



DUE DILIGENCE – I DON'T NEED IT (YA RIGHT)

You have been searching for various businesses for sale and now you have found that perfect business to buy. The business is represented by a reputable broker. You are comfortable with the terms, and now you wish to enter into contract and proceed with the due diligence phase. Everything you have been told by the seller and broker sounds good and feels right. So what's next? How deep do you need to dig?

Deep my friend. Yes, most brokers are very reputable. But remember they only get paid when the deal closes. And remember also that the broker is representing the seller, not you.

So what should you be digging for? Here is a partial list:

- 1) Negative business trends;
- 2) Negative industry trends;
- 3) Expected but undisclosed competition;
- 4) Any hint of a personal matter that would restrict the seller from selling;
- 5) Any partner, spouse, shareholder, or related party that would restrict the seller from selling;
- 6) Existing or past credit problems with banks or suppliers;
- 7) Any pending litigation against the company;
- 8) Any claims, liens, or encumbrances against the company or company real estate;
- 9) Unpaid income, sales, FICA, unemployment insurance, or other taxes;
- 10) Timely filing of all tax returns;
- 11) Expected but undisclosed loss of one or more major accounts;
- 12) A current disaster recovery plan;
- 13) A current management succession plan;
- 14) Stale or nonexistent policies and manuals (including personnel manual, training manual, safety manual, and sexual harassment policy)
- 15) Retention of key employees;
- 16) Retention of key accounts;
- 17) Recent bad publicity;
- 18) Expiring/ renewal of property lease;
- 19) Leases that are not assignable;
- 20) Restrictions on business or property expansion;
- 21) Capital assets that are at or near their expected life;
- 22) An established reserve for capital improvements;
- 23) Obsolete equipment and machinery;
- 24) Overvalued inventory;
- 25) Product obsolescence;
- 26) Expiring licenses, patents, franchise agreements, etc.
- 27) Difficulty in obtaining raw materials, products, or services;
- 28) Expiring vendor or supplier agreements;
- 29) Recent increases in all types of insurance rates;
- 30) Employee awareness regarding the business sale;
- 31) Customer awareness regarding the business sale;
- 32) Vendor and supplier awareness regarding the business sale;
- 33) Non compliance with safety and environmental requirements;
- 34) Potential labor union or other employee related issues;
- 35) Any web site related issues.

As you can see there are many issues that really need to be investigated. Many are very technical. You will likely need to enlist the help of other professionals for assistance. An attorney and an accountant are a must.

Just remember, when you are searching businesses for sale, think ahead. Do not trust everything the broker and seller tell you. You are making a huge decision; make sure it's a good one.