

FOR EXECUTIVES SEEKING TO BUY, SELL, OR RECAPITALIZE BUSINESSES

## Buyers Approach to a Stock Sale

### Steps that acquirers need to take in a stock sale

In most small to mid market situations, it is advantageous for acquirers to structure the business acquisition transaction as an Asset sale. However, in some cases there may be significant advantage to going the Stock sale route. Also, asset sales may not be practical in some cases for contractual or other reasons. In such cases, acquirers need to pay special attention to three key factors:

- ❖ **Indemnification Agreement:** Acquirer should get a bulletproof indemnification from the seller for any potential liabilities that may have occurred before the transaction closes but only surface after you close the deal. A stock sale without a proper indemnification agreement exposes buyers to potentially damaging legal and financial risk.
- ❖ **Seller Carry:** Acquirer should get a significant amount of financing from seller as part of the deal. It is best to have this spread out over a period of few years so that you will have leverage in the event a claim materializes. The seller carry can come in handy if there is a lawsuit and the seller balks at keeping his end of the bargain.
- ❖ **Corporate Structure:** The structure of the corporation being acquired may have significant impact on the tax status of the acquirer. If the acquirer owns one or more corporations prior to the sale, some post acquisition structural alternatives could significantly enhance the acquisition benefits. These alternatives need to be reviewed carefully before the close for maximum leverage.

It is essential for acquirers to incorporate these key factors in any stock sale.

Chak Reddy is a Mergers and Acquisitions Advisor with Elite Mergers & Acquisitions, Inc. [Elite Mergers & Acquisitions](#) specializes in selling California Central Valley businesses with revenues between \$1 million and \$100 million - Businesses too large for business brokers to adequately handle but too small for the national M&A firms. Mr. Reddy is a business M&A and Marketing expert, and is the chief deal maker at Elite. You can reach Mr. Reddy at 916-220-3052 or by email at [creddy@elitemanda.com](mailto:creddy@elitemanda.com).

For assistance with selling or recapitalizing your mid market company, contact:

Chakradher (Chak) Reddy

Elite Mergers & Acquisitions

[creddy@EliteMandA.com](mailto:creddy@EliteMandA.com)

[www.EliteMandA.com](http://www.EliteMandA.com)

11707 Fair Oaks Blvd, Suite 201, Fair Oaks, CA 95628

Ph: 800-335-3068; Fax: 888-502-3817

*Disclaimer: This document is for informational purpose only and should not be construed as tax or legal advice. Please contact your CPA/attorney for advice on your specific situation.*