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Prepare Yourself for Deal Breakers

by Peter C. King, VR Business Sales/Mergers & Acquisitions, CEO

You're buying a rival company. The transaction is nearly complete. At the last minute, an unexpected problem arises, and the deal falls apart.

This nightmare scenario plays out countless times every year. But you greatly increase the odds of a smooth and successful acquisition by looking for potential deal breakers early in your due diligence efforts. The best time to address these situations is before the other company's problems become yours. Here are five potentially unanticipated deal breakers:



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Litigation Risk

Investigate whether the target is involved in any pending legal action by shareholders or customers. Also, confirm that the company's products and operations comply with government regulations. Examine its relationships with customers, vendors and employees. Does the company treat them with honesty and integrity? If the answer is no, acquiring your candidate could someday embroil you in a lawsuit.

Unanticipated Liabilities

The stock market's tumble exposed financial weaknesses in many companies' pension and benefits programs. Combining this with soaring health insurance premiums has left some firms unable to afford the benefits they have committed to pay. Evaluate these obligations to ensure you don't inherit an unexpected shortfall.

Labor Costs

Is the company's work force unionized and up for contract renewal? Are there restrictions governing which employees may be hired and fired? Such situations could mean higher-than-expected labor expenses.

Tax Issues

Have you examined the tax implications of your deal structure? An improperly structured transaction could wind up more costly than expected. Consult with experts to determine the tax impact of your merger.

Insurance Coverage

Is the company insured against unexpected calamities? For example, does it have enough workers' compensation insurance? Is it protected from claims growing out of product liability or environmental concerns? Insufficient insurance coverage has killed many businesses.



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