

Background checks are a must when opportunity knocks

When the right acquisition opportunity comes along, it's tempting to want to rush the deal through as quickly as possible. This could mean giving financial and legal due diligence short shrift or failing to investigate the selling company's owners.

But even "reputable" companies can harbor potentially damaging legal and ethical secrets, such as an owner's history of multiple bankruptcies or a key executive who's been subject to fraud investigations. Worse is the possibility that your target is nothing more than a shell designed to swindle an unsuspecting buyer. These possibilities make performing background checks on potential M&A partners essential.

Relatively quick and easy

Before beginning a background check, request the owners' or executives' written permission. You should also ask for a copy of their most recent resumé or curriculum vitae. Offer to reciprocate, as opposite parties will want to verify your background as well.

Most personal and legal information can be verified relatively quickly and inexpensively. Begin your research into the individual by contacting business partners and former employers to confirm relevant dates and job titles. HR departments rarely will discuss a former employee's job performance or reputation, but you can always try contacting colleagues and former supervisors directly to gain specific information.

Unofficial channels are also worth checking. Assuming the key person doesn't have a common name, search Google, Yahoo and other search engines. Or consider paying for the services of a national research database.

Legal up-and-up

Information regarding potential securities fraud or suspicious business practices can be obtained from the Securities and Exchange Commission and relevant state securities agencies (sec.gov). Your queries may, for example, uncover undisclosed business affiliations such as an ownership interest in a company that's one of your target's important customers.

Buyer beware

Even if a selling company's owners and executives pass background checks with flying colors, buyers need to work with their advisors to review documents for other kinds of financial and legal risks. For example:

Environmental liabilities. Ascertain whether any of the seller's property is unsafe or may present a public hazard. To avoid environmental landmines such as asbestos or toxic waste, review both the current and previous uses of all real estate.

Contract pitfalls. Even small companies have a large number of contracts, including those with vendors, customers, lenders and employees. Make sure even seemingly minor agreements are reviewed from both a legal and a risk management perspective.

You can investigate current company litigation by searching state records (try statelocalgov.net). To learn if the individual is involved in any federal litigation, check the U.S. Party/Case Index (pacer.uspci.uscourts.gov), which lists civil, criminal and bankruptcy litigation from most federal courts,

charging a small fee to review documents. For state litigation records, look to Legal Dockets Online (legaldockets.com).

Outsourcing research

If you prefer not to perform background research yourself, consider hiring a pre-employment screening firm. These companies often offer better results than do-it-yourself searches. And they allow you the flexibility to determine the depth of the search, which can involve verifying identities, including Social Security numbers; checking up on work histories; analyzing credit reports and driving records; and digging for litigation records or criminal histories.

Screening companies typically provide you with a background report within a few days to a week. Your M&A advisors likely already work with a service they trust, but if not, ask your attorney or business associates for a recommendation.

Informed decision

Although background checks are essential for business buyers, sellers should also investigate their M&A partners. This research is particularly valuable when sellers plan to finance part of the deal or accept payment in stock.

But no matter what side of an M&A transaction you're on, ignorance is *never* bliss. Whether you do it yourself or ask your advisors or a pre-employment service to perform the task, be sure to include background checks on your due diligence checklist.