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Mergers and Acquisitions of Your Firm: *Practical Considerations*

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EXPAND YOUR EXPECTATIONSSM

Overview

- The Decision to Merge
 - Reasons and motivations
 - Opportunities and disadvantages
 - Factors that could affect the decision
- Selection of the Right Acquiring Partner
 - Culture
 - Economics
 - Professional satisfaction
- Mechanics of the Transaction
- Implementation and Integration



The Decision To Merge

- Expand or Upgrade the Practice
 - Broaden client base
 - Broaden or focus geographical coverage
 - Access to specialized talent or technology
 - Upgrade in size or sophistication of clientele
 - Enhancement or addition of a particular practice area
 - “Brand Name” enhancement
 - Increase in scope of client services
 - More resources for development and marketing of practice
 - Deeper working capital
 - Bottom line – Increase in compensation and professional satisfaction



The Decision To Merge

- Succession Certainty and Firm Stability
 - Smaller firms are often dependent on a few key personnel
 - Effect of unanticipated death, retirement, or withdrawal of key personnel on firm's practice
 - Limitations on retirement benefits
 - Turnover of newer or younger professionals and staff
 - Realization and collections issues
 - Working capital issues
 - Size limitations on leveraging opportunities
 - Inability to achieve meaningful economies of scale



The Decision To Merge

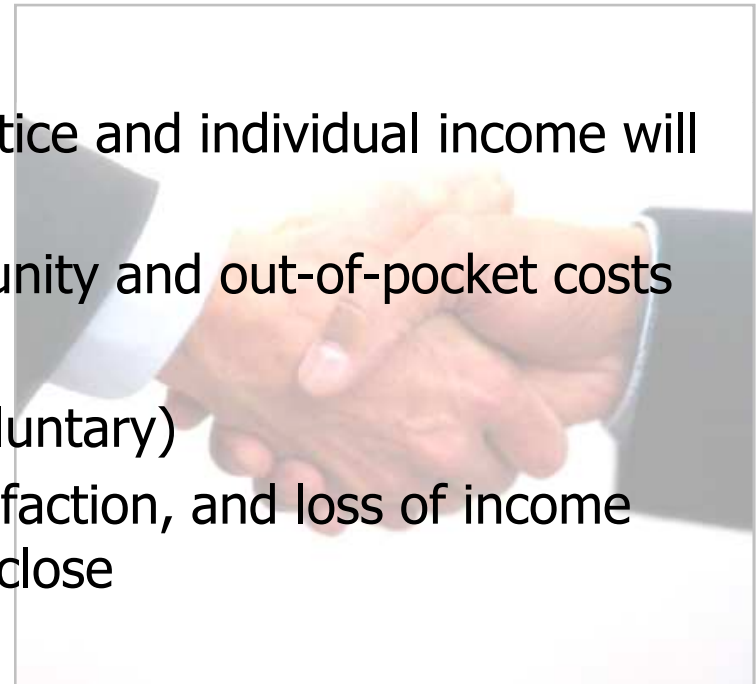
- Disadvantages
 - Loss of control and autonomy
 - Who comes
 - What if the acquiring firm loses interest in one or more principals but continues to court the rest
 - When to tell those who are not invited that they will not be coming
 - Potential loss of clientele
 - Higher rates
 - Conflicts
 - Different focus of practice by acquiring firm

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The Decision To Merge

- Disadvantages *(continued)*
 - Risk that lost clientele is not replaced by intrafirm referrals or new clients
 - Longer hours, at least initially, are inevitable
 - Loss in entrepreneurial perquisites
 - Minimal or no guarantees that practice and individual income will grow
 - Costs of the process – both opportunity and out-of-pocket costs
 - Physical relocation of offices
 - Possible attrition (voluntary or involuntary)
 - Employee dissension, client dissatisfaction, and loss of income temporarily if the merger does not close



Selection of Acquiring Partner

- Keys are compatibility and due diligence
- Compatibility
 - Business philosophies
 - Professional philosophies
 - Firm culture
 - Income and profit sharing formulae
 - Business goals and motives of acquiring firm
 - Drivers of the deal
 - Personalities

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Selection of Acquiring Partner

- Due diligence
 - Take your time and be thorough
 - Commitment of the acquiring firm to the merger
 - Resources and capital
 - Management acumen
 - Business plan
 - Relative financial condition of the parties
 - Liabilities and institutional risks
 - Synergies / internal promotion of the newly acquired firm
 - Prior mergers and acquisitions by acquiring firm
 - Long term success and employee attrition
 - Ability of the acquiring firm to effectively manage the transition
 - Ability to integrate new professionals



Mechanics of the Transaction

- Many possible permutations, depending upon whether all or part of the firm is being acquired
- Asset purchase
- Legal merger by which all assets and liabilities are absorbed by acquiring firm
- Extent to which transition is documented
 - Handshake
 - Detailed representations and warranties
- Pre-closing conflicts assessment
- Right to client files
- Client confidentiality concerns
- Client notification
- Reporting requirements / gun jumping



Implementation and Integration

- Physical location
- Training / learning curve
- Technological conversion and integration
- Conforming office procedures and practices
- Downsizing staff
- Productivity during integration stage
- Manner of announcing the merger
 - Types of media
 - Events and personal meetings
- Marketing from the new platform
 - Existing clients of merged firm
 - Existing clients of acquiring firm
 - Potential new clients
- Time management



Questions?

