HOW TO BUY AN ACCOUNTING OR TAX PRACTICE

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INTRODUCTION

Starting or Expanding Your Practice Through Acquisition

Acquiring an accounting or tax practice is a surefire way of greatly increasing your present practice or of allowing you to go into business for yourself. However, this is not to say that an acquisition (including finding a suitable practice for sale, valuing the practice, negotiating with the Seller and creating a smooth transition) is an easy task. If you do find a suitable practice and the deal is structured correctly, you absolutely cannot find a better investment.

This report addresses the steps necessary to find, negotiate and acquire an accounting or tax practice.

WHY THE ACCOUNTING PRACTICE IS ONE OF THE HIGHEST VALUES OF ALL PROFESSIONAL PRACTICES AND BUSINESSES

The accounting practice clientele represents the highest value of all professional practices due to its high level of repeat business. When you purchase an accounting practice, you are in effect buying an annuity. In an accounting practice with a well diversified group of clients, a Buyer can readily forecast the value of the stream of income by using present value tables and adjusting for typical client gains / losses through growth / attrition.

THE MARGINAL NET WORTH OF A CLIENT

The marginal net worth of a client is the present value of the total aggregate net profit over the life of an average client. This includes all normal fees and all fees from additional services, less all costs to acquire the client.

For example, suppose that your typical client stays with you for 5 years and you earn a 50% net profit overall. Thus, a $1,000 per year client with a net profit of $500 would be worth 5 years (avg. length of client retention) times $500 (avg. profit of 50%) equals $2,500 times the present value factor for your target return on investment (R0I). A 20% ROI has an annuity present value for money received at the beginning of each year of 3.588. The present value in dollars for this example then is 3.588 times $500 equals $1,794. Theoretically, you could spend up to $1,793 for this client and still make a profit with a 20% ROI! This is why an accounting practice is so valuable. Just handle your clients in a business-like manner, providing good timely service and you will extend your average expected client life to maybe even 10 years or more.

THE BEST INVESTMENT IN AMERICA- INVEST IN YOURSELF

Are you smarter than your boss? Do you seek to control your own destiny? Do you have a burning desire to be in the top 10% income bracket while helping other people? Do you seek to build a practice so that upon reaching 60 years of age you may opt to pass the practice on to the children; or sell your practice for a handsome profit; or sell off part of your practice and ease into retirement with a good income? All of these goals are possible in the accounting profession. Sure it's hard work, but you get paid for it, not the boss!

Choosing to go into practice for yourself is one of life's most difficult decisions. But, by investing in an existing practice, your risk is reduced to almost zero. Most importantly, do not underestimate yourself. When something comes easy to us, we all assume that it comes easy to others. Wrong! You have a valuable and coveted talent that can be leveraged into a high-paying professional practice.

If you have some money to invest in yourself, have a lot of common sense, can save client's money, and have a friendly personality, call us. We can be of help.

BENEFITS OF AN ACCOUNTING PRACTICE AQUISITION

Tax Shelter. All of the purchase price can be depreciated or amortized to shelter income.

No Purchasing Power Risk. Rising costs can readily be passed on to the clients.

No Inventory Risk. Since there is no inventory, there is no pilferage, obsolescence or spoilage.

No Timing Risk. There is no business cycle in the accounting/tax profession, therefore there is no good or bad time to buy as in real estate, stocks, etc. In fact, when other businesses are having trouble is when the accountant is needed most.

High Growth Potential. With business accounting, government regulations, and tax laws increasing in complexity every year, the demand for accountants and tax preparers is continuing to go up.

Limited Business Risk. Business Brokerage, Inc. (BBI) can usually arrange for the Seller to guarantee the gross revenue for the first year.

High Liquidity. Through extensive advertising, we have developed an extensive file of prospective Buyers ready, willing and able to buy accounting practices of all sizes and complexity.

Good Leverage. BBI has arranged a down payment with good terms on almost every practice we have sold.

Low Interest Rate. Almost without exception, we have been able to arrange financing on our deals close to prime rate.

High Return on Investment. We can usually arrange terms so that most practices pay for themselves in 2-3 years.

Total Control. You are in control of your investment rather than subject to the whims of the Real Estate Developer, the General Partner, Stock Market Psychology, etc.

Instant Cash Flow. You have cash flow immediately; no 3-5 year payoff to wait and hope for.

True Synergism. By combining the expenses of your present practice with those of the acquired practice, you can reduce salaries, rent, computer fees, library, utilities, etc.

Known Profit. You can forecast a profit from day one, no waiting for- if the oil well strikes; if rents go up; if the stocks split or dividends increase; if mortgage rates decline....

Transportability. In practically all businesses, you are locked in to the location and/or office building and at the mercy of the landlord. However, in an accounting practice, you may easily move the practice to new premises, and even to a new city, with minimal loss of clientele.

I. TIPS ON BUYING A PRACTICE

1. BE PATIENT

In a capitalistic society, the incentive for greater profit has undoubtedly made our country the most successful system ever produced by mankind. However, the eagerness for profits sometimes precludes rational thinking. We all know the expression "don't shop on a hungry stomach." The same applies to acquiring a practice.

Make certain that your contemplated purchase makes sense on a financial return on investment (R0I) basis. Emotional reasoning, such as one's desire to be the biggest practice in the area, more often than not produces unhappy results. Make an economic analysis to see if the acquisition makes sense as far as return on investment.

Comment: We have dealt with many Buyers that would buy almost any practice offered to them (at just about any price). This is a mistake. There should be a good match between the personalities and styles of the Buyer and Seller for maximum transfer of goodwill.

2. DETERMINE THE FINANCIAL NEEDS FOR THE ACQUISITION

Often times the Buyer expects to quickly turn around a sick and dying practice, thereby expecting to improve the cash flow to enable the payments to be made, as well as to obtain the desired profit. Typically, a run-down practice took years to get in that depleted state and it will take hard work, money and several years to make it successful.

Your debt retirement structure should be developed to be safely within the projected cash flow of the acquired practice. Perhaps the payments to the Seller should be smaller in the earlier years while the practice is being revamped; then, higher payments can be made.

3. EXPLORE ALL FINANCING POSSIBILITIES

The Buyer should explore the extent of his financing capabilities before he makes the acquisition. Many times, by working closely with his banker and the Seller, the Buyer can finance up to 75% of the proposed acquisition.

4. MAKE A CONSERVATIVE CASH FLOW FORECAST

Be prepared for the worst that can possibly happen with the proposed acquisition. It sometimes does occur for a short period of time. For example, expect some of that old equipment to need repair ahead of schedule, or to lose some accounts, or expect that old trusted employee to quit shortly after you take over because he doesn't like the new management, etc.

Put a good cushion in your schedule of debt retirement, as the cash flow never works out as readily as projected. If the Seller forces you to make payments that are too large a percentage of the company's cash flow, have adequate cash reserves for the unexpected.

Tip: After you are in the practice for six months to a year and everything is working out as planned, why not offer to pay off the note on a discounted basis. You may effectively knock 15% to 25% off of the price.

5. CONSIDER BUYING THE RECEIVABLES

The accounts receivable can cause the Buyer severe cash shortages if not properly planned for in advance. The accounts receivables are normally handled on a first-in. first-out basis, or they may be negotiated for in the sales price. The Buyer should expect between 20 to 45 days receivables as typical. Greater receivables must be handled in other ways such as a reduced down payment or a moratorium on payments for two or three months. Since it is difficult for a Buyer to change customer-paying habits, the Buyer should not expect to correct this condition quickly.

6. VERIFY ALL DATA

Too often the Buyer does not obtain enough data on the proposed acquisition or fails to make an accurate payback analysis. In many cases, a Seller is afraid to give out all information or doesn't have sufficient information available. Often times the Buyer does not ask for sufficient data or is afraid to ask so as not to embarrass the Seller.

Gather all the data necessary to make a good merger or acquisition decision. If the Seller won't give complete financial information or is too secretive, either pass on that acquisition or negotiate guarantees, earn-outs or other contingencies. Expect to find surprises after you complete the acquisition even after a "thorough" search.

7. USE YOUR ATTORNEY AND PROFESSIONALS PROPERLY

Some attorneys have not worked with a sufficient number of professional practice mergers or acquisitions to develop the "acquisition background" to be of value to you. A good business broker can provide you with sample purchase agreements, payback schedules and projections, but you must verify the data to satisfy yourself.

In the final stages, use your attorney to review the final contract. He can ensure there are safeguards that can minimize legal problems in the future

The important point to remember on the use of support people is that they should not make the final business decision for you on the acquisition. The final decision must be made by you. Lawyers, bankers and other consultants are fine to work with through the acquisition process, but their knowledge is usually of great depth in only a single discipline. The successful practice owner must be a master of many areas and be able to analyze and weigh the input of his support people. Use them judiciously and make their assignments specific or your costs will be excessive.

8. ATTEMPT TO USE THE SELLER'S BANK

Many times, the Seller's bank can be a good source of financing for the transaction. He should know the Seller's business and its worth. If you have a down payment of 25% to 35% and the practice is reasonably priced, the Seller's bank may be willing to handle a good portion of the financing in conjunction with the Seller.

9. BE SURE TO ASSESS THE COMPETITION AND THE MARKET

Many Buyers think they can buy a practice that is experiencing a sales decline and increase sales and profits in a short period of time. In reality, it often takes a much longer time than planned to produce the increase in sales. This delay should be factored in the purchase price and debt retirement schedule.

Comment: If the acquired practice is large enough to support the Seller's salary, retain the Seller for a period of time to help in the transition and in promotion of the business. In several practices that we sold, the Sellers stayed on in a reduced capacity, resulting in tremendous growth. Many clients had additional work and referrals which they held back due to their view that the Seller was "tapped out" and couldn't handle the additional work.

10. CAREFULLY ASSESS THE SELLER'S MANAGEMENT TEAM

Many times when the Seller leaves the business in a small to medium size practice, he usually represents most of the management team. The employees and the customers may not respond as well to the new management as they did to the old one. This can produce temporary, if not long lasting, problems.

However, on the other side of the coin, a lean, new, energetic management can usually produce a highly motivated work force and expand the customer list. The new owner can often be the ingredient to get an old practice going again.

11. NEGOTIATE A FAIR PAYMENT SCHEDULE

After determining whether to buy the practice, the next most important step is to structure the debt retirement to the available cash flow. This will also establish the price you can pay for the business. Any price you pay for a business is a good one if the business will pay for itself over a reasonable length of time.

While you are negotiating the deal, failure to pay close attention to your debt retirement schedule and cash flow will usually put the practice in a cash bind. Sometimes, in the first year, a decline in sales occurs or the forecasted increase doesn't materialize as planned.

Don't let the Seller talk you into a debt retirement schedule beyond the reasonable cash flow of the business. Also, don't put all of your available money toward the down payment.

12. SET UP ACQUSITION CRITERIA

Set up standards for the ideal type of practice you wish to acquire. Although you never get 100% of what you want, you can more readily discard those potential acquisitions once you have established standards.

13. NEGOTIATE A GUARANTEE OF THE GROSS REVENUE

In the purchase of accounting and tax practices, it has become the custom for the Seller to guarantee the gross revenue of the practice to the Buyer for a period of one year. This has come about as a method to handle the risk associated with the retention of clients. Because it is impossible for the Buyer to ask each client whether or not the client will remain with the practice if the Buyer purchases the practice, the Buyer has only the guarantee to protect himself from paying for what he doesn't receive. This guarantee has great value and one should discount the price of a practice by approximately 20% to 25% if a guarantee is not secured in the negotiations. However, because the Seller does have to guarantee the gross revenue of the practice, the Seller will carefully screen the prospective Buyer in terms of personality, education, experience and financial capabilities. Thus, not only is the Buyer "checking out" the Seller, but so too is the Seller "checking out" the Buyer. In short, the Seller wants a Buyer that will retain the maximum patronage of his practice.

14. NEGOTIATE FOR AN ADEQUATE COVENANT NOT TO COMPETE

The covenant not to compete is often negotiated for in terms too slanted toward one of the parties. A typical covenant not to compete is for 15 to 25 miles and 5 years as far as the Seller establishing a new business location and for the entire state ***and applies only as to soliciting any clients transferred.*** Of course, the covenant not to compete has value. The price of a business should be discounted substantially if an adequate covenant not to compete is not secured in the negotiations.

Tip: An excessive covenant not to compete will not hold up in court. The court will not allow the covenant to restrict a person's right to make a living. Be sure to check with your attorney as to the reasonableness of the covenant you negotiate.

15. INSIST ON AN ADEQUATE INTRODUCTION PERIOD

Typically, the Seller should offer 30 to 60 days free introduction to clients, review of all management information systems, and training on office procedures. In larger practices, the transition period is often longer at a negotiated salary. Additionally, the Seller should be available on a consulting basis for several months thereafter. It is important during this introduction period that the Seller properly build up the capabilities and qualifications of the Buyer to the clients and that there is a shift of client loyalty to the Buyer.

Additionally, during the first year, it is advisable not to relocate the business, not to raise the fees more than a token amount (unless they are very low), and to keep the Seller's staff on board.

16. DEVELOP A MARKETING PLAN

In an accounting or tax practice, clients don't normally just walk in off the street (except for some street front tax offices). The Buyer should plan to spend some time promoting the practice and therefore have adequate staff to support him during the transition. It is a good idea to consult with the Seller before each new introduction to a client or customer and prepare yourself with at least one good idea to present to the client during that interview.

It is a good idea for an accountant to take stock of himself and determine what unique or special benefits he can offer a client and build a marketing program around these benefits. In other words, have something to offer: a benefit to the client above and beyond every other accountant.

II. A PROFILE OF THE SELLER

In the sale of an accounting practice, it is customary that the Seller guarantee the gross revenue for the first year. This means that the Seller is really checking out the Buyer just as much as the Buyer is checking out the Seller. This being the case, it is imperative that the Buyer determines the Seller's “true” motivation for selling. The Buyer can then show how selling the practice to him will satisfy the Seller's needs and wants. Note: the Seller's motivation may not always be disclosed. For instance, if the Seller has just had heart bypass surgery, the Seller may not want to disclose this fact fearing that the Buyer may use this information to secure a negotiation advantage against the Seller.

Listed below are some common reasons that accountants sell their practices:

1. To make a profit.

The primary reason someone goes into business is to build equity. Eventually, the owner will want to cash out at a profit.

2. To retire.

Many practice sales are situations where the Seller wants to retire or semi-retire. While a practice can produce substantial rewards, most practices also require long hours and intense commitments, both financial and mental.

3. To change careers.

Often times, an owner will have worked hard and built up a successful practice. Then, he will want to sell out, take a rest and find a new practice with a greater challenge and a greater potential for monetary gains.

4. To cash in on a good idea or opportunity.

In today's fast moving and dynamic business world, if you develop a good service or invent a good product, you need to exploit its potential as quickly as possible. Once the product hits the market, other companies may attempt to copy the idea or service. A good way to cash in on your product or idea is to sell out first to such a company and negotiate some sort of equity "kicker" to maximize your return.

Comment:

Several accountants who have listed their practices with Business Brokerage have had opportunities arise from their own client base that offered far greater potential for gain than their own practices.

5. To save the owner from financial ruin.

Sometimes an owner will have over-extended his financial capabilities and have run out of sufficient capital to run a basically sound business. He needs to either bail out or end up in bankruptcy.

6. Burnout.

After many years of the same hard work, accountants often need a rest and a new practice or business.

Note: Every practice we sell has a little of the burnout factor. One accountant even suggested that I do not use the word deadline, but rather, say "due dates".

7. The kids want to be doctors and lawyers.

It's ironic that the more successful one is in his business, the less likely the children will want to take it over. Your hard work enabled you to put your children through the best universities. Now, they want to be doctors and lawyers rather than take over your practice. They had their fill of your business when they were young, doing menial work, such as copying tax returns, to earn their allowance.

8. Partnership dispute.

Little disputes can become big disputes when your financial situation is involved.

9. Frustration, disillusionment, boredom, or a "non-public" accounting type of personality.

10. Ill health or death of the owner.

III. STEPS REQUIRED TO BUY A PRACTICE

Step 1. Locate a practice for sale.

Where do you find good practices for sale: newspapers, brokers, professional journals, associates, etc.? The good ones are usually sold before you get to them. This is a time when you might want to consider using Business Brokerage. By specializing in accounting and tax practices, we cover the entire market with mass advertising to seek out all the good practice opportunities.

Step 2. How to conduct the interview and qualify the Seller.

1. <u>Tell the Seller about yourself.</u>

There is nothing more awkward and unproductive than a Buyer that comes into an interview with a legal pad full of questions--and starts firing away. You should expect to have received some sort of information and data regarding the features of the practice. Now it's your turn to tell the Seller about yourself and your plans. I suggest that for about 5 or 10 minutes you give a brief background synopsis, such as:

A. Talk about your educational background.
B. Talk about your professional background.
C. Talk about your family situation.
D. Talk about your present practice or employment.
E. Talk about your plans for the future & financial situation

2. <u>Discuss the various aspects of the practice.</u>

Your primary purpose here is to get a flavor for the Seller's personality and style. This should pretty much be a give and take conversation. Remember the Seller has to have confidence in your abilities, financial strength and personality before he will sell to you. According to our recent survey, the Seller's most important screening criteria will be analyzing your ability to "take care of his clients". (Second is the price and third is security of getting paid.) Feel free to discuss all aspects of the Seller's practice. However please keep in mind the following:

A. Regarding client files.

Most Sellers are very careful about showing their client list and/or files to a stranger (or someone they have just met). I suggest to Sellers that they should show the Buyer one or two typical tax files and one or two typical accounting client files. Since most practitioners prepare their work on in-house computer programs, all of the files will look alike. Your main purpose here is to compare the Seller's fees with how much you would charge for a similar tax return or accounting client.

B. Regarding the Seller's books and records.

The Seller has provided you with data regarding his practice. At this time, you should consider it to be factual. Don't expect to see the Seller's personal financial statements and/or tax returns until you make an offer on the practice. Your offer, of course, should be contingent upon your approval of books and records that will be shown before finalizing the deal.

C. Regarding price.

The Seller will have determined an asking price by some means. You may want to ask the Seller how he arrived at this price. Most Sellers will talk about the potential of their practice. If the potential is there, why haven't they realized it! And remember, you can't eat potential.

Some of the standard types of questions that should be answered are:

1. Is the Seller willing to guarantee gross revenue for the first year of possession?
2. Will the Seller be available to aid in the transition for a period of 30 days (longer if required)?
3. How much of a covenant not to compete will the Seller offer?
4. Does the practice provide an even cash flow to enable Buyer to service debt and still provide reasonable income?
5. When does the Seller want to conclude the sale?
6. Will the Seller reduce the price for a quick sale or any other conditions?
7. What is the practice’s growth record?
8. What is the practice’s net profit and how can it be improved?
9. Are the Seller's clients aware of sale and, if so, have they agreed to stay on?

10. Does the price include the A/R's, providing instant cash flow to the Buyer?
11. What is the practice's billing rate?
12. Does the practice represent any opportunities for you to get involved in other areas of accounting?
13. Will the Seller teach you any of his special skills, such as, practice development (if he is good at this)?
14. Are there any areas of accounting (such as audits) that the Seller discourages but you could develop from his clients?
15. Are the furniture and equipment optional?
16. Can the practice be relocated?
17. What is the collection record like?
18. Is the area growing?
19. What is the community's average income and average age?
20. Is the Seller's staff capable and will they stay on?
21. Is the Seller's staff aware of the sale and have they agreed to stay on?
22. How well is the practice established?
23. How can the gross revenue be increased?
24. When does the lease expire and may the lease be extended?
25. Can the lease be renegotiated to a lower rate or for a longer term?
26. Will the Seller be leaving the area? If so, can he be reached for help in the transition?
27. Is the real estate available?
28. Can this practice be improved by adding or expanding on computers, programs, or staff?
29. Will the Seller stay on as a part-time employee and for how long?
30. Is there any litigation pending or expected that may affect the transfer?
31. Are there any claims against the business or owner that may affect the transfer?

Step 3. Gather business, demographic and economic data to evaluate the business.

Of course, the business data will have to be obtained from the Seller. Demographic and economic data can be obtained from professional and trade organizations, and other sources such as The California Almanac, The Statistical Abstract of the United States, California County Fact Book, and the California Statistical Abstract.

Comment:

Business Brokerage gathers most or all of the data required to appraise a business at the time of the listing. We also have available numerous sources of demographic and comparable data. Thus, we can make a proper analysis of the practice's potential.

Following are some of the forms that we use in obtaining information regarding a Seller's practice.

LISTING # SAMPLE

CURRENT CLIENT LIST EXHIBIT "A"

TYPE OF BUSINESS	SALES / YEAR	#Yrs	BUS. FORM	FREO	SERV	ACCOUNTING FEES/YEAR
1. Auto Repair	$ 67 K	3	SP	O	Sales Tax	$ 320
2. Driving School	$ 135 K	1	SP	M	FR	$ 900
3. Veterinarian	$ 320 K	4	SP	O	C/PR	$ 2525
4- Construction	$ 480 K	7	SP	O	R/C/PR	$ 2350
5. Pediatrician	$ 370 K	8	SP	O	PR	$ 440
6. Radiator/Auto	$ 280 K	6	SP	M	C/PR	$ 1800
7. Chemical Lab	$ 260 K	3	C	M	C/PR	$ 2580
8. Retail	$ 55 K	6	SP	O	C	$ 1500
9. Retail	$ 340 K	2	SP	H	C/PR	$ 1620
10. Church	$ N/A K	5	NP	O	PR	$ 440
11. Glass Tinting	$ 98 K	6	SP	M	C/PR	$ 1320
12. Fence Co	$ 1.0 MM	8	C	M	C/PR	$ 3360
13. Construction	$ 140 K	6	SP	O	C	$ 1500
14. Hair Salon	$ 210 K	1	SP	M	C	$ 1800
15. Auto Repair	$ 160 K	<1	SP	M	C	$ 1500
16. Masonry	$ 360 K	2	SP	O	C/PR	$ 1200
17 Homeless shelter	$ 245 K	4	NP	M	A/C/PR	$ 4600
18 Medical supply	$ 1.2 MM	<1	C	M	C/PR	$ 9000
19. Whsle products	$ 360 K	<1	C	M	C/MAS	$ 4200
20 Warehouse	$ 315 K	9	SP	M	C/PR	$ 2340
21. Muffler Shop	$ 40 K	6	C	M	C/PR	$ 2100
22. Insurance	$ 180 K	2	SP	M	PR	$ 840
23. Hair Salon	$ 45 K	6	SP	O	C	$ 320
24. Painting Contr	$ 160 K	<1	SP	M	PR	$ 720
25. Construction	$ 1.1 MM	<1	SP	M	C	$ 4800
26. Insurance Sales	$ 360 K	2	SP	O	C/PR	$ 1740
27. Vending Svcs	$ 1.2 MM	2	SP	O	C	$ 2520
28. Printer	$ 360 K	1	P	M	C/PR	$ 1560
29. Tile Contr	$ 840 K	3	SP	M	C/PR	$ 4080
30. Veterinarian	$ 320 K	5	SP	M	/PR	$ 1740
31. Auto Repair	$ 95 K	3	SP	O	C	$ 1000

32. Engineer	$ 310 K	6	SP	O	C	$ 1500
33. Auto Repair	$ 220 K	3	SP	O	C/PR	$ 1440
34. Restaurant	$ 345 K	10	SP	M	C/PR	$ 4800
35. Hardware	$ 60 K	2	SP	M	C/PR	$ 1200
36. Construction	$ 270 K	2	SP	O	C	$ 1200
37. Hair Salon	$ 70 K	3	SP	O	PR	$ 240
38. Furniture Sales	$ 290 K	6	SP	O	C/PR	$ 1200
39. Museum	$ N/A K	4	NP	M	C/PR	$ 1620
40. Electrical Contr	$ 70 K	10	SP	O	C	$ 960
42.	$ K					$
43.	$ K					$
44.	$ K					$
45.	$ K					
TOTAL						$80,875

FORM: SF - Sole Proprietor, C - Corporation, P - Partner, NP - Non Profit

FREQUENCY: N = Monthly, 0 = Quarterly, S = semi-annual, A - Annual

SERVICES PROVIDED C = Compilation, R = Review, A - Audit, PR = Payroll,

GL = General Ledger, N = MAS & Consulting

LISTING # SAMPLE (Often we will just indicate that the Seller will provide an Inventory of available F&E at or prior to due diligence).

FURNITURE AND EQUIPMENT LIST EXHIBIT "B"

OTY	ITEM	BRAND / MODEL	AGE	MARKET VALUE
2	COMPUTER(S)	Packard Bell PII-350/Compaq Pentium 166	3/3	$ 850
2	COMPUTER(S)	IBM Clone w/server-Pentium 200/	2/5	$ 1350
X	SOFTWARE*	Lacerte / Creative Solutions / word Perfect		See Below
2	LASER PRINTER(S)	HP 5/brother		$ 500
1	DOT MATRIX PRINTER(S)	Panasonic		$ 100
3	COMPUTER DESK			$ 200
1	COPIER(S)	Sharp Z88	1	$ 500
1	TELEPHONE SYSTEM	6 phones		$ 2000
1	TYPEWRITER(S)			$ 100
1	FAX	Sharp		$ 100
1	DESK(S). EXECUTIVE			$ 250
X	CONFERENCE ROOM TABLE + CHAIRS			$ 1000
4	CHAIR(S) * EXECUTIVE			$ 320
3	DESK(S) . STANDARD			$ 300
7	CHAIR(S) - CLIENT		4	$ 200
1	LATERAL FILE(S)			$ 100
1	2 DRAWER FILE(S)			$ 50
8	4 DRAWER FILE(S)			$ 650
1	WORK TABLE(S)			$ 100
1	REFRIGERATOR		10	$ 100
1	MICROWAVE			$ 100
x	LIBRARY			$ 500
TOTAL VALUE				$10,360

ITEMS NOT INCLUDED

Personal items pictures. etc. Rug / Plants / TV & VCR

* Software is typically licensed and can't be resold. If interested /needed, it is Buyer's obligation to pay for transfer fees and/or licenses if he/she is going to use same.

MONTHLY CASH RECEIPTS

On the Confidential Information Summary, the Seller provides 2-3 years of Monthly Cash Receipts (including current year to date).

Step 4. Determine the true value of the practice.

Most practitioners write off as many expenses as they possibly can through their practices. Thus, in order to fairly determine what a practice truly earns and to determine how valuable the practice is to you, you must normalize the Seller's statement and combine the practice with yours to see the net effect.

When you "normalize" the Seller's statement, you should make adjustments by adding expenses that you would normally require and subtracting expenses that are not necessary. For example, if the Seller uses his wife as an administrator, but does not pay her a salary, you should add a reasonable amount for her services. Likewise, if the Seller runs his personal insurance through the business, you should subtract this amount to find the true net profit of the business. BBI prepares a data package and appraisal for each listing. We help you scrutinize the financial records and data to establish a realistic value.

Following is a worksheet that you may want to use to make your analysis.

WORKSHEET: TRUE NET PROFIT AND SYNERGISTIC VALUE OF ACQUISITION

RECONSTRUCTED CASH FLOW FOR PERIOD: ____________________________

ITEM	SELLER STMT	+/- ADJUST =	NORMALIZED +	MY PRACTICE -	COMBINED PRACTICE
REVENUES:					
TAXES	$ 25,000	$	$ 25,000	$ 30,000	$ 55,000
ACCTG	$ 75,000	$	$ 75,000	$ 100,000	$ 75,000
MAS	$ 12,000	$a<7,000>	$ 5,000	$ 10,000	$ 15,000
AUDIT	$ 15,000 S	$	$15,000	$	$ 15,000
MISC	$ 15,000	$b<5000>	$ 10,000	$ 8,000	$ 18,000
OTHER	$	$	$	$	$
TOTAL	$142,000	$<12,000>	$130,000	$148,000	$ 278,000
EXPENSES:					
STAFF:					
F.C. BOOKKEEPER	$ 25,000	$c<25,000>	$ 0	$	$
DATA ENTRY/REC	$ 16,000	$	$ 16,000	$	$ 16.000
CPA	$	$	$	$ 35,000	$ 35,000
F.C. BKKPR	$	$	$	$ 20,000	$ 20,000
DATA ENTRY	$	$	$	$ 14,000	$ 14,000
TOTAL STAFF	$ $	$	$ 69,000	$ 85,000	
OTHER EXPENSES:					
ADVERTISING	$ 2,000	$d<2,000>	$ 0	$	$
CPTR SERV. TAX	$ 6,000	$e<6,000>	$ 0	$	$
CPTR SERV. W.U.	$	$	$ 0	$	$
DUES/SUB/LIBRY	$ 2,000	$f<2.000>	$ 0	$ 2,500	$ 2,500
INSURANCE	$ 3,000	$g<2,000>	$ 1,000	$ 3,000	$ 4,000
LEASED EOUIP	$	$	$ 0	$	$
OFC SUPL/POSTGE	$ 3,000	$h 500	$ 3,500	$ 4,000	$ 7,500
RENT	$ 12,000	$i <12,000>	$ 0	$ 15,000	$ 15,000
REPAIR/MAINT	$ 1,000	$	$ 1,000	$ 1,500	$ 2,500

RETIREMENT/EMPL	$	$	$ 0	$	$
SECURITY ALARM	$	$	$	$	$
SOFTWARE UPDATE	$	$	$	$ 2,500	$ 2,500
TAXES/P.R.	$ 4,500	$j <2,750>	$ 1,750	$ 7,600	$ 9,350
TELEPHONE	$ 2,500	$k <1,000>	$ 1,500	$ 3,000	$ 4,500
UTILITIES	$	$	$	$	$
MISC.	$	$	$	$	$
	$	$	$	$	$
TOTAL OTHER	$ 36,000	$<27,250>	$ 8,750	$ 39,100	$ 47,850
TTL STAFF/OTHER	$ 41,000	$<25,000>	$ 16,000	$ 69,000	$ 85,000
NET CASH FLOW	$ 65,000	$<64,250>	$105,250	$ 39,900	$ 145,150
PERCENT OF GROSS	45.7%			26.9%	52.2%

FOOTNOTES:

a. Buyer doesn't perform specialized MAS.

b. Nonrecurring misc. income.

c. Buyer's CPA to perform this work.

d. Buyer doesn't advertise.

e. Buyer uses Lacerte in-house tax program.

f. Buyer's library is all that is needed.

g. Buyer doesn't need all of Seller's insurance.

h. Office supplies will go up due to in house processing.

i. Practice to be relocated to Buyer's office.

j. Payroll taxes go down due to elimination of employee.

k. Buyer already has telephone system.

Step 5. Make an offer.

It is important for you to make an offer using an offer form that will protect you with the insertion of certain provisions, such as, a.) Offer subject to Buyer's approval of books and records, b.) Seller shall give a good and sufficient title, free and clear of any debts, c.) Seller shall give a valid lease or assignment thereof, d.) Seller shall guarantee gross revenues, etc.

Note: Business Brokerage makes sure that the Buyer is protected as well as the Seller. We want to be sure that both the Buyer and the Seller understand and agree to all of the terms and conditions. In fact, we hold your check uncashed until all contingencies are satisfied.

Step 6. Examine books and records to verify gross income, expenses, etc.

You should be completely satisfied with all aspects of the business before you proceed with the transaction.

Step 7. Buy the practice on terms you can live with.

The deal must be structured in a win/win manner to satisfy the Sellers' needs and the Buyers' needs.

Comment: Business Brokerage brings to the negotiating table years of experience and a successful track record of finding creative strategies to satisfy the needs of Buyers and Sellers without jeopardizing the cash flow of the business.

Step 8. Prepare a Buy / Sell Agreement with necessary documents for your attorney to review.

Your agreement should cover at least the following items, in outline form:

AGREEMENT FOR SALE OF ASSETS (Outline)

RECITALS

1. Scope of Agreement

2(a). Guarantee

2(b). Seller's Rights to Refer New Business

3. Purchase of Assets

4. Purchase Price

5(a). Inventory of Furniture, Fixtures and Equipment

5(b). Sales Tax on Furniture. Fixtures and Equipment.

6. Location of Business

7(a). Prorations of Expenses

7(b). Prorations of Work in Progress

7(c). Prorations of Retainer Fees Paid in Advance

7(d). Accounts Receivable

7(e). Assumption of Subscriptions /Contracts

8. Covenant Not to Compete

9. Transfer Date

10. Allocation of Purchase Price

11. Warranties and Indemnification of Seller

12. Miscellaneous Provisions

13. Severability

14. Time is of the Essence

15. Mandatory Arbitration

16. Brokerage Fees

17. Alienation

18. Assignment and Successors

19. Additional Documents

20. Warranties and Representations of Buyer

21. Notices

22. Confidentiality

23. Compliance Storage

24. Contract Services of Seller

25. Promissory Note(s)

26. Security Agreement

27. Assignment of Lease

28. Corporate Resolution

V. REFERENCE SOURCES

BUSINESS BROKERAGE, INC. BIBLIOGRAPHY

BUSINESS PRINCIPLES

Covey, Stephen R. The 7 Habits of Highly Effective People. Simon and Schuster.
This is an excellent book that really describes the way we should all live both personally and professionally. Good reading and filled with examples. Emphasizes living and working within correct principles.

Girard, Joe. How To Sell Anything to Anybody. New York: Simon and Schuster.
An excellent first book about selling principles that every accountant should have. The author was the number one automobile salesman in the USA year after year. His sales were all one on one (not fleet sales). His story of climbing from failure to success is inspiring. This book is about the fundamentals of selling that apply to all products and services.

Mackay, Harvey. Swim with the Sharks. New York: William Morrow and Company, Inc.
An excellent source of ideas built on a lifetime of experience by a businessman that is involved in life and business. Easy to read. A book that you can open up to any page and get a one or two page idea with an example that can help you immediately.

Peter, Manna J. and Waterman, Jr., Robert H. In Search of Excellence. New York: Warner Books.
Principles of running a company learned by studying the most successful companies in America. These are principles that an accountant should know and be able to pass on to clients to improve their clients' business.

Peters, Tom and Austin, Nancy. **<u>A Passion for Excellence.</u>** **New York: Warner Books, Inc. 1985.**

What do the most successful Companies in America all have in common? A passion for excellence. Excellence in product, customer service, management of workers, etc. Another Tom Peters book that really covers the subject and provides lessons for accountants as well as good ideas that can be passed on to clients.

Pickle, Hal B. **<u>Personality and Success.</u>** **Washington, D.C: Small Business Administration. 1964.**

This 84 page booklet is part of the author's work for his degree of Doctor of Philosophy in Business Administration at the University of Arkansas. The book is the result of his study of the primary factors of success and failure by businessmen in operating their small businesses. The factors studied were: drive, thinking ability, human relations ability, communications ability, and technical knowledge. Written in 1964, but just as valid today.

Ringer, Robert J. **<u>Winning Through Intimidation.</u>** **California: Los Angeles Book Publishers Co.**

One of my favorite books, really not about intimidation, but rather about lessons learned in real life concerning "how not to get taken in business" and "working smart instead of hard." Easy and amusing to read.

Ringer. Robert A. **<u>Million Dollar Habits.</u>** **New York: Fawcett Crest Book. 1990.**

Easy read with good advice about sound life and business principles. Filled with amusing anecdotes from real life.

Von Oech, Roger, Ph.D. **<u>A Whack on the Side of the Head.</u>** **New York: Warner Books.**

"Discovery consists of looking at the same thing as everyone else and thinking something different." This is the thrust of the book, breaking the 10 mental locks and seeking answers not obvious at first. Author has a very wry sense of humor. The book is filled with metaphors.

BUYING OR SELLING A BUSINESS

Baron, MBA, Paul B. <u>When You Buy or Sell a Company</u>. Connecticut: Center for Business Information, Inc.

A relatively complete book on buying, valuing and selling a business. The author writes in the first person and adds many anecdotes. A lot of interesting information, but not really a guide in the sense of offering forms, examples, etc.

Goldstein, Arnold S. <u>The Complete Guide to Buying and Selling a Business.</u> Mentor.

Written by an attorney/business broker/professor. Good general guide to finding and buying a business. Covers locating a business, pros and cons of franchising, where to obtain financing and negotiating techniques. Appendix contains sample letter of intent, agreement for sale of assets, stock sale/redemption agreement and franchise agreement.

Ryan, Charles R. <u>Cashing in Your Chips.</u> Illinois: Flow Jones-Irvin.

Written by an independent management and valuation consultant to business and professional practices. Book is concerned with accounting for all of the money you have invested into a business and developing an exit strategy to maximize your return in taking your money out of the business. Includes chapter on advantages and disadvantages of different ownership structures when selling out your business.

Scharf, Charles A. and Shea, Edward E. and Beck, George C. <u>Acquisitions, Mergers, Sales, Buyouts and Takeovers.</u> New Jersey: Prentice-Hall, Inc.

Written by Charles Scharf, a practicing attorney involved in mergers and acquisitions and a lecturer for seminars and universities. Edward Shea is an attorney and general counsel to GAF Corporation and a Professor at Pace University. George Beck is an attorney involved in business combinations, mergers, divestitures and securities law. This is a graduate-school level textbook covering mergers and acquisitions of public companies. Contains one of the most complete checklists for a Buyer I have ever seen (pgs. 93-130) and also a complete sample acquisition contract with explanations of all clauses.

Valiulis, Anthony C. <u>Covenants Not To Compete: Forms, Tactics, and the</u>

Law. **Wiley Law Publications.**

This book provides the legal history and legal cites for covenants not to compete between employers and employees and between Buyers and Sellers. Included is a state by state case digest appendix.

NEGOTIATION

Cohen, Herb. You Can Negotiate Anything. New Jersey: Lyle Stuart Inc.

A general text book-like approach to the art of negotiation.

Fisher, Roger and Ury, William. Getting to Yes. Penguin Books.

Roger Fisher teaches negotiation at Harvard Law School, was the originator of the popular television show "The Advocate," and is the Director of the Harvard Negotiation Project. William Ury is a consultant, writer and lecturer on negotiation and mediation and is Associate Director of the Harvard Negotiation Project. This book is a concise step-by-step strategy for coming to mutually acceptable agreements. It is based on studies and conferences of the Harvard Negotiation Project, a group that deals continually with all levels of conflict resolution.

<u>RESUME OF DAVID C. SMITH. FOUNDER, Business Brokerage, Inc</u>

PROFESSIONAL EXPERIENCE:

Since 1978, Business Brokerage, Inc. has specialized in the sale of accounting & tax practices. Firm is involved in appraising, listing, marketing, arranging financing and selling of practices throughout California. Firm has sold over 1,400 practices worth over $160,000,000 to date. Licensed Real Estate Broker in California.

SOUTHLAND BUSINESS SALES, Anaheim, Ca. 1973 to 1976. Agent for a business broker selling liquor stores, machine shops, restaurants and service businesses.

MERRILL LYNCH, Newport Beach, Ca. 1971 to 1973. Stockbroker

EDUCATION:

David Smith received his BS degree in Finance from California State University at Long Beach. He also has an AA degree in Real Estate from Santa Ana College and has taken undergraduate studies at Indiana University. Mr. Smith has completed several courses in financial planning.

David Smith has attended numerous courses and seminars including: APPRAISING CLOSELY HELD BUSINESSES and BUSINESS VALUATION FOR ACCOUNTANTS presented by The Institute of Business Appraisers; MERGERS AND ACQUISITIONS OF MID-SIZE BUSINESSES by Darrel Fouts, Colorado Business Consultants; BUYING AND SELLING BUSINESS OPPORTUNITIES by Wilfred Tetreault, American Business Consultants.

Mr. Smith has presented seminars on Valuation of Accounting and Tax Practices to the Orange County Society of CPA's (MAP committee), SFV EA's, Inland Society of Tax Preparers, San Diego Chapter of CSCPA's, the CSEA "Super Seminars" and many other professional groups.

Mr. Smith was also a major contributor to Valuing Small Businesses and Professional Practices by Dr. Shannon Pratt, Dow Jones-Irwin, Homewood, Illinois.

David Smith hails from Birmingham, Michigan and after college and military service settled in Orange County, California.

RESUME OF LEE RIBOLIN, CALIFORNIA REAL ESTATE BROKER

PROFESSIONAL EXPERIENCE:

Lee is a graduate of the University of Maine with a B.S. in Business Administration with a concentration in Finance. Lee worked as an Agent for Business Brokerage, Inc. (BBI) for 7 years before leaving to join an International Technology Company.
Lee then started his own business in Atlanta, Georgia, which he operated successfully for 13 years.

Lee rejoined BBI as a Broker in 2012 and assumed the position of President. Lee brings a great deal of experience in operating a business. With 17+ years' experience with BBI, Lee is highly regarded by Sellers to find the best qualified Buyers and in completing sales transactions professionally and in the timeframe required by the Seller and Buyer. Under Lee's leadership, sales of $500K to million dollar plus practices has grown significantly

Lee currently is located in Northern California and manages California practices for practice from San Luis Obispo to the Oregon border.

Lee also has participated in events (seminars/conferences) for tax professionals held by Spidell Publishing, Inc. (Lynn Freer).

Lee is an avid cyclist, swimmer and enjoys travel.