Reuters Legal News

Summer cleaning: getting your corporate 'house' in order for a potential sale

By Jeffrey R. Groendal, Esq., Jeffer Mangels Butler & Mitchell LLP

JULY 7, 2025

Spring isn't the only time for cleaning house. Summer, starting in the middle of the calendar year, is inherently transitional. It presents an opportunity for tending to matters at home — and in your company — that you may otherwise put off throughout the rest of the year.

The metaphor extends to business owners and "corporate housekeeping." For companies working toward an exit transaction, summer's strategic pause allows you to get your affairs in order. Even if you're not yet ready, the process is a healthy one. Arming yourself with the ability to "think like a buyer," you'll find that you can reverse engineer value, shore up internal documentation, identify and address gaps in record-keeping, build sustainable habits, and generally establish confidence in how you'd present to the market if and when the timing is right.

Why invest in transaction readiness?

Recent market studies show that buyers (whether corporate, aka "strategic," or private equity, aka "financial") are consistently conducting tougher, longer, more exacting diligence processes. Diligence request lists (you may have seen the acronym "DRL's") are extensive, covering everything from foundational corporate documents (shareholder agreements, operating agreements, minutes/resolutions, etc.) to financial and accounting records (statements, budgets, tax returns, processes/procedures for billing and revenue recognition, etc.), operations, customer information, labor and employment practices, intellectual property, cybersecurity/data privacy, real estate, and more.

Internal pre-sale audits give you the opportunity to assess these aspects of your company without the worry that you'll raise the suspicion or judgment of a potential buyer and its (often large) advisor group of lawyers, accountants, and other specialists.

Preempting potential concerns and identifying and addressing missing documents, gaps in compliance, and other features that are troubling to buyers form a bulwark against the following: deal delays (or worse, termination); retrading deal economics (including reduced or heavily contingent consideration and increased escrowed amounts or "holdbacks"); and lengthier diligence periods.

For companies working toward an exit transaction, summer's strategic pause allows you to get your affairs in order. Even if you're not yet ready, the process is a healthy one.

All of these are likely accompanied by increased professional fees and angst. More importantly, it's axiomatic that well-organized and well-prepared businesses with clean financials and "process excellence" receive higher valuations in the market. You'll present better and stronger to buyers, receive more favorable pricing and terms, and moderate your stress level during diligence and deal documentation so that you can more optimally run your business during a grueling sale process.

How do I get started?

Here are some suggestions to become more transaction ready. Stated differently, try thinking like a buyer and working backwards.

Review your corporate records and structure

Focus on your shareholder agreement, operating agreement, partnership agreement, and/or bylaws. Modernize/update your written governance to "best practices" to synchronize with how you actually operate in practice. Fill gaps in meeting minutes and resolutions. Identify the consistency (or lack thereof) of required state filings to recover/maintain good standing.

Assess the suitability of your corporate form (corporation, limited liability company, etc.), whether from a market expectation, liability protection, or tax and estate planning standpoint.

Review and update your capitalization table

Ensure you have a complete picture of ownership (both current outstanding equity and fully diluted interests like convertible securities, options, restricted units, equity incentives, etc.). Test and model waterfalls for exit distributions so you can assess the need to update/amend your governing documents and manage expectations in an exit.

Review your financials

This includes, for instance, reviewing, organizing, and reconciling financial statements such as income statements, balance sheets, and cash flow statements. Assess tax compliance and filings (identifying, for instance, items such as state sales tax exposure).

Understand working capital trends. Review your pro formas and their underlying assumptions. Consider obtaining an internal "Quality of Earnings" report to assess the level to which *reported* earnings are sustainable and reflect your *actual* performance.

Review your key contracts

This could include, for instance, customer and vendor agreements, leases, and loan documents. Identify "change of control" or assignment prohibition provisions that require third-party consents or approvals in the event of a sale.

Failing to identify these in advance of a deal introduces potentially significant risk and the likelihood of a closing delay.

Review your employee documentation and labor practices

Update to "best practices" your handbook, employee on-boarding/off-boarding documents, and payroll procedures/documentation. Assess the strength of your management team and the need to further incentivize (or get under contract with) key executives/personnel. Consider transaction bonuses or long-term incentive plans to secure a motivated executive team in the lead-up to an exit.

All of the above steps are minimally recommended, and more categories could be added to the extent your business has added industry-specific regulatory or compliance requirements.

Focus on your shareholder agreement, operating agreement, partnership agreement, and/or bylaws. Modernize/update your written governance to "best practices" to synchronize with how you actually operate in practice.

In closing, corporate cleanliness/upkeep is similar to your home — it's more than just "for show." It forces you to deal with the things that need attention. It helps you to feel more confident and self-assured in the value of your important asset.

Most importantly, it gets things in shape and helps establish (or re-establish) practices/procedures so that they remain in place for when you're ready to hit the market. It's time and resources well-spent. Doing them at your own pace, with the familiar rhythms of the summer months as a backdrop, will help orient you for the rest of the year and beyond.

About the author

Jeffrey R. Groendal is a partner in **Jeffer Mangels Butler & Mitchell LLP**'s mergers and acquisitions group. He represents both large and mid-sized privately held companies across a wide variety of industries. He has representative experience as the primary transaction advisor for both buy- and sell-side clients in all major phases of a deal (transaction readiness, go-to-market, letter of intent negotiation, deal documentation and execution, and post-closing). He is based in Los Angeles and can be reached at jgroendal@jmbm.com.

This article was first published on Reuters Legal News and Westlaw Today on July 7, 2025.