MERGERS AS A STRATEGY FOR SUCCESS

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TOOL #2: GLOSSARY

Here are definitions of terms commonly used in mergers.

Asset Acquisition: A merger strategy in which key assets of an organization are transferred to another entity, but the organization itself is not acquired. Can be helpful for organizations that have worthwhile programs yet carry large liabilities. The “acquiring” entity need not take on those liabilities, because it is not acquiring the entire organization.

Closing Date: The date of the completion of the formalities for negotiating a merger, when the parties have agreed and are ready to sign the legal documents which will make their merger legally enforceable.

Due Diligence: A comprehensive appraisal of the legal, financial, and operational state of each organization involved in the merger. It establishes assets and liabilities and evaluates future stability.

Effective Date: The date on which a merger agreement is to take effect, which can be apart from the date when the merger is voted on or recorded.

Letter of Intent (LOI): A letter from each party involved in a potential merger that expresses the willingness of the parties to explore a merger together. The LOI often stipulates guiding principles for the negotiation, notes some agreements, and identifies the individuals empowered to negotiate on behalf of each organization.

Memorandum of Understanding (MOU): A formal agreement that lays out the bulk of the terms and plans for the merger. It is not legally binding, but it does form a basis for the legal documents.

Merger: The process of combining two or more organizations into one organization; this can take various forms and is done to achieve a variety of goals and strategies.

Partnership: A relationship in which two or more organizations pool money, skills, and/or other resources and share risk and reward, in accordance with mutually agreed-upon terms.

Parent-Subsidiary: A relationship in which two separate corporations are maintained after a merger, with one (the "parent") being a member corporation with its only member being the other corporation (the "subsidiary"). Several possible board structures are possible with this form. It allows for liabilities to be spread around and enables the organizations to retain considerable autonomy.

Strategic Restructuring: A catchall term used for a variety of organizational partnerships, including but not limited to mergers, asset transfers, joint ventures, administrative or back office consolidations, joint programs, parent-subsidiary structures, and fiscal sponsorships.

Umbrella: An overarching organization that holds several smaller organizations under it, each participating in the same branding and organizational structure as the umbrella, for the purpose of gaining efficiencies, improving and expanding available administrative services, and coordinating service structures to benefit clients.