

Seller's Due Diligence

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GR Review

An owner has been approached by a prospective buyer interested in acquiring his company or the owner has decided it is time for him to sell his business. Although every situation is unique, buyers, either pursuant to a confidentiality agreement or letter of intent, wish to conduct an extensive due diligence investigation concerning the seller's business.

Similarly, most sellers will have a myriad of questions regarding the buyer if the buyer is an entity other than a large publicly traded company. A seller's due diligence investigation would attempt to determine the reasons for the buyer's interest in the acquisition, the buyer's business and personal reputation, and the buyer's financial ability. Seller might even request several years of the buyer's financial statements (three to five years) and letters of reference from buyer's bankers, investment advisors, customers, and suppliers. Further, information regarding buyer's previous acquisitions within the past three years may be helpful.

Depending upon the nature of seller's business, it may wish to determine the buyer's intent regarding continuation of the business, retention of employees, maintaining existing fringe benefits, i.e., health and medical insurance, qualified plans, vacation, and sick pay policies. If a union is involved, seller must know the buyer's plans regarding the union. Another question is whether the buyer is involved in pending litigation that may impact the acquisition or has been involved in bankruptcy proceedings within the last several years. If the seller's business is in a regulated industry (i.e., healthcare, environmental, communications, gaming), the seller may wish to know if the buyer, assuming the buyer is in a similar business, has had any suspensions, restrictions or other imposed administrative limitations.

Seller's preliminary due diligence should save him time, expense, and eliminate and discourage non-qualified buyers.

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