75. All shareholders also must consent to the corporation’s choice of S Corporation status. For further information regarding S Corporations, contact the Internal Revenue Service (IRS) at 1-800-829-1040, TDD: 1-800-829-4059 or to request a copy of Publication 589, Tax Information on S Corporations, write the Forms Distribution Center of the IRS, P.O. Box 8903, Bloomington, Illinois, 61702-8902 or call 1-800-829-3676, (TDD:1-800-829-4059). You can receive it online at: <http://www.irs.gov/formspubs/article/0,,id=141429,00.html>. Scroll down to Publication 589.

(See Business Entities (A Comparison) on next page)

BUSINESS ENTITIES (A COMPARISON)

Factor	General Partnership	R.L.L.P Partnership	Limited Partnership	Limited Liability Company	Sole Proprietorship	"C" Corporation	"S" Corporation
Limited Liability	Partners Equally Liable	Yes All Partners	Only The Limited Partners	YES	No Limit	YES	YES
Management	All Partners	All Partners	By General Partners	Members and/or Managers	Self	Board of Directors	Board Of Directors
Membership	No Maximum Minimum of Two	No Maximum Minimum of Two	No Minimum Maximum of Two (1 gen/ 1 limited)	No Maximum Minimum of One	One	No Maximum	Maximum 75 (No Corp, Trust, Pension plan, or non-resident alien stock-holders).
Trans of Interest	Restricted Auth By Partnership Agreement	Restricted Auth By Partnership Agreement	Restricted Auth By Partnership Agreement	Restricted Auth By Operating Agreement	Only Upon Liquidation	No Restrictions (usually)	No Restrictions (see above)
Different Classes of Ownership	Permitted	Permitted	Permitted	Permitted	NO	Permitted	Only One Class of Stock Permitted
Federal Tax	Pass Thru To 1040 At Partnership Level	Pass Thru To 1040 At Partnership Level	Pass Thru To 1040 At Partnership Level	Generally, Pass Thru To 1040 At Partnership Level	Schedule "C" Tax Form To US 1040	Graduated Tax From 15- 35%	Pass Thru To 1040 Corp Level Tax (usually)
Illinois Income Tax	"	"	"	"	Illinois 1040	4.8% Corporate Tax	0 Corporate Level Tax
Illinois Personal Property Replacement Tax	1.5%	1.5%	1.5%	1.5%	0	2.5%	1.5%
Annual Franchise Tax	NO	NO	NO	NO	NO	Min \$25 Max \$2 Million	Min \$25 Max \$2 Million
Filing Fee	State None County Filing Requirement Only	\$200 Per Partner To a Maximum of \$5000 Partnership	\$150 Initially And \$150 Renewal	\$500 To Organize \$250 Annual Renewal Under Amendatory Act of 1997	State None County Filing Requirement Only	To Incorporate \$150 + a minimum \$75 Franchise Tax	To Incorporate \$150 + a minimum \$75 Franchise Tax

ACQUISITIONS

A common way to start a business in Illinois is to acquire an existing business. Be aware that the purchaser of the assets of a business is required to file a "Notice of Sale/Purchase of Business Assets" (form CBS-1), and obtain a Bulk Sales Release of Transferee Liability from the Illinois Department of Revenue. It is available online at: <http://www.revenue.state.il.us/TaxForms/index.htm> Do a search for CBS-1.

If additional information is required, contact:

Illinois Department of Revenue
Bulk Sales Section
P.O. Box 641155
Chicago, Illinois 60664-1155
Voice: 312/814-3063, (TDD:1-800-544-5304)
<http://www.revenue.state.il.us/>

FRANCHISE DISCLOSURE

Buying a franchise has become a popular way of starting a business. This aspect of business is regulated by the Franchise Disclosure Act which is administered by the Illinois Attorney General. The Franchise Disclosure Act requires that the franchiser register with the Illinois Attorney General and provide the franchisee complete information regarding their franchisor-franchisee relationship, the details of the contract, the prior business experience of the franchiser and other information relevant to the franchise offered for sale. A copy of the Franchise Disclosure Act may be obtained by calling the Illinois Attorney General's Office at 217/782-4465 (TDD: 217-785-2771) or online at: <http://www.illinoisattorneygeneral.gov/consumers/franchise.html>.

LICENSES, REGISTRATION, PERMITS AND ASSISTANCE

In Illinois, most businesses are required to be registered and/or licensed by the Department of Revenue. The (REG-1) Illinois Business Registration, (IL-W-4) Withholding Allowance Certificate; (CBS-1) Notice of Sales or Purchase of Business Assets; (IL-700) Withholding Tax Guide; (IL-501 & IL-941) Withholding Tax forms, are some of the forms that your business may be required to complete. For more information on which form is applicable to your business, please contact the Illinois Department of Revenue at 1-800/732-8866, (TDD: 1-800-544-5304) or by writing or visiting Revenue at:

100 West Randolph
7th Floor
Chicago, Illinois 60601

101 West Jefferson Street
PO Box 19030
Springfield, Illinois 62794-9030

Voice: 1-800-732-8866

TDD: 1-800-544-5304

<http://www.revenue.state.il.us/>

If you need assistance in completing any of the forms, please call the Illinois Department of Revenue at 1-800-732-8866, (TDD: 1-800-544-5304) between the hours of 8:00 a.m. and 5:00 p.m., Monday through Friday. The Department of Revenue also licenses and registers certain businesses which include: Cigarette and Cigarette Use Tax (distributors); Coin-Operated Amusement Device Tax; Gas Revenue Tax; Hotel Operators' Occupation Tax; Liquor Tax; Motor Fuel Tax (distributors, suppliers, bulk users and blenders); Motor Fuel Use Tax, Public Utilities Tax (electric); and, Telecommunications Tax. For more information call the Department of Revenue's Miscellaneous Taxes and Excise Tax Office at 217/782-6045.

The Department of Financial and Professional Regulation is the main licensing agency for the State of Illinois. IDFP is comprised of four divisions that represent the agency's various functions and activities. **The Division of Banking, Division of Financial Institutions, Division of Insurance, Division of Professional Regulation.** Below is a same of the occupations and career areas licensed or registered by that department:

Acupuncturist	Nurse
Alarm Contractor	Nursing Home Administrator
Architect	Occupational Therapist
Athletic Trainer	Optometrist
Barber	Pharmacist
Boxing & Wrestling	Physical Therapist
Chiropractor	Physician
Collection Agency	Physician's Assistant
Cosmetologist	Podiatrist
Dietitian	Professional Service Corporation
Embalmer	Psychiatrist
Environmental Health Practitioner	Psychologist
Esthetician	Public Accountant
Funeral Director	Real Estate Agent/Broker
Geologist	Respiratory Therapist
Home Medical Equipment	Roofing Contractor
Interior Designer	Shorthand Reporter
Land Surveyor	Social Worker
Landscape Architect	Speech Language Pathologist
Licensed Practical Nurse	Structural Engineer
Locksmith	Veterinarian
Massage Therapy	Veterinarian's Technician
Marriage and Family Therapist	Wholesale Drug Distributor

To find out which occupations and career areas are licensed or registered by that department, go to:
<http://www.idfpr.com/dpr/proflist.asp>

Contact the Department of Financial and Professional Regulation at:

320 West Washington, 3rd Floor

Springfield, Illinois 62786

Voice: 217/785-0800

TDD: 1-217-524-6735

www.idfpr.com

The Securities Department of the Secretary of State's Office licenses securities dealers, salespersons and investment advisors. Information application packages may be obtained from:

Securities Department

Jefferson Terrace – Suite 300A

300 West Jefferson Street

Springfield, Illinois 62702

Voice: 217/782-2256 (TDD: 1-800-252-2904)

http://www.cyberdriveillinois.com/departments/securities/selling_securities/home.html

In addition, many businesses are required to obtain permits or register with other state agencies. An example of this would be day-care services which are licensed by the Department of Children and Family Services. Trucking companies must register with the Illinois Commerce Commission. Those in the plumbing business register with the Department of Public Health. These are examples of other profession that are licensed by the state. To determine if your occupational activities are regulated, contact the IEN Business Information Center and a business specialist will assist you.

The US Environmental Protection Agency establishes standards for various air and water pollutants such as sulfur dioxide, carbon monoxide, ozone, hydrocarbons and dust. States are required to enforce the federal standards. For more information on Illinois' standards contact:

Illinois Environmental Protection Agency
1021 N. Grand Ave. East
Springfield, Illinois 62702
Voice: 217/782-3397
TDD: 217/782-9143
<http://www.epa.state.il.us/>

Dept. of Commerce and Economic Opportunity
Illinois Entrepreneurship Network
620 East Adams Street
Springfield, Illinois 62701
Voice: 1-800-252-3998
TDD: 1-800-785-6055

At the local level, some communities require businesses to be licensed or registered and to comply with local zoning requirements. Contact your city and county clerk for information on local regulations and restrictions.

TAXES

Taxation for small businesses can be quite simple or very complex, depending on the size and type of operation. The following list outlines the major taxes with which a business must be concerned. Of course, the tax liability of each business will be different.

Income Tax

Every individual, corporation, trust and estate residing in Illinois or earning or receiving income in Illinois must pay an income tax based on net income. A replacement tax is also applied to the net income of partnerships, corporations and trusts. S Corporations are subject only to replacement tax.

Sole Proprietorship - A sole proprietor must pay individual income taxes on earnings from the business.

Partnerships and Limited Liability Companies - Each partner/owner must pay taxes on the distributive share of partnership/owner's income. In addition, Illinois has a replacement tax that applies to partnerships.

Corporations - The corporate entity must pay a corporate income tax and replacement tax which is administered and collected by the Department of Revenue. In addition, corporations are assessed a franchise tax each year based on their paid-in capital and a Corporate Personal Property Tax Replacement Income Tax. Corporate and franchise taxes are administered and collected by the Secretary of State's Office.

Sales Taxes

Four categories of taxes comprise the state and local sales taxes. These are the Retailers' Occupation Tax, the Use Tax, the Service Occupation Tax and the Service Use Tax. The state also administers various local sales and use taxes subject to criteria and rate limits established by Illinois law. The **Retailers Occupation Tax** (ROT) is imposed directly on the gross receipts of a retail seller for the privilege of conducting business in Illinois.

The **Use Tax** is imposed directly on the purchaser for the privilege of using and consuming tangible personal property in Illinois that has been purchased anywhere. Illinois retailers pay the Retailers' Occupation Tax and, by law, reimburse themselves for the tax by collecting Use Tax from customers, based on the selling price of the tangible personal property. The business can keep 1.75 percent of the taxes collected for acting as an agent for the Department of Revenue (if tax is paid in a timely manner). The **Service Occupation Tax** (SOT) is imposed directly on the receipts from the selling price of any tangible personal property transferred as part of a sale of service, if the cost to the service person is 35 percent or more of the total charged. The **Service Use Tax** is imposed directly on the purchaser and also is based on the selling price of the property transferred incident to a sale of service. The Service Use Tax is intended to reimburse the service person for his/her SOT liability.

Sales Tax Exemptions (some examples)

- Sales for resale (purchaser must have resale or ROT number from Department of Revenue)
- Sales made in interstate commerce
- Sales to exclusively charitable, religious, educational or governmental organizations, or recreational organizations for those over 55 years old. (Pursuant to legislation enacted in 1985, the Department of Revenue issues an exemption number. In order to claim an exemption for purchases made on or after July 1, 1987, the purchaser must have this number)
- Charges for service or repair labor
- Distillation machinery and equipment used to produce ethyl alcohol for motor fuel for personal use and not for resale
- Personal property sold to or utilized by interstate carriers for hire for use as rolling stock moving in interstate commerce
- Farm machinery and equipment including replacement and repair parts
- Graphic arts equipment, including replacement parts
- Manufacturing machinery and equipment, including replacement parts
- Oil rigs and coal exploration equipment
- Enterprise Zone building materials purchased from retailers located within the Enterprise Zone's taxing jurisdiction for use in an enterprise zone
- Enterprise Zone materials used in manufacturing for use in an enterprise zone
- Farm chemicals
- Magazines and newspapers

There are other exemptions.

For further information on Sales Tax regulations or the Illinois Retailers' Tax Booklet (ST-25), contact the Department of Revenue at 217-785-3707, 1-800-732-8866, or TDD: 1-800-544-5304. For all tax forms, interactive and electronic filing, go to <http://www.revenue.state.il.us/>

Property Taxes

All for-profit real estate owners are required to pay property taxes. The property tax rate is determined by local taxing districts and is paid to the township or county tax collector in the year following assessment.

Withholding Taxes

Certain taxes must be withheld from employee wages and remitted to the government. These include state and federal income taxes and FICA (Social Security). You may be required to register with both the federal government and the State of Illinois for tax withholding purposes. To learn more about your federal government tax requirements, contact the Internal Revenue Service at 1-800/829-3676 and request any of the following materials:

- Small Business Resource Guide (CD-ROM)
- Understanding Your IEN (Publication 1635)
- Small Business Tax Workbook (Publication 1066A)
- A Virtual Small Business Tax Workshop DVD (Publication 1066C)
- Starting a Business and Keeping Records (Publication 583)
- A Tax Guide for Small Business (Publication 334)
- Employer's Tax Guide (Publication 15)
- Tax Calendar for Small Business (Publication 509)

The IRS also operates a general information hotline: 1- 800/829-1040. To register with the State of Illinois, contact the Department of Revenue:

100 W. Randolph, Concourse 300
Chicago, Illinois 60601

PO Box 19030
Springfield, Illinois 62794-9030

Voice:1-800-732-8866

TDD: 1-800-544-5304

<http://www.revenue.state.il.us/>

Federal Employer Identification Number (FEIN)

Every partnership, corporation and S Corporation must have a FEIN to use as its taxpayer identification number. A sole proprietorship must also have a FEIN, if it:

- 1) Pays wages to one or more employees; or
- 2) Files any excise tax returns, including those for alcohol, tobacco or firearms.

Otherwise, sole proprietors can use their social security number as their business taxpayer identification number. To apply for a FEIN, use form 0707 SS-4, Application for Federal Employer Identification Number. To receive an application, contact the IRS at 800/829-4933 (TDD 1-800-829-4059) or go online at <http://www.irs.gov/formspubs/lists/0.,id=97817,00.html>

IMMIGRATION REFORM AND CONTROL ACT

The Federal Immigration Reform and Control Act of 1986 requires every employer to keep on file a form for every employee certifying such employee's identity and work eligibility. Under IRCA, employers may hire only persons who may legally work in the U.S., i.e., citizens and nationals of the U.S. and aliens authorized to work in the U.S. The employer must verify the identity and employment eligibility of anyone to be hired, which includes completing the Employment Eligibility Verification Form (I-9). Employers must keep each I-9 on file for at least three years, or one year after employment ends, whichever is longer. On April 28, 2005, a new law took effect allowing employers to sign and store Forms I-9 electronically. To obtain forms and instructions:

<http://www.uscis.gov/files/form/i-9.pdf>

Employment-related immigration regulations and procedures are based on legislation passed by Congress and can be complex. To assist employers, U.S. Citizenship and Immigration Services (USCIS) has structured a wide range of information to inform employers on employment, business, investment, training, and related immigration subjects—a function previously provided by the

USCIS Office of Business Liaison. Go to: <http://www.uscis.gov/portal/site/uscis>. In addition, telephone assistance is available at the following numbers:

- For general employer information: 1-800-357-2099
- For E-Verify information: 1-888-464-4218
- For student employment information: (202) 353-3046
(Administered by U.S. Immigration and Customs Enforcement)

WAGE WITHHOLDING FOR CHILD SUPPORT

Federal and state laws require judges in domestic relations cases to order employers to withhold a portion of an employee's income for payment of child support. An Income Withholding Notice is prepared and served immediately upon the payor unless a written agreement by both parties to an alternative arrangement has been made. If the payor becomes delinquent, the Income Withholding Notice will be issued. The order is mandatory in cases involving Public Aid recipients.

When an Income Withholding Notice is served on the employer, the employer withholds the amount stated and sends the amount withheld to the State Disbursement Unit. If the employer fails to withhold wages as specified in the Notice, the employer will be liable for the amount that should have been withheld, and may have to pay a fine.

An employer may not discharge, discipline, deny employment or otherwise penalize an employee because he/she is subject to an Income Withholding Notice. An employer who does so may be ordered to employ, reinstate and/or pay restitution to the employee. A fine also may be imposed by the Court on the employer.

The Illinois Department of Healthcare and Family Services (Formerly the Illinois Department of Public Aid) is the Child Support Enforcement agency for the State of Illinois. For more specific information on provisions of Wage Withholding for Child Support, contact the Illinois Department of Public Aid:

Division of Child Support Enforcement

Voice: 1-800-447-4278

TTY: 1-800-526-5812

<https://www.ilchildsupport-employer.com/default.aspx>

Statewide

P.O. Box 19153

Springfield, Illinois 62794-9153

Voice: 217/782-1380 or 877/225-7077

For EFT-EDI: 888/704-0683 or 217/557-3127

UNEMPLOYMENT INSURANCE

You may be required to make unemployment insurance contributions to the Department of Employment Security. Generally, you are liable for such contributions if you have: 1) employed one or more workers for at least part of a day in each of twenty weeks in a calendar year; or, 2) paid at least \$1,500 in total wages during a calendar quarter

Every newly created employing unit must register with IDES within 30 days of start-up. Use the UI-1 form, "Report to Determine Liability Under the Illinois Unemployment Insurance Act". Employers can also register electronically through the Illinois TaxNet website:

<https://taxnet.ides.state.il.us/login/default.aspx>

Most new employers are responsible for making contributions at the current rate of 0.8-7.2 percent of each worker's wages up to \$12,000 per calendar year. (There are other rates for certain industries such as construction, mining and agriculture.)

You also may be liable if you acquire all or part of a business already subject to the Unemployment Insurance Act. To determine liability, complete a "Report to Determine Liability" form and submit it to the Unemployment Insurance Revenue Division of the Department of Employment Security. If it is determined that you are liable, an account number will be assigned and reporting forms mailed to you each quarter. Reports and contributions are due no later than the last day of the month following the end of the calendar quarter.

Reports must be filed quarterly listing the workers' wages even if there is no contribution due because all of the workers have already reached the \$12,000 threshold. Call 1-800-327-HIRE (4473) or email questions to the New Hire Unit at DES.NHire@illinois.gov.

IDES accepts MasterCard and Visa credit and debit cards for employer payments of quarterly unemployment insurance obligations. An employer can pay by debit or credit card over an internet site or by telephone. The website address for credit or debit card payments is <https://www.paybill.com/IDES>. Employers may use the new telephone option by calling 1-866-268-3956 and following the step-by-step prompts. Employers may email the Department at DES.payments@illinois.gov or call the toll free number at 1-800-247-4984 with questions about these new options.

For further information, contact the Department of Employment Security:

IDES Employer Hotline
33 South State, 10th Floor West
Chicago, IL 60603
Voice: 1-800-247-4984 (Illinois only) or 312-793-4880
TDD: 312-793-9350
<http://www.ides.state.il.us/employer/uitax/default.asp>

WORKERS' COMPENSATION

By law, an employer is required to provide insurance for employees' accidental deaths, injuries, and occupational diseases arising out of and in the course of employment. The insurance requirement is applicable to almost all businesses and must include provisions for all medical expenses, rehabilitation and retraining, temporary and total disability, permanent disability and death benefits. Insurance generally is purchased through private firms or agents, although business can apply to the commission for permission to self-insure. Annual premiums are based on total company payroll, loss experience and type of business. Employers must post a notice in the workplace listing the insurance carrier and explaining workers' rights under the law. Temporary workers who otherwise do not receive any company benefits are still provided workers' compensation. For further information on workers' compensation, contact:

Illinois Worker Compensation Commission (formerly Industrial Commission)
100 West Randolph, 8-200
Chicago, Illinois 60601
Voice: 312/814-6611
TDD: 312/814-2959
Statewide: Toll-free line 866/352-3033
<http://www.iwcc.il.gov/>

If you are refused coverage by two or more companies, you can obtain insurance from the Assigned Risk Pool. Rates will be approximately 20 percent higher than the open market. To obtain information on Assigned Risk coverage, call the National Council on Compensation Insurance (NCCI) Customer Service Line at 1-800-622-4123.

POSTERS THAT MUST BE DISPLAYED AND OTHER LABOR REQUIREMENTS

Federal and state laws require that certain posters be displayed on business premises to inform employees of their rights and benefits. **These posters may be obtained at no cost from the applicable agencies listed.** (NOTE: Beware of those that would attempt to sell these items.)

Equal Employment Opportunity Commission (EEOC):

Businesses with 15 or more employees must display the poster from the EEOC entitled "Equal Employment Opportunity is the Law." This poster is available upon request from:

EEOC Publication Office
8280 Greensboro Dr., Suite 300
McLean, VA 22102
Voice: 1-800-669-3362 or Fax: 703-821-2098
TDD: 1-800-800-3302 Material Orders and Inquiries
<http://www.eeoc.gov/publications.html>

US Department of Labor (USDOL)

Businesses with one or more employees must display these posters to inform employees of their rights: *Occupational Safety and Health Administration's Safety Poster, Family Medical Leave Act, Fair Labor Standards Act and the "Employee Polygraph Protection Act.* New Federal Poster requirement: *The Uniformed Services Employment and Reemployment Rights Act (USERRA).* Please write, fax or obtain online:

USDOL / Forms and Publications
230 Dearborn Street / Room 1086
Chicago, Illinois 60604
Fax: 312/353-0127
<http://www.dol.gov/compliance/topics/posters.htm>

Illinois Department of Employment Security (IDES)

The Illinois Department of Employment Security poster is included in the IDES Employer Startup Kit (see Unemployment Insurance section on previous page).

Illinois Worker's Compensation Commission

Employers must display a workplace notice listing the insurance carrier and explaining workers' rights under the workers' rights under the Workers' Compensation Act. For copies, call 1-866-352-3033. The notice is also available at: www.iwcc.il.gov/

Illinois Department of Labor (IDOL)

Workplace Notice: The Illinois Department of Labor (IDOL) requires employers to display the poster entitled "Notice to Employers and Employees." IDOL is responsible for enforcement of laws which protect Illinois workers. These laws provide a workplace in which employer and employee are each bound by the same impartial laws and standards.

Employee Classification Act: The Employee Classification Act of 2008 provides that individuals performing services for construction contractors on or after January 1, 2008 are presumed to be employees of the contractor unless they meet certain criteria. A construction contractor for whom one or more individuals perform services who are not classified as employees under Section 10 of this Act shall post and keep posted, in a conspicuous place on each job site where those individuals perform services and in each of its offices, a notice in English, Spanish, and Polish, prepared by the Department, summarizing the requirements of this Act. The Department shall furnish copies of summaries without charge to entities upon request.

These posters are available on the Illinois Department of Labor web page (<http://www.state.il.us/agency/idol/Posters/poster.htm>) or by contacting the agency at:

160 North LaSalle Street, Suite C-1300
Chicago, Illinois 60601
Voice: 312/793-2800

#1 West Old State Capitol Plaza, Floor 3
Springfield, Illinois 62701-1217
Voice: 217/782-6206 (Workplace Notice)
217/782-1710 (Classification Act)

OCCUPATIONAL SAFETY AND HEALTH ADMINISTRATION

Employers are responsible for providing a safe and healthful workplace for their employees. OSHA's role is to assure the safety and health of America's workers by setting and enforcing standards; providing training, outreach and education; establishing partnerships; and encouraging continual improvement in workplace safety and health. OSHA's Small Business Handbook is available at: <http://www.osha.gov/Publications/smallbusiness/small-business.html>

OSHA rules for recording and reporting occupational injuries and illnesses affect 1.4 million establishments. Small businesses with 10 or fewer employees throughout the year are exempt from most of the requirements of the OSHA recordkeeping rules, as are a number of specific industries in the retail, service, finance, insurance and real estate sectors that are classified as low-hazard. The OSHA recordkeeping system has five steps that are outlined in the Small Business Handbook (cited above). An employer is required to **report to OSHA within eight hours** of the accident, all work-related fatalities or multiple hospitalizations that involve three or more employees.

The Industrial Services Office of the Department of Commerce and Economic Opportunity offers free, confidential pre-inspection consultation services which are designed to prevent citations and penalties resulting from the actual federal OSHA inspection. Consultants assist employers in complying with OSHA workplace safety and health standards in developing a complete safety and health program to eliminate employee lost time, production downtime and material damage in their operation. For further information contact:

Department of Commerce and Economic Opportunity
Industrial Services Division
100 West Randolph, Suite 3-400
Chicago, Illinois 60601
Voice: 312/814-2337 or 1-800-972-4216
TDD: 1-800-419-0667
<http://www.ildceo.net/dceo/Bureaus/Technology/Workplace+Safety/>

BUSINESS SERVICES

Obtaining Legal Counsel

Many business owners consider legal services only when their firms are in trouble. However, costly and time-consuming legal problems can be averted by retaining a competent attorney who can advise on such business areas as choosing the type of business organization that best suits your needs and objectives, protecting your family's financial security from the business risks advising you as to local, state and federal regulations which affect your business; obtaining licenses and permits; preparing or inspecting contracts; resolving tax questions; assisting in obtaining financing; and giving practical advice on many business problems. Attorneys also can provide professional help when dealing with other parties such as financial institutions, owners of possible store or plant locations, union officials, governmental bodies, franchising companies, contracts with suppliers and customers and insurance coverage negotiation with employees. In addition, other problems may arise requiring the services of an attorney. For instance, the employer may be served with wage deduction orders against employees which, if not handled properly, can result in personal liability on the part of the employer. Other examples:

- The business may face collection problems with its customers.
- The business may become involved in disputes with its trade creditors.
- The business may have disputes with both present and former employees.
- The business may have expansion opportunities or restructuring may need to be reconsidered.

When seeking an attorney's counsel or assistance, be as prepared as possible. Collect pertinent data, do necessary research and have as much information as possible about your business. This will save your attorney time and you money. When considering an attorney, use discretion. Remember, an attorney will provide services fundamental to the success of your business. There are several methods for selecting an attorney. It may be prudent to seek recommendations from other business owners. The Martindale-Hubbel Law Directory contains a listing and rating of attorneys in your city; a copy may be found at the local library. The public library is also a place to obtain reference books on legal topics. Included in this group is the Small Business Legal Advisor by William A. Hancock, published by McGraw-Hill. Another method of finding an attorney is to contact the Illinois State Bar Association's website at IllinoisLawyerFinder.com or call 217/525-5297 (TDD: 217/525-9006). Residents of Cook County may contact the Chicago Bar Association's Referral Service at 312/554-2001 (TDD: 312/554-2055).

Insurance Coverage

Many people starting a small business fail to consider their insurance needs. A well planned insurance program is essential for protecting a business from unforeseen losses and significant financial burdens. Four types of insurance coverage are essential: fire, liability, vehicle and workers' compensation. In addition, there are several desirable types of insurance coverage: business interruption, crime and key employee.

In organizing an insurance program, there are four basic considerations:

1. Recognize your risks. Recognize the perils facing the business and the potential loss from each.
2. Study insurance costs. Before purchasing insurance, investigate the methods by which you can reduce the cost of coverage. This includes "shopping" for the appropriate insurance plans.
3. Have a plan. Prepare an insurance plan that is compatible with the operation and goals of the business.
4. Get professional advice. A qualified insurance agency, producer, broker or consultant can

explain options, recommend the best coverage and help save money.

Bookkeeping

Access to proper information is provided by a sound bookkeeping system. Functions of a good system include:

- Starting and keeping an accounting system for the accurate and timely recording of the company's cash receipts, disbursements, sales and operating expenses
- Preparing periodic statements. This includes statement of assets and liabilities as of a given date (balance sheet), statement of results of operations for a given period of time (income statement), statement of changes in financial position and establishment of systems that track accounts receivable and payments due
- Preparing state and federal income tax returns
- Preparing social security, withholding, property and other tax returns

These responsibilities may be undertaken from within or outside of the business. This will depend on the size and nature of the business and your own experience and available time. Your accountant, attorney or banker can help decide your needs for a bookkeeper or bookkeeping service.

Accounting

In addition to bookkeeping requirements, you may need the services of a certified public accountant (CPA), an accountant who has passed a written examination prepared by the American Institute of Certified Public Accountants and who has received a state license for their public practice of accountancy. CPAs provide the following services:

Auditing - Although you may have hired a bookkeeper to maintain accounting records and prepare financial statements, there are many reasons why you may need financial statements certified by a CPA. For example, banks and other lenders frequently require an audit before a loan is granted and during the period that the loan is outstanding.

Taxes - Most businesses do not have employees who are experts in tax matters and, therefore, must rely on professional assistance. This is particularly true today when the tax laws are complex and continually changing. The tax services provided by CPAs include planning transactions for the lowest present and future tax liabilities, preparation of tax returns, conferences with taxing authorities who are examining prior years' tax returns and estate planning.

Consulting - Because of their experience with many companies in many industries, CPAs may be able to assist you in cost reduction, improvement of reports, installing or upgrading accounting systems, budgeting and forecasts, financial analyses, production control, quality control, compensation of personnel and records management.

The Independent Accountants Association of Illinois (IAAI), established in 1949, also can refer a competent accountant to the potential Illinois small businessperson. IAAI's membership is composed of both CPAs and non-CPA accountants. Many of the IAAI accountants are licensed to represent a client before the IRS. Non-CPA accountants can assist with accounting, sales and payroll tax preparation and other business consulting needs. For more information, contact:

Independent Accountants Association of Illinois
PO. Box 1506
Galesburg, Illinois 61402-1506
Voice: 1-800/222-2270 or 309/342-5400
www.illinoisaccountants.com

The Illinois CPA Society is the state professional association representing more than 25,000 certified public accountants. The Illinois CPA Society is one of the largest state CPA Societies with members in education, government, industry and public accounting. Members of the Illinois CPA Society are bound by professional ethical standards. The Illinois CPA Society sponsors several public service programs.

Some of these include: Disaster Relief Assistance for those in need of tax assistance after a natural disaster (floods, tornadoes, etc.), teaching educational courses for small business owners, and speaking engagements for various associations/organizations throughout the state. For more information, contact:

The Illinois CPA Society
550 West Jackson, Suite 900
Chicago, Illinois 60661-5716
Voice: 312/993-0407 or 800/993-0407
Fax: 312/993-9954
www.icpas.org

Springfield Office:
511 W. Capitol, Suite 101
Springfield, IL 62704
Voice: 217/789-7914 or 800/572-9870
Fax: 217-789-7924

BUSINESS/TRADE/PROFESSIONAL ASSOCIATIONS and CHAMBERS OF COMMERCE

There are associations to represent every business/trade/professional imaginable. Associations are engaged in promoting the business interests of their members and often conduct research, provide education services, develop statistics, sponsor quality education and certification standards, lobby public officials, and publish newsletters, books and periodicals. Benefits may include certification; free attendance at trade shows and conventions; workshops and seminars; dollar-saving bankcards; promote public awareness of the value and diversity; and, in some instances, insurance. The smaller business owner has little time to lobby government officials on issues of interest (or perhaps how to even go about it), which makes a membership in an association a valuable aspect of operating a business, especially if your profession/trade is heavily regulated. Additional benefits include the networking with people in your field of interest and keeping up with industry trends and developments. For information on specific associations, go to www.ienconnect.com/associations

The Illinois Chamber and local chambers of commerce act in much the same way as associations and offer many of the same programs. Chambers, however, support the entire concept of a community and market the area as a whole, which includes its businesses, churches, schools, parks & recreation, special events, historical significance, natural environment and other civic amenities. Benefits of membership in a chamber include opportunities to network and create an awareness of business name, product or service. By getting involved in chamber activities, members have the opportunity to meet and work with area business leaders on issues impacting not only business, but also the area. Chambers work to improve the economic climate, business environment and community's image as a whole. For information on chambers, go to www.ienconnect.com/coc

CHAPTER TWO

FINANCIAL CONSIDERATIONS IN STARTING A BUSINESS

OBTAINING FINANCING

Financial resources available to small businesses can vary depending on whether you are starting a new business or purchasing an existing business. The most common source of financing for a small business is personal resources. Many businesses begin on a "shoestring" or household budget until their financial situation and cash flow are stable. Friends, relatives and financial institutions also are potential sources of financing. Business loans for startup enterprises are not easily obtained, but fortunately there are various alternatives to consider.

US Small Business Administration (SBA) has an excellent pamphlet entitled "The ABC's of Borrowing" which explains the process of borrowing money from banks or other lending institutions. To obtain a copy of this and other SBA publications and materials, contact the local SBA district office, nearest SBDC, visit the Internet at www.sba.gov, call the answer desk at 1-800-827-5722, or e-mail the answer desk at sba.gov.

How to Apply for a Loan

The following guidelines should be used for the current or prospective business owner when preparing to request financial assistance. Those wanting to start a business should:

- Describe the type of business you plan to establish
- Submit information on the products or services the business plans to offer and identify existing and potential customers and competitors
- Describe your experience and management capabilities
- Prepare an estimate of how much you or others have to invest in the business and how much you will need to borrow
- Prepare a current financial statement (balance sheet) listing all personal assets and all liabilities
- Prepare a detailed projection of earnings for the first three years the business will operate
- List collateral to be offered as security for the loan, indicating your estimate of the present market value of each item
- State the amount of the loan and exact purpose(s) for which it can be used

Those already in business should:

- Submit a brief history of the business and its employment growth
- Submit information on your company's products or services and identify existing and potential major customers and competitors
- Prepare a current financial statement (balance sheet) listing all assets and liabilities of the business
- Have an earnings (profit and loss) statement for the last two years and for the current period to the date of the balance sheet
- Prepare a current personal financial statement of the owner, each partner or each stockholder owning 20 percent or more of the corporate stock in the business
- List collateral to be offered as security for the loan, with an estimate of the present market value of each item
- State the amount of the loan requested and exact purposes for which it can be used

Along with the preceding information, a business plan should be submitted to the lender outlining the basic structure and direction of the business. A business plan outline is located in Appendix B of this handbook.

OVERVIEW OF FEDERAL AND STATE FINANCIAL ASSISTANCE PROGRAMS

There are a number of financial assistance programs available to the business community here in Illinois, including aid from federal sources.

US Small Business Administration (SBA)

The SBA has a number of programs and services available. They include training and educational programs, advisory services, publications, financial programs and contract assistance. The agency also offers specialized programs for women business owners, minorities, veterans, international trade and rural development. For more information call or write:

Illinois District Office
500 W. Madison
Suite 1250
Chicago, IL 60661
Voice: 312/353-4528
TDD: 312/886-0705

Springfield Office
3300 Ginger Creek Dr.
Suite B East
Springfield, IL 62711
Voice: 217/793-5020

State of Illinois

The Department of Commerce and Economic Opportunity (DCEO) is Illinois' lead economic development agency, with a wide range of programs and services. DCEO assists Illinois businesses to compete successfully in the global economy. The IEN Business Information Center can assist you in learning more about DCEO and other public financing programs. For more information, call the IEN Help Line at 1-800-252-2923 (TDD, 1-800-785-6055) or visit the website at www.ienconnect.com

BANKING SERVICES

Businesses have special financial needs and the types of commercial accounts available are as varied as those for individuals. Work with your local banker to discuss the following banking services:

Commercial Checking Accounts

Checking account services are available for every size of business, with custom check design and a variety of check formats that provide audit controls for the account. Service charges may be calculated on the number of checks written and the number of checks deposited, plus a monthly maintenance fee. In most cases, an account receives a monthly earning credit based on an average of previous weeks' Treasury Bill rates which is applied against the service charges calculated for the account.

Commercial Deposit Services

Commercial Bulk Deposits allow the business to process bulk change, pick up currency or drop off large deposits. Also, with the advent of 24-hour automatic teller facilities, businesses as well as individuals have greater access to certain banking services.

Federal Tax Depository Services also are available to help prevent a penalty for late payment of taxes. The date the bank accepts the deposit establishes the date of payment.

Commercial Savings/Investment Services

Business Savings Programs allow a business to deposit up to a certain amount in a savings account that earns interest on a percentage per year, compounded continuously for an effective yield. Short-term investments also are available using Certificates of Deposit and Repurchase Agreements.

Loan Services

In some instances, the bank can provide assistance in obtaining and financing loans. The following are some possible areas of assistance:

- Working capital loans provide short-term access to interim operating funds.
- A revolving line of credit is a pre-established borrowing limit that can help meet monthly expenses.
- Inventory financing or a seasonal line of credit can help see the business through cyclical, capital-intensive periods which are common to agriculture and certain types of wholesale and retail operations.
- A letter of credit from a bank can improve purchasing power in business transactions outside the local area.
- Accounts receivable financing allows borrowing against business already on the books.
- Equipment financing and leasing arrangements can help to properly equip the business or expand it when it is ready to grow.
- Capital loans provide venture capital to help start or invest in a commercial enterprise.
- Real estate mortgages are available to help acquire property and real estate management services can help manage the property.
- Credit investigations can help protect the business owner when dealing with unfamiliar sources.

Other Services

The nature of banking is such that it lends itself readily to other services. Following are some of the other services offered by banks:

Business advice - It frequently is said that the banker should be a business guide and friend to his clients. Bank officers develop a broad understanding of the operations of their clients' businesses. Some banks employ engineering and management experts who are made available to their clients for suggestions and guidance. It is very important to find a banker who is interested in you and your company.

Credit advice - Every sizable bank has a credit department that handles problems that arise daily. A bank with a good credit department frequently can be helpful to the business owner.

Agent services - Although it may act as an agent in many important and complex ways, the use of a bank as an agent for collection and disbursement services of various kinds can be of invaluable assistance to smaller businesses.

Trust services - Most banks have trust departments that, among other things, handle financial affairs for people who want them to manage or hold investments, and to collect income and pay it out as agreed. Also, many times a bank is named as executor in a will to take charge when an individual dies.

Safe deposit boxes - Many banks provide safe deposit box services. The service is a simple one and is frequently used for the safekeeping of various business records.

INVESTING PROFITS

Because it can be difficult to anticipate volume and a general unwillingness exists to take a market risk, many businesses prefer to leave profits in an interest-earning commercial checking (NOW) account. NOW accounts are available only to sole proprietorships and partnerships unless a corporation is not-for-profit. However, several other avenues might be explored:

- High grade commercial paper
- Municipal bonds
- Treasury bills or tax anticipation notes
- Certificates of deposit

Check with the bank's investment advisor or a stock broker for the best plan for your business.

UNIFORM COMMERCIAL CODE

Chapter 810, Illinois Compiled Statutes, Act 5, Article 9, Part 1, contains the provisions of the Uniform Commercial Code - Secured Transactions. If you borrow money using certain items of commercial property as collateral, the lender has the right to file a lien on that property with the Secretary of State's Office, Uniform Commercial Code Division. This guarantees the lender first rights to the property if you default on loan payments or file for bankruptcy. For more information, contact the Secretary of State's Office at 217/782-7518 (TDD: 1- 800-252-2904) or go to http://www.cyberdriveillinois.com/departments/business_services/home.html

SECURITIES REGULATION

Many financing plans for small businesses involve, at least in part, the issuance of securities. Some of the most common forms of securities utilized by small businesses are common or preferred stock, limited partnership interests, debt with an option to convert into stock and warrants to purchase stock. Debt financing obtained from parties other than commercial lenders also may involve a security.

Securities must be registered with the Secretary of State's Office, Securities Department, before being offered or sold in Illinois, unless the securities are exempt from the registration requirements. Persons selling the securities also may have to be licensed by the Securities Department. If the business is seeking securities financing in any other state, it probably will also have to comply with federal and the other states' securities registration requirements. Consult an attorney about whether your financing plan involves securities and the applicable registration requirements and exemptions. For more information, contact the Secretary of State's Illinois Securities Department at 217/782-2256 (TDD: 1-800-252-2904) or go to <http://www.cyberdriveillinois.com/publications/securitiespub.html>.

CHAPTER THREE

BUSINESS OPERATIONS

DETERMINING BUSINESS LOCATION

The location of the business often is determined by the type of business. Many sole proprietor operations are run in the home. Indeed, some occupations make that desirable and you are entitled to certain tax deductions which can be determined by discussing your business situation with an attorney or accountant. Check local ordinances regarding owning and operating a business from your home.

Opening an Office

If the decision is made to have an office outside the home, a reputable real estate agent specializing in leasing or selling commercial space can help determine a quality location. Take as much time and care in choosing a business site as in choosing a home. The average employee spends 25 percent of his/her time at work and the environment should be as conducive to business as possible. In addition, a local office furniture and supply store can give valuable help in getting the office set up. It can assist with everything from color schemes to company logo design. Shared office space is another alternative whereby space is rented on a yearly, monthly or even hourly basis. Conference rooms, steno service and mailing address use are but a few options.

Small Business Incubators are now operating throughout Illinois offering entrepreneurs extensive office facilities, shared clerical staff and equipment, as well as technical business assistance. Contact the IEN Help Line at 1-800-252-2923 (TDD: 1-800-785-6055) for more information.

TEMPORARY/EMERGENCY PERSONNEL

If your business has additional employees, chances are someone will be ill or unexpectedly absent for personal reasons. If this absence will create major inefficiencies, consider contacting a local employment agency. Temporary services can supply clerical personnel and, in some instances, workers for light industrial positions. A temporary replacement can usually be on the job within a few hours.

The company will charge an hourly rate based on job description. If dissatisfied with the help provided, there generally is no charge. Check the yellow pages of the local telephone directory for Temporary Employment Agencies.

If known in advance that an employee will be out of the office (vacation, for example), contact your local college or university and ask for their placement offices. Students often stop by to check bulletin boards for local job offerings.

There will be instances, of course, when the business must go on without replacement help. If it is obvious that the business is understaffed, explain the situation to the customers and request their patience. The majority will be quite understanding.

CREDIT CARD SERVICE

In this age of plastic, most businesses accept major credit cards as payment for services or product. A local bank can make your business accessible to the Visa, MasterCard, American Express and other credit card systems. When contacting a bank which handles those accounts, you will be asked to provide commercial and financial statements, and the bank will do an analysis of the business' solvency. If unable to estimate the business' income, a personal credit check will be conducted to ascertain dependability. Upon approval, the bank will establish a commercial account for the business into which you deposit the credit card "bank" copies. The bank receives statements from the credit card company and remits payment from your account. Each bank imposes a processing cost on the business account depending upon average sales and volume. This can be anywhere from two to twelve percent -- usually the former. The bank and the credit card company can either rent or sell one or more credit card machines. At some point the business may want to consider more sophisticated equipment which automatically determines the validity of a credit card. After signing an agreement with the bank, the business will receive monthly statements of account balance.

CHECK CASHING PROTECTION

A business can enhance its profits by welcoming a potential customer's check, but along with a check cashing policy comes the built-in risk of receiving a bad check. No business is immune. There are several ways, however, to be as protected as possible when providing this service.

It is sound policy to have the check writer include their phone, driver's license and social security numbers on the check. The check should have the person's name and address pre-printed. In case of problems, the writer can be reached.

In order to verify if a check is good at point of purchase, several companies provide a tracking system and can tell a subscribing member (generally via an 800 number) whether or not to accept a check. For a one-time enrollment fee, a sales representative will explain the service and provide training for employees on how to use the system. Thereafter, a monthly fee entitles you to check verification and guaranteed payment if the service indicates a check is good that subsequently is not.

There also are check cashing protection systems that will guarantee, up to a certain limit, all bad checks you receive. Acting as a type of insurance agency, the systems charge a monthly rate based on the average volume of checks you receive, and provide personalized service.

When you receive an "insufficient" or "non-sufficient funds" (ISF/NSF) check returned by a bank, you have several recourses:

- Wait a reasonable amount of time and redeposit the check
- Contact the individual who wrote the check requesting that they make the check good
- Post a notice alerting employees not to accept checks from the individual until the outstanding check is made good

If satisfaction has not been received within a reasonable amount of time, send a written demand to the person's last known address by certified letter, return receipt requested. By law, the individual who

fails to pay the amount of the written check within 30 days is liable for triple the amount owed, plus attorney's fees and court costs for recovery. In no case is that amount less than \$100 or more than \$500 plus fees and costs.

In order to bring a civil suit in small claims or other appropriate court, you will need a copy of the letter, certified mail receipt, a copy of the check (front and back), and a letter from the bank indicating that the check is no good. Another course of action would be to contact the local State's Attorney's Office. The State's Attorney's Office may contact the maker of the check by letter to finally resolve any questions of inadvertence or may initiate prosecution immediately. Upon initial contact with the State's Attorney's Office, you will be asked to complete an incident report to aid in prosecution of the case. Remember that most people do not set out to defraud or pass bogus checks, but there are enough who do, so remain alert. The local police department may be a source of assistance if forgery is suspected.

PUBLIC RELATIONS

Public relations can be simply defined as "doing good things and then making an effort to alert people that you've done them." In a practical sense, it means getting the word of the positive, newsworthy things that happen in or at your place of business to the media so they, in turn, will tell the story to their audiences -- your potential customers. When this happens successfully, the end result is publicity.

Good publicity is any news that is of potential interest to the people in the community. People make news. Employee promotions and awards make news. Events make news -- business opening, special promotions, anniversary celebrations, participation in or sponsorship of a community activity. Innovations are news -- a new product, a new service.

The more consumers read, see and hear about a business' positive accomplishments, achievements and activities, the greater the awareness will be of you and your business in the local community, resulting in a better image. Awareness and a good image are what can set a business apart from competitors.

PATENTS, TRADEMARKS AND COPYRIGHTS

In some instances, "protection" may be sought for a product, service, new invention or printed material. Following is a brief discussion of the three primary kinds of intellectual property protection. Each of the three kinds is different and serves different purposes. A great deal of information appears on the Internet. The address for the webpage is:

http://www.cyberdriveillinois.com/departments/library/what_we_have/patents_and_trademarks/home.html

Patents

A patent is a grant of a property right by the United States Government to the inventor (or his/her heirs or assigns). The grant is made through the United States Patent and Trademark Office.

There are three types of patents:

1) **Utility patents** may be granted to anyone who invents or discovers any new and useful process, machine, article of manufacture, or composition of matter, or any new and useful improvement thereof. Utility patents are granted for a term which begins with the date of the grant and usually ends 20 years from the date it was first applied for subject to the payment of appropriate maintenance fees.

Filing a non-provisional application	Approximately \$150
Search Fee	Approximately \$250
Examination Fee	Approximately \$100
Issue Fee	Approximately \$650
Maintenance Fee	
Due at 3 ½ years	Approximately \$450
Due at 7 ½ years	Approximately \$1150
Due at 11 ½ years	Approximately \$1900

2) **Design** patents may be granted to anyone who invents a new, original, and ornamental design for an article of manufacture. Design patents last 14 years from the date the patent was granted. Currently it costs \$215.00 to file a Design Patent application. This fee is subject to change annually on October 1, per the federal fiscal year. No maintenance fees are required for design patents; and

3) **Plant patents** may be granted to anyone who invents or discovers and asexually reproduces any distinct and new variety of plant. Plant patents are granted for a term which begins with the date of the grant and usually ends 20 years from the date it was first applied for the patent.

Each patent application is a unique document that is prepared individually by the inventor, with or without the help of a patent attorney. The first step in developing an application is a search to be sure the invention is indeed new, unique, non-obvious and, for utility patents useful. When the document is prepared is filed with and examined by the United States Patent and Trademark Office. All fees may be revised annual, taking effect October 1, the beginning of the federal government’s fiscal year. For more information call or visit:

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300 South Second Street
Springfield, Illinois 62701-1796
Voice: 217/782-5659
TDD: 800/965-0748
FAX: 217/782-8432

General Information Concerning Patent is available via the internet at www.uspto.gov , via toll free phone number 1800-PTO-9199 or contact the following:

United States Patent and Trademark Office, **Commissioner for Patents**, P.O. Box 1450, Alexandria, VA 22313-1450

Federal Trademarks

Application filing fees range from \$275.00-\$375.00 per international class.

State Trademarks

The mark must be in use in Illinois before it may be registered and examples of this use must be submitted with the application for registration. Currently the filing fee is \$10.00.

Copyrights

Beyond that, with the appropriate form filled out, a fee of \$30 and the copy(ies) designated for the type of work, the Library of Congress will provide registration. Copyright protects the author, generally allowing the “author” to control the copying of his work.

Additional information, forms and electronic filing copyright can be done through the Library of Congress web page at www.copyright.gov

Information is also available at the Chicago Public Library and Illinois State Library. Currently, copyright registration can be search for documents filed since 1978. It takes several months for current registrations to appear in the database. As of December 2005, 20 million records will be available for searching.

APPENDIX A

FEASIBILITY CHECKLIST

Perhaps the most crucial problem you will face after expressing an interest in starting a new business or capitalizing on an apparent opportunity in your existing business is determining the feasibility of your idea. Getting into the right business at the right time is simple advice, but advice that is extremely difficult to implement. The high failure rate of new businesses and products indicates few ideas result in successful business ventures, even when introduced by well-established firms. Many entrepreneurs strike out on a business venture convinced of its merits, but they fail to evaluate its potential. This checklist should help you evaluate a business idea. It is designed to screen out ideas that are likely to fail before you invest extensive time, money, and effort in them.

Preliminary Analysis

You should realize your personal limitations and seek appropriate assistance where necessary (i.e., marketing, legal, financial). Few people have expertise in doing a feasibility study. A feasibility study involves gathering, analyzing and evaluating information by answering: "Should I go into business?" Answering this question involves a preliminary assessment of both personal and project considerations. Financial statistics are available from most businesses, trade and industry associations, private companies, banks, universities, public libraries and government agencies.

General Personal Considerations

The first series of questions ask you to do self-introspection.

- Are your personality characteristics such that you can adapt to and enjoy small business ownership/management?
- Do you like to make your own decisions?
- Do you enjoy competition?
- Do you have willpower and self-discipline?
- Do you plan ahead and get things done on time?
- Can you take advice from others?
- Can you adapt to changing conditions?

The next series of questions stress the physical, emotional, and financial strains of a new business.

- Do you have the physical stamina and emotional strength to handle a business?
- Do you understand that owning your own business means working 12-16 hour days, maybe six days a week and holidays?
- Are you prepared to lower your standard of living for several months or years?
- Can you afford to lose your savings?

Specific Personal Considerations

- Do you know why you are considering this business opportunity?
- Do you know which skills and areas of expertise are critical to the success of your business?
- Do you possess these skills and know how to effectively utilize them?
- Can you find personnel who have the skills, abilities, and expertise you lack?
- Can you perform the feasibility study or have the time or money to do so?
- Will this business opportunity effectively meet your career aspirations?

General Project Description

- Describe the business you want to enter.
- List the products/services you want to sell/offer.
- Describe who will use your products or services.
- Why would someone buy your product/services?
- What kind of location do you need?
- List product/service suppliers.
- List your major competitors (who provide similar products or services).
- List the labor and staff you require to provide your products/service.

Requirements for Success

To determine whether your idea meets the basic requirements for a successful new project, you must answer one of the following question with a "yes".

- Does the product/service/business serve an under-served need?
- Does the product/service/business serve an existing market in which demand exceeds supply?
- Can the product/service/business compete with existing competition because of an "advantageous situation" i.e., better price, location, etc.?

Major Flaws

A "yes" response to these questions indicates the idea has little chance for success.

- Are there any causes (i.e., restrictions, monopolies or shortages) that make required factors of production unavailable (i.e., unreasonable cost, scarce skills, energy, equipment, technology, material, process, or personnel)?
- Are capital requirements for entry or continuing operations excessive?
- Are there any extraordinary circumstances that would make financing hard to obtain (i.e., bankruptcy or bad credit)?
- Are there potential detrimental environmental effects?
- Are there factors that prevent effective marketing?

Desired Income

The following questions should remind you that you must seek both a return on your investment in your own business as well as a reasonable salary for the time you spend in operating that business.

- How much income do you desire?
- Are you prepared to earn less in the first 1-3 years?
- What minimum amount of income do you require?
- What financial investment is required for your business?
- How much could you earn by investing this money?
- How much could you earn by working for someone else?
- Add the amounts in 5 and 6. If this income is greater than what you can realistically expect from your business, are you prepared to forego this additional income to be your own boss with only the prospects or more substantial profit/income in future years?
- What is the average return on investment for a business of your type?

Preliminary Income Statement

You need to know the business income and expenses. Show profit/loss and derive operating ratios on income statements.

- What is the normal markup in this line of business, i.e., the dollar difference between the cost of goods sold and sales, expressed as a percentage of sales?
- What is the average cost of goods sold percentage of sales?
- What is the average inventory turnover, i.e., the number of times the average inventory is sold each year?
- What is the average gross profit as a percentage of sales?
- What are the average expenses as a percentage of sales?
- What is the average expenses net profit as a percent of sales?
- Take the preceding figures and work backwards using a standard income statement format and determine the level of sales necessary to support your desired income level.
- From an objective, practical standpoint, is this level of sales, expenses and profit attainable?

Market Analysis

The primary objective of a market analysis is to arrive at a realistic projection of sales.

Customer Base

- Define the geographical areas from which you can realistically expect to draw customers.
- What is the makeup of population in these areas, average family size, age distribution and per capita income?
- What do you know about the population growth trend in these areas?
- What is the consumer's attitude, shopping/spending patterns of business?
- Is the price of your product or service important to your target market?
- Can you appeal to the entire market?
- If you appeal to only a portion of the market, is that segment enough to be profitable?

Competition

- Who are your major competitors and their strengths/weaknesses?
- Are you familiar with factors concerning your competitors' price structure, product lines (quality, breadth, width), location, source of supply, promotional activities and image from a consumer's viewpoint?
- Do you know of any new competitors or competitor's plan for expansion?
- Have any firms of your type gone out of business lately? If so, why?
- Do you know the sales and market share and profit levels of each competitor?
- Do you know whether the sales and market share and profits of each competitor are increasing, decreasing or stable?
- Can you compete with your competition?

Sales

- Determine the total sales volume in your market area.
- How accurate is your forecast of total sales? Is it based on concrete data?
- Is the estimated sales figure "normal" for your market area?
- Is the sales per square foot for your competitors above the normal average?
- Are there conditions or trends that could change your forecast of total sales?

Sales (continued)

- Do you plan to mark down products occasionally to eliminate inventories?
- If you do not carry over inventory, have you adequately considered the effect of mark-down in your pricing? (profit margin may be too low)
- How do you plan to advertise/promote your product/service?
- Forecast the total market share you can realistically expect--as a dollar amount and as a percentage of your market.
- Can you create enough competitive advantages to achieve the market share in your forecast of the previous question?
- Is your sales forecast greater than the sales amount needed to guarantee your minimum income?
- Are you optimistic/pessimistic in your forecast of sales?
- Are you willing to hire an expert to refine the sales forecast if needed?

Supply

- Can you make an itemized inventory list of operating supplies needed?
- Do you know the quantity, quality, price ranges, technical specifications and name/location of potential sources of supply?
- Do you know delivery schedule, credit terms and sales of each supplier?
- Do you know the risk of shortage for any critical materials or merchandise?
- Do you know if the price allows you to achieve an adequate markup?
- Do you know which supplies have an advantage relative to transportation costs?

Expenses

- Do you know your necessary expenses rent, wages, insurance, utilities, advertising and interest, etc.?
- Do you know which expenses are direct, indirect or fixed?
- Do you know how much overhead will be?
- Do you know how much selling expenses will be?

Miscellaneous

- Are you aware of the major risks associated with your product/business/service?
- Can you minimize these major risks or are they beyond your control?
- Can these risks bankrupt you?

Venture Feasibility

- Are there major questions remaining about your proposed venture?
- Do the above questions arise because of a lack of data, management skills, or a "fatal flaw" in your idea?
- Can you obtain the additional data and management skills needed or correct the "fatal flaw"?
- Are you aware that there is less than a 50-50 chance that you will be in business two years from now?

APPENDIX B

OUTLINE OF A BUSINESS PLAN

A business plan is a description of your proposed or existing business and should include information on the business' products or services, markets, marketing strategies, manufacturing procedures, ownership, management structure, needs (organizational, personnel and financial) and projections. A well-prepared business plan serves two important functions. First, it is a basic management tool that helps guide the future direction of your company. Second, it is a mandatory document if you plan to seek business financing.

How much detail should your business plan contain and in what order? What will help make it effective in communicating your proposed or existing company's strengths and potential? The purpose of this section of the handbook is to help you answer such questions. Not all plans need to be alike. Some sections of this outline may be more applicable to your company than others. You should make every effort to tailor your plan to your company's specific set of circumstances.

PLAN SUMMARY

A well-written business plan summary allows prospective lenders and investors to quickly decide if they want to examine the entire plan in detail. Therefore, your objective in the plan summary is to convince them to study the plan further. Although a plan summary appears first, it should be the last part you write. The summary should briefly highlight the key elements of your business plan and include the following points:

- A brief history of your business or business concept
- A description of your products or services with emphasis on their distinguishing features, the market needs they will meet, the market potential and assessment of the competition
- How the products will be made, or services performed
- An outline of your management team's experience and talent
- A summary of your financial projections
- How much money you are seeking, in what form, for what purpose and how it will be repaid

COMPANY AND INDUSTRY

The purpose of this part of the plan is to provide background information on your company, and to describe the condition and prospects of your industry. The following points should be covered:

COMPANY

- The business you are in or plan to be in, including a description of your product or services
- The background of your business, including when it was started, current ownership, its legal structure and highlights of its progress and prospects
- The principals of your business and the roles each played or will play in the firm

INDUSTRY

- A brief discussion of your industry (e.g., restaurant, plastics, executive recruiting, etc.)
 - your view of the current status and prospects for the industry
- Description of your principal competitors and how they are performing in terms of growth in sales, profits and market share
- An analysis of the effect of major economic, social, technological or regulatory trends

PRODUCT OR SERVICE

In this section you need to thoroughly describe your product or service, along with any proprietary features and future development plans. The following information should be presented:

- Description of product or service--Describe in detail and include engineering studies, photographs and sales brochures, if needed, to help further the reader's understanding.
- Research and development--If applicable, describe the nature and extent of research and development work that must be accomplished before your product or service is placed on the market. Also indicate the time and costs involved.
- Proprietary features--Describe any patents, copyrights and any other proprietary features. Also discuss any other factors that have enabled you or could allow you to obtain an advantageous position in your industry.
- Future development--Outline any plans you may have for the extension of your product or service, or development of new or related products.

MARKET ANALYSIS

This section and the "Marketing Strategy" section are generally the most difficult parts of the business plan for an entrepreneur to develop. It is here that you show how you plan to turn your idea into a product or service that people will want to buy. Your objective is to convince lenders or investors that:

- There is a market need for your product or service
- You understand the potential customers' or clients' needs, and your product service will meet such needs
- You can sell your product or service at a profit

Included in this section should be the following information:

- Market definition--Define the target market and your niche in it by describing the potential customers, their locations, why they buy or might buy your product or service, when they buy or might buy, and that their expectations are for price, quality and service. If your company has a track record, discuss how its products or services have been received in the marketplace. It is important to discuss any negative reactions to your product or service, as well as current or planned actions to overcome such problems.
- Market size--Describe the market's current size. The market should be determined based on a review of statistical data and discussions with potential distributors, sales representatives and customers.

- Market trends--Describe the market's growth potential. Discuss how big you believe the market will be in three years, five years and ten years. Support growth estimates with industry trends, technological developments, changing customer needs and other related factors. Your sources and assumptions should be clearly stated and realistic. If you overstate the size of the market or your market share, investors will question the credibility of the entire business plan.
- Competition--Name and describe the companies that will be your competitors, and describe their market share potential. Compare products and/or services with your competition on the basis of price, performance, service, warranties and other important features. Review your competitors' strengths and weakness in financial, marketing and operational areas. If there are no competitors, describe the possible development of competition and from where it is likely to come. Discuss barriers to entry and the likelihood of technological or other obsolescence factors.

MARKETING STRATEGY

The purpose of this section is to provide projections of sales, market share and target market(s), and to support your belief that your marketing plan will achieve projections. It should include the following:

- Estimated sales and market share--Provide an estimate of sales and market share (units and dollars) based on your assessment of customer or client acceptance of your product/service, potential market size and trends, and the competition. Also, identify any major customers who have made, or are willing to make, purchase commitments.
- Market strategy--Identify your target market(s). It is important to target and/or segment your market carefully. Concentrating your resources on the needs of a specific segment and carving out a market niche may mean the difference between success and failure. Also, outline your method of identifying and contacting potential customers or clients, as well as the product or service features that will be emphasized.
- Pricing--Discuss the prices to be charged for your product or service and compare your pricing policy with those of major competitors. Explain how your pricing or fee structure will enable you to gain acceptance of your product or service, maintain and increase market share, and provide for a profit.
- Sales and distribution--Discuss your plans for selling and distribution. If a direct sales force will be used, describe how it will be organized and controlled. This should include the number and location of sales personnel and the salary or commission each will receive. If distributors or sales representatives will be used, describe how they will be recruited and paid, and what geographic territories will be covered. Also, you could discuss sales efficiency issues such as how many sales calls it will take to get an order and how large an average order will be.
- Service and warranty issues--Discuss your service and warranty policies and your methods for handling service and warranty problems.

- Promotion--Discuss how you will generate awareness of your product or service, including the use of such tactics as: trade show participation, trade periodical ads, promotional literature, public relations, etc. Estimate the percentage of total expenses that will be allocated to promotion and when such expenses are likely to be incurred.

OPERATIONS

In this section, you should describe how you plan to produce your product or perform your service, including how and where it will be carried out, your physical space and equipment needs, and your labor requirements. Included should be the following information:

- Location--Describe the location of the business and the advantages and disadvantages of the site with respect to labor and material costs and availability, proximity to customers, access to transportation, state and local laws (including zoning), and utility costs.
- Physical space and equipment--Describe the physical facilities in use or to be acquired (leased, purchased or built) and the costs and timing of such acquisitions. Estimate future facilities and equipment needs, based on sales projections, including the cost of additional capacity and its timing.
- Production processes--Describe the production processes necessary to develop your product or provide your service, including: method of production; procedures for quality, production and inventory control; raw materials required (including sources, costs, etc.); organization and control of purchasing; breakdown of fixed production costs; and breakdown of variable unit costs by product/service.
- Labor--Other than management, describe to what extent the local labor force is adequate in terms of quality and quantity. If applicable, discuss the type of training needed and the cost to your company.

MANAGEMENT AND ORGANIZATION

The experience, training and talent of your management team is very important, particularly if you are seeking equity financing. Generally, venture capital firms will conduct a complete reference check of each member of your management team. Therefore, this section of your business plan should describe the following:

- Organization--Explain how your company's management team is organized and describe the primary role of each team member. If appropriate, include an organizational chart. Demonstrate how team members' skills complement each other. Investors are looking for a team with a balance of management, financial, production and marketing skills, as well as experience with the product or service you intend to provide.
- Key management--Prepare a brief summary of each key member of the management team to include duties and responsibilities, career highlights and significant accomplishments (include resumes in the appendix). The discussion of the management team should also outline any weaknesses and how they will be overcome (e.g., training, recruiting, outside advisors, etc.).

- Compensation of ownership--Indicate how each member of the management team will be compensated (e.g., salary, profit sharing, incentive bonus, stock options, etc.), and what investment each has in the company. Include a list of key stockholders, with the number of shares each owns.
- Board of directors--Identify your board members, briefly discuss how they are expected to benefit your company and list their investment in the company, if any.
- Professional services--List the legal, accounting, banking and any other service organization that will advise your company or help fill gaps in the organization.

SCHEDULE OF ACTIVITIES

A realistic schedule that shows the timing of activities for the major events of your business plan is critical to your company's success. It also indicates the ability of management to plan the company's development. A schedule should be prepared outlining steps to be taken in your company's development and the completion date of each step for a period of three to five years. Entrepreneurs tend to underestimate the amount of time needed to complete various tasks. Be realistic.

CRITICAL RISKS AND PROBLEMS

The development and operation of any business involves risks and problems, and it is best to identify these potentially negative factors and explore their implications. To determine the risks and problems that require discussion, you should identify the plan assumptions or potential problems that are most critical in terms of the success of your venture. Then discuss them and outline possible ways for dealing with them or minimizing their impact.

FINANCIAL INFORMATION

The amount of financial information needed in your business plan will depend on the stage of financing, the amount of money needed and the nature of financing being sought. Generally, the amount of information required will increase as the amount of financing requested increases, as it will when equity (versus fully collateralized) lending is requested.

Your business plan should describe, in general terms, the type and amount of funding you are seeking. Also, information on your firm's present financial status (include current financial statements if your firm is already in operation) and financial projections must be included. The part of the Financial Information section should cover the following:

- Desired financing--State how much money is needed and how it will be used.
- Capitalization--Explain the capital structure of your company and what effect funding will have on it.
- Use of funds--Explain how you plan to use the funds. The use should be consistent with your financial projections. For example, if you need seed capital, you might indicate that the money will be used to further develop your product and set up a marketing organization.

In subsequent rounds of financing, you can refer the reader to your financial projections for details, but briefly explain how much of the money will be used for R&D, production, equipment, etc.

- Future financing--Clearly outline your company's future funding needs. Discuss when you will require future funding and what the milestones are for reaching that point.
- Current financial statements--If your company has a track record, provide financial statements for the last three years or from inception.
- Financial projections--You should provide a three-year cash flow, projected income (profit and loss) statements, and balance sheet projections (see Forms I-VI). If your company has been in business for awhile, the cash flow projections should be on a quarterly basis for the first year and annually thereafter. Otherwise, cash flow projections should be on a monthly basis for the first year, a quarterly basis for the second year and annually thereafter. When making financial projections, it is mandatory that you explain all key assumptions. They can get involved, so make use of your accountant and/or other professional advisors. There are also several good computer software packages available to help you accomplish these tasks.

Your financial projections and funding request must be keyed to your market expectations. You should begin your financial projections with a sales forecast. Often, entrepreneurs make the mistake of starting at the production cost level and assuming that everything produced can be marketed for a profit. Starting with a sales forecast will also help you define how much cash you will have coming from operations and when it will be coming in. This is essential to forecasting cash flow and determining how much equity and debt capital you will require until the company generates a positive cash flow.

You may want to seek assistance from an accountant or one of Illinois' Small Business Development Centers (SBDCs) in developing the Financial Information section of your plan. To receive information about the SBDC nearest you, contact the IEN Help Line at 1-800-252-2923, (TDD: 1-800-785-6055).

CONCLUSION

In summary, your plan should describe:

- Your company and industry
- The product or service
- The market and marketing approach
- How the product or service will be produced
- Management of the company
- How much money the company needs and what it will do with it

By following these guidelines, you should be able to describe your company and its market niche, your operations strategy and future goals and objectives. Your business plan will also be able to provide a prospective investor or lender with information about your company that is well prepared and persuasive in portraying the potential of your company.

FORM I: PROJECTED CASH FLOW STATEMENT

	<u>Month 1</u>	<u>Month 2</u>	<u>Month 3</u>	<u>Month 4</u>	<u>Month 5</u>
CASH					
Beginning Cash	_____	_____	_____	_____	_____
Cash Sales	_____	_____	_____	_____	_____
Collections	_____	_____	_____	_____	_____
Other Cash	_____	_____	_____	_____	_____
TOTAL CASH AVAILABLE	_____	_____	_____	_____	_____
EXPENSES					
Purchase of Inventory	_____	_____	_____	_____	_____
Salaries and Wages	_____	_____	_____	_____	_____
Other Employee Expenses	_____	_____	_____	_____	_____
Utilities	_____	_____	_____	_____	_____
Rent/Lease	_____	_____	_____	_____	_____
Office Supplies	_____	_____	_____	_____	_____
Telephone	_____	_____	_____	_____	_____
Printing/Photocopying	_____	_____	_____	_____	_____
Misc. (including postage)	_____	_____	_____	_____	_____
Advertising	_____	_____	_____	_____	_____
Insurance	_____	_____	_____	_____	_____
Auto/Transportation	_____	_____	_____	_____	_____
Travel/Entertainment	_____	_____	_____	_____	_____
Taxes/Licenses	_____	_____	_____	_____	_____
Packaging/Shipping	_____	_____	_____	_____	_____
Subscriptions/Dues	_____	_____	_____	_____	_____
Bank Charges	_____	_____	_____	_____	_____
Interest	_____	_____	_____	_____	_____
Commissions	_____	_____	_____	_____	_____
Decorating	_____	_____	_____	_____	_____
Legal/Accounting	_____	_____	_____	_____	_____
Other - List	_____	_____	_____	_____	_____
TOTAL EXPENSES	_____	_____	_____	_____	_____
CASH AVAILABLE	_____	_____	_____	_____	_____
Payment on Debt	_____	_____	_____	_____	_____
ENDING CASH	_____	_____	_____	_____	_____

FORM II: PROJECTED INCOME STATEMENT

	<u>1st Year</u>		<u>2nd Year</u>		<u>3rd Year</u>	
	<u>Amount</u>	<u>% of Sales</u>	<u>Amount</u>	<u>% of Sales</u>	<u>Amount</u>	<u>% of Sales</u>
Gross Receipts	_____	_____	_____	_____	_____	_____
Cost of Sales	_____	_____	_____	_____	_____	_____
GROSS PROFIT	_____	_____	_____	_____	_____	_____
EXPENSES						
Purchase of Inventory	_____	_____	_____	_____	_____	_____
Salaries and Wages	_____	_____	_____	_____	_____	_____
Other Employee Expenses	_____	_____	_____	_____	_____	_____
Utilities	_____	_____	_____	_____	_____	_____
Rent/Lease	_____	_____	_____	_____	_____	_____
Office Supplies	_____	_____	_____	_____	_____	_____
Telephone	_____	_____	_____	_____	_____	_____
Printing/Photocopying	_____	_____	_____	_____	_____	_____
Misc. (incl. postage)	_____	_____	_____	_____	_____	_____
Advertising	_____	_____	_____	_____	_____	_____
Insurance	_____	_____	_____	_____	_____	_____
Auto/Transportation	_____	_____	_____	_____	_____	_____
Travel/Entertainment	_____	_____	_____	_____	_____	_____
Taxes/Licenses	_____	_____	_____	_____	_____	_____
Packaging/Shipping	_____	_____	_____	_____	_____	_____
Subscriptions/Duties	_____	_____	_____	_____	_____	_____
Bank Charges	_____	_____	_____	_____	_____	_____
Interest	_____	_____	_____	_____	_____	_____
Depreciation	_____	_____	_____	_____	_____	_____
Commissions	_____	_____	_____	_____	_____	_____
Decorating	_____	_____	_____	_____	_____	_____
Legal/Accounting	_____	_____	_____	_____	_____	_____
Other - List	_____	_____	_____	_____	_____	_____
TOTAL EXPENSES	_____	_____	_____	_____	_____	_____
NET PROFIT/LOSS BEFORE TAXES	_____	_____	_____	_____	_____	_____
LESS: Income Taxes	_____	_____	_____	_____	_____	_____
NET PROFIT AFTER TAXES	_____	_____	_____	_____	_____	_____
LESS: Withdrawals (only if Proprietorship or Partnership)	_____	_____	_____	_____	_____	_____
UNDISTRIBUTED PROFIT OR LOSS	_____	_____	_____	_____	_____	_____

FORM III: SAMPLE INCOME STATEMENT EXPLANATIONS

Gross Sales: First year based on projections from business plan. Second year gross sales based on a 5 percent growth rate and 4 percent inflation.

Cost of Sales: Used industry ratio of "X" percent.

Gross Profit: Difference between gross sales and cost of sales.

VARIABLE EXPENSES

Salaries and Wages: First year based on business plan projections. Salaries and wages are projected to increase 5 percent the second year and 5 percent the third year.

Other Employee Expenses: Includes employer's share of Social Security and assigned rate for unemployment compensation.

Utilities: (Industry ratio -- "X" percent) Includes electricity, gas, water and trash removal.

Office Supplies: (Industry ratio -- "X" percent) For stationery, forms, photocopy paper, etc.

Miscellaneous: 0.5 percent allotted for postage, petty cash, etc.

Advertising: (Industry ratio -- "X" percent) For advertising in local papers, yellow pages and trade magazines. Four percent of sales is allocated in the first year to cover initial promotion of \$1,000, \$250 of which will be spent prior to opening day (see Marketing Strategy section of business plan.)

Legal/Accounting: (Industry ratio -- 1 percent) For legal services, bookkeeping and necessary accounting and tax services.

(Explain other items as appropriate.)

FIXED EXPENSES

Rent: Based on lease agreement.

Insurance: Includes workers' compensation, life insurance on president, general liability, automobile and equipment.

Taxes/Licenses: Occupational licenses for each city served by the business.

Interest: 10 percent interest per year on unpaid balance of 5-year bank loan (\$800 first year on unpaid balance of \$8,000). A loan payment of \$1,600 will be made at the end of the first year, decreasing the interest paid in the second year to 10 percent on the unpaid balance of \$6,400 (or \$640), and the same amount in the third year.

Depreciation: On furniture, fixtures, and equipment including office equipment and automobile using straight line depreciation method as follows:

FORM IV: SAMPLE INCOME STATEMENT EXPLANATIONS (cont.)

<u>Item</u>	<u>Original Cost</u>	<u>Useful Life</u>	<u>Salvage Value</u>	<u>Amount of Depreciation Per Year</u>
Office furniture/fixtures	\$2,000	10	\$ 200	\$ 180
Office equipment	4,000	10	400	360
Automobile	12,000	5	2,600	1,880
TOTAL				\$2,420

Auto/Transportation: Repairs, gas/oil, maintenance.

Decorating: "X" percent of sales for improvements to leased premises. No decorating expected in second or third years.

FORM V: PROJECTED BALANCE SHEET

Opening Day

ASSETS

Current Assets:

Cash on hand and in bank	\$	_____	
Accounts receivable		_____	
Inventory		_____	
Total Current Assets			\$ _____

Fixed Assets:

Automobile		_____	
Furniture, fixtures and equipment		_____	
Less allowance for depreciation		_____	
Total Fixed Assets			_____

Other Assets:

Deposit - utilities		_____	
Deposit - lease		_____	
Prepaid expenses - remodeling & advertising		_____	
Total Other Assets			_____

TOTAL ASSETS \$ _____

LIABILITIES AND CAPITAL

Current Liabilities:

Loan payable, due within 1 year	\$	_____	
Total Current Liabilities			_____

Long-Term Liabilities:

Loan payable, 5 years, 10%	\$	_____	
Less: Current portion above		_____	
Total Long-Term Liabilities			_____

TOTAL LIABILITIES _____

Proprietor's Capital _____

TOTAL LIABILITIES AND CAPITAL \$ _____

(A similar format will be used for projected balance sheets at the end of year one and year two.)

FORM VI: SAMPLE BALANCE SHEET EXPLANATIONS

Opening Day

<u>Cash:</u> _____	\$25,000	available 30 days before
<u>Less:</u>		
	2,000	decorating
	12,000	automobile
	4,000	office equipment
	2,000	inventory
	<u>250</u>	advertising in advance
	\$ 4,750	

All cash expenditures prior to opening have been converted to assets. Unlike the other cash expenditures, the \$250 in advertising and \$2,000 in decorating expenses are "temporary assets" (see Prepaid Expenses under Other Assets). Once the business is open, these will be transferred to an expense account and will appear in the income statement.

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