Due Diligence Steps for Sellers

Due Diligence Steps for a Seller	
Considerations for a Deferred Payment Sale	
	What is the potential buyer's timetable for completing the transaction?
	Ensure that you receive as much cash upfront as possible to minimize your financial risk.
	Make certain that the sale price is more generous to reflect your increased financial risk.
	Ensure that the interest rate you charge on the deferred payments is high enough to reflect the financial risk of late or missed payments.
	Assess the creditworthiness of the buyer by obtaining credit reports and financial statements. Also check the buyer's business reputation and management experience.
	Do an Internet search for information about any unethical business practices the buyer might have engaged in.
	Understand exactly where the cash flow to make the deferred payments is expected to come from (often, much of the needed cash will come from the business you are selling). Determine whether it is sufficient.
	Obtain adequate collateral for the deferred payments in the form of secured promissory notes and guarantees from the buyer and/or other parties. Often the primary collateral consists of the assets or business ownership interest that is being purchased. You may also want to consider buying insurance on the lives of the buyer and guarantor(s).
	Check public records to uncover any outstanding liens and judgments against the buyer or related parties, undisclosed litigation against the buyer or related parties, and so forth.
	Make sure you fully understand the tax implications of the deferred payments sale. In other words, when will the taxes be due and approximately how much will they be? Depending on what you are selling, you may discover that the tax hit will be more front-loaded than expected. If so, proper advance planning can often improve the tax results.
	Evaluate the buyer's business plan for the business you are selling.
	Line up a consulting contract for yourself and other executives. This can provide additional cash flow for you, along with the added advantage of giving you a chance to mitigate your financial risk by helping to run the business you know so well.
Considerations for a Tax-Free Reorganization Deal	
	Ensure that the sale price is more generous to reflect your increased financial risk from receiving buyer stock instead of cash or some other more-liquid asset (or assets).
	Make certain that you can sell the stock that you receive as soon as possible within the constraints imposed by securities laws and applicable tax rules.
	Assess the buyer's overall financial strength and recent operating results by obtaining credit reports and financial statements and performing various financial ratio tests.
	Find out the potential buyer's timetable for completing the transaction.
	Assess the financial health of the buyer's major customers.
	Evaluate the buyer's business plan for the business you are selling.
	Check public records to uncover any outstanding liens and judgments against the buyer or related parties, undisclosed litigation against the buyer or related parties, and so forth.

	Line up a consulting contract for yourself and other executives. This can provide additional cash flow for you along with the added advantage of giving you a chance to mitigate your financial risk by helping you run the business you know so well.
	Make sure you fully understand the tax implications of the buyout deal, and also make sure it is properly structured to deliver the expected deferred tax benefits. Competent professional advice is critical here.
	In addition to federal tax law considerations, make sure you are aware of state and local tax issues, which may not coincide with federal treatment. If your company does business in more than one state, the issues are likely to be more complex.

These are just a few steps that might be appropriate when evaluating the sale of your business. Each case is unique. Relevant considerations can vary widely depending on the nature of the proposed deal. To ensure the best sales transaction, professional help is essential and planning should start early in the negotiation process.

Contact SVA if you need assistance conducting a thorough, revealing and cost-effective due diligence investigation.