

GET READY TO SELL

If you are thinking about selling your business, you can make some preparations that will make the process move much more quickly and efficiently. In the due diligence process, the buyer will want to see a number of documents that are crucial to your business. By making sure those documents are all in order before you find a buyer, you can make the sale process move along more smoothly, increase the chances that the sale will eventually be successful and potentially increase the sale price for your business. Below, I will discuss some of the areas to focus on when preparing the documents necessary to sell your company.

Corporate Documents:

A buyer expects your corporate records book to be in order. Making sure it is may require some work. Many companies neglect their corporate records. They start up their company, fail to do much more than the minimum of documenting their start up and then place their corporate record book on a shelf to collect dust. Before you start the sale process, it is a good idea to take your corporate record book to the attorney that will be representing you in the sale so he or she can make sure it is up to date.

Getting your corporate records up to date is not difficult. The areas that usually are of concern are the more tedious record keeping items. When a company is started, many people do not prepare the required organizational minutes in a corporation or operating agreement in a limited liability company. These documents set forth the general rules about the governance of the company for items such as shareholders and board of director meetings, how to appoint officers and how profits and losses are distributed. Any experienced business attorney should be able to provide you with the necessary documents.

Another typical area of neglect is keeping any required annual minutes and documenting important transactions in the corporate minutes. Even if you have not done the required annual minutes for many years, you can still prepare them now to complete your corporate minute book. You may also need to update the minutes for important purchases and changes in the shareholders, officers and directors of the company. Buyers want to make sure your corporate records are complete and reflect the true ownership, officers and directors. If you can accomplish that goal, then there is one less thing for the buyer to worry about.

Important Contracts:

Another important group of documents a buyer wants to see is your important contracts. These contracts set forth the critical provisions that govern the main products and services you sell and the compensation you can expect to receive. They also set forth

what your key expenses are and will let the buyer know about which of your partners are critical to your success.

A buyer will want to see a number of different types of agreements. In the context of the sale of a company in the bankcard business, the following are some of the key types of agreements you should gather: 1) office leases; 2) processor and/or bank contracts; 3) agreements with your agents and referral partner; 4) equipment supplier agreements; 5) other long term leases (office equipment, cars, etc.); 6) any other revenue producing contracts (payment gateway, cash advance, check services); and 7) any employment agreements. If you just ask yourself what relationships bring you revenue and where you spend money, you will be able to identify most of the relevant agreements.

Once you get all the documents together, make sure they are all complete and are all signed by the relevant parties. Often, you will find you never got the signed copy back from the other party so go back and request it. Once you have all the complete documents, place them all in a 3 hole binder all tabbed with an index for easy reference. In addition, have all the documents imaged so that you have electronic versions to send by e-mail. If you do all that, when the prospective buyer asks for your due diligence documents, it will be impressed with your organizational skills and also have one less reason to back out of the transaction.

Financials:

Probably the most important documents in any sale of a business are your financial records. A buyer will want to review and dissect the financials if the buyer is going to make an offer for your business. Therefore, all your financial records must be in good order before the sale process begins.

Buyers will want to see as much financial information as you can provide them. You should be ready to provide 3-5 years worth of financial records. These should include monthly income statements and balance sheets as well as yearly compilations. The financials should be consistent in their appearance and preparation so that figures from one time period can easily be compared with those from another time period. If a buyer cannot follow the logical progression of your business from a financial perspective, that will be one more reason not to buy the company.

A buyer also generally expects you to provide pro forma financials setting forth your reasonable estimate of how your company will perform in the future. The more you can show the buyer it may be able to make in the future, the better the sale price for your company. Most buyers are looking towards the potential of your company when they decide to buy, not necessarily how much you have made in the past. For that reason, the pro forma financial projections are critical to getting a premium price for your company.

The key to pro forma financials are the underlying assumptions that you are making and whether they can be easily defended. For example, are you going to be able to show that you can increase your sales by 25% per year over the next 5 years? How does that compare to how you did over the past 5 years? If your sales increases were only 10% per year in the past, there had better be a pretty good reason to get the buyer to believe that you can increase your sales at a greater pace. Working through the projections, making sure you are able to justify all your assumptions and presenting that information to a buyer is an effective way can dramatically increase the sale price for your company.

This is a broad overview of the main areas to be concerned with when gathering the documentation to sell your company. Like most things in life, the key to selling your company is preparation. The better prepared your are, the more successful the sale process will be which will be reflected in the price you get for your company.

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