Prologue

The SAFE Guide to Mergers and Acquisitions of CPA Firms is a handbook, a workbook, an advisor and a forms generator for each and every step of the M&A process. It is a compilation of our firm's experience over the past ten years in mergers and acquisitions of accounting and CPA firms, exclusively. Each Chapter covers the mechanics, lists, and actual forms and documents required to complete a successful transaction. Perhaps more importantly, they include examples from our clients' transactions (without revealing their identities) of how they approached each step of this important crossroads in their career. We do not claim to have all of the answers, only those that have worked for our clients. In fact, none of our transactions have failed, partly because we pay strict attention to details and partly because we stay involved and resolve any issues that may arise in the future. But our success is primarily a result of our focus on 1) making successful matches, between buyers and sellers, 2) understanding their long-term objectives, and 3) structuring the deal to reflect those goals.

Any CPA or accountant who is considering a merger or acquisition has asked themselves, and/or their peers, many of the questions listed on the following page – **Frequently Asked Questions**. The purpose of ***The SAFE Guide to Mergers and Acquisitions of CPA Firms*** is to answer these questions. Some of the answers are spelled-out in the summaries or exhibits and others can be found within the numerous 'real life' examples of CPA firm analyses, financials, economies of scale, pricing multiples, terms and legal agreements found in the sample documents included in each Chapter.

Beyond *The SAFE Guide*

Strategic Alliance Funding & Equity, Inc. (SAFE) is a management consulting firm that specializes in the Mergers and Acquisitions of CPA, Tax, & Accounting Practices. Our staff members include CPAs, MBAs, and MAs. Our president is certified by the National Association of Valuation Analysts as an Accredited Valuation Analyst (AVA). We have represented hundreds of firms in the past 10 years and are available to represent your firm.

What is not delivered in this Guide is a suitable merger or acquisition candidate. Chapter four addresses the options available to finding candidates; word of mouth, advertising oneself or prospecting with a professional firm such as SAFE. SAFE's consulting and marketing services are available to you from hourly consulting, to fee based engagements that range anywhere from valuations to confidentially marketing ones firm or prospecting for acquisition candidates. SAFE has a proprietary database which we have compiled over the past ten years in order to successfully match buyers and sellers. We also design and implement specific marketing plans tailored to particular areas, niche markets, client profiles and objectives.

Frequently Asked Questions…….Answered in this Guide:

Analyzing the Opportunity

1) How does one value the practice in terms of services, rates, realization, infrastructure and client base?
2) What specific economies of scale might be achieved by combining the practices?
3) Who in the buyer's firm is going to replace the seller's relationship with the clients as "rainmaker" after the seller's exit?
4) If the seller is staying on and builds the practice should new clients built from the seller's practice be valued as referrals or be considered part of the multiple?
5) Are the fundamental services of both buyer and seller compatible for growth?
6) Does aggressive versus conservative tax preparation style affect each side?
7) Does the way the work gets to the office affect the value of the practice?
8) What is the buyer's exit strategy?
9) How do both feel about providing financial services to the client base?
10) What should both sides be looking at during due diligence?
11) How long should you open up your practice for due diligence and at what point?
12) When does proof of cash to close become necessary?
13) What matters should be covered in a Letter of Intent?

Establishing the Purchase Price

1) What is a fair and equitable down payment?
2) What is a fair multiple of revenue for establishing the purchase price?
3) How many years should the purchase price be adjusted based collections?
4) Should there be a minimum and maximum to the adjustments to the purchase price?
5) Should the seller get paid more if the collections go up?
6) Should the tangible assets (FF&E) of the practice be included in the purchase price?
7) What is a fair method of allocating the purchase price within IRS rules?
8) How much of the purchase price should be allocated to capital gains versus ordinary income?
9) How long should the term of payout be for Seller financing? 3 years? 5 years? 7 years?
10) How should accounts receivable and work in process be handled?
11) With an adjustable purchase price financed by the seller based on collections, should there also be interest on the note?
12) When is non-recurring revenue considered recurring?
13) Should the payout be matched with cash flow?
14) How does the cash flow affect the payout?
15) Does the cash flow support the debt service, the salaries of the sellers, and the overhead? Does the return on investment sufficiently support the purchase price?
16) What is the relationship of the billings versus collections to the realization rate over the last 12 months and previous years?
17) How should the real profit/owner's income be quantified as part of the value being sold?
18) What if real estate is involved in the transaction? How does it affect the value?

Obtaining Financing

1) Can the purchase be financed through a lending institution?
2) What would be reasonable terms & conditions of the loan?
3) Can the down payment be financed?
4) What information and documents will be required by the lending institution?

Negotiating the Contract

1) In what areas should the buyer indemnify the seller?
2) Which side should create the purchase and sale agreement?
3) What other instruments should the buyer provide beyond a personal guarantee to secure the note?
4) What are the normal exhibits and attachments to the purchase and sale agreement?
5) What language should the purchase and sale agreements have to be fair?
6) What specific issues belong in the letter of intent?
7) Should the seller's name of the firm be included with the buyer's on the name of the new entity? (Even in a full acquisition?)
8) What representations and warrantees should be considered in the purchase and sale agreement?
9) How long should the non-compete be for and in what geographical area?
10) What assets of the seller can be protected by a Form UCC-1 filing?

Transitioning the Practice

1) What is the most effective method for transitioning all the clients and maximizing the payout?
2) How long after the closing should monthly payments start for the buyer?
3) What is a fair compensation for the seller?
4) Should the seller be paid as an employee or independent contractor?
5) How long should the employment agreement be for?
6) What should the seller's liabilities be after the closing?
7) How long should the seller be required to stay?
8) How many non-billable hours should the seller donate to the buyer for the transition?
9) How much training should the seller provide for introductions and review of files?
10) What is the best way to handle the lease; sub-lease, assign it, or create a new one?
11) When is the best time to disclose to the employees the plans of the company?
12) What role can the consultant/broker play after the closing?
13) How much are closing costs and who pays these costs?