

NJORD Latvia: Legal Aspects of Acquiring a Latvian Company

Acquiring a Latvian company is a process that requires thorough preparation, analysis, and compliance with legal norms. Purchasing a company in its entirety differs from acquiring individual assets, as the new owner not only gains the company's property but also inherits all its obligations, rights, and business history. In this article, we will explore how the transaction for purchasing a Latvian company takes place, what to pay attention to, and how to minimize potential risks.

Stages of Acquiring a Latvian Company

1. Preliminary Analysis and Planning

Before initiating the transaction, it is crucial to define the objectives of the acquisition: why you need the company, how it fits into your strategy, and what benefits it will bring. At this stage, a preliminary analysis of the company is conducted, including an assessment of its financial condition, market position, and prospects.

2. Due Diligence (Legal, Financial, and Tax Review)

Conducting Due Diligence is a key step that helps identify all potential risks. The review includes:

Legal aspects: Corporate documents, licenses, contracts, ongoing litigation, and obligations to third parties.

Financial condition: Accounting records, debts, and tax history.

Operational activities: Condition of assets, labor relations, and environmental obligations.

3. Negotiating the Terms of the Transaction

Typically, based on the results of the Due Diligence, the parties agree on the terms of the transaction, which are documented in a preliminary agreement (e.g., a Letter of Intent). It is important to clearly outline the payment terms, transfer of rights, guarantees, and responsibilities of the parties. In some cases, the parties may skip this stage and proceed directly to discussing the share purchase agreement.

4. Signing the Share Purchase Agreement

The main document governing the transaction is the share purchase agreement. It should include, at a minimum:

- The subject of the transaction (100% of the company's shares).
- The price and payment terms.
- Conditions for the transfer of rights and obligations.
- Seller's warranties.

In some cases, the seller may be required to fulfill additional obligations, such as settling a debt or terminating a relationship with a specific counterparty.

5. Registration of Changes

After completing the transaction, it is necessary to register the changes in the Commercial Register of the Latvian Enterprise Register. This includes, at a minimum, updating the information about the new owner and the ultimate beneficial owner. Often, the buyer also changes the management of the acquired company.

What to Check Before Purchasing?

1. Legal Cleanliness of the Company

Ensure that the company has no hidden obligations, ongoing litigation, or tax debts. Review the company's history, including changes in ownership.

2. Financial Condition

Request the company's financial statements for the past few years (typically the last three years). Pay attention to profits, losses, debts, and tax liabilities.

3. Assets and Liabilities

Verify the assets owned by the company (real estate, equipment, trademarks, etc.) and any existing liabilities (e.g., loans, guarantees, supplier contracts, lease obligations, etc.).

4. Labor Relations

Ensure that all employment contracts comply with Latvian labor laws. Check the proper termination of relationships with former employees (considering the statute of limitations for labor disputes) and any outstanding salary or social payment obligations.

5. Licenses and Permits

If the company's activities require special licenses, ensure that they are valid and can be transferred to the new owner.

Main Risks When Acquiring a Company

1. Hidden Liabilities

One of the most significant risks is the presence of undisclosed debts or obligations, such as unpaid taxes, fines, or lawsuits.

2. Tax Risks

Improper accounting practices or tax evasion can lead to significant financial losses for the new owner.

3. Legal Disputes

If the company is involved in litigation, it may affect its reputation and financial stability.

4. Asset Issues

Insufficient due diligence on assets may result in the new owner facing problems such as lawsuits, asset seizures, or lack of ownership rights.

5. Reputational Risks

If the company has a poor market reputation, it may negatively impact its future operations.

How to Minimize Risks?

1. Conduct Thorough Due Diligence

A reliable review of the company is the foundation of a successful transaction. It is recommended to involve lawyers, auditors, and tax consultants.

2. Use Warranties and Guarantees

The share purchase agreement should include seller warranties regarding the absence of hidden liabilities and legal risks.

3. Risk Insurance

In some cases, it is advisable to insure risks associated with the acquisition of the company.

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Acquiring a Latvian company is a significant step that requires a professional approach. NJORD Law Firm has extensive experience in supporting company acquisition transactions in Latvia. We can assist you in conducting Due Diligence, preparing the share purchase agreement, and minimizing all potential risks. Contact us to ensure your transaction is successful and secure.



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