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Finance dream team

M&A Prep Advice for Target Companies

RoseRyan's List of Simple, Inexpensive Things To Do Now

(Newark, Calif.) – M&A activity continues despite the recession—but acquiring companies are more exacting than ever in examining their potential acquisitions' finances, so target companies should start getting their financial house in order now.

According to Kelley Wall, a technical accounting expert at RoseRyan (www.roseryan.com), "There is a list of housekeeping items that target companies should attend to now as they take a 'wait and see' approach to the M&A market. With everyone strapped for cash, these activities cost very little or nothing since they can be done in-house with existing resources.

"As target companies get closer to needing to sell or raise money, everyone can become consumed by these activities and financial housekeeping generally gets put on the back burner. So what could have been relatively simple, inexpensive action items, like these below, can become expensive and time consuming hurdles at the last minute."

Companies should start now, as this complete list can take up to three months, according to Wall.

RoseRyan's M&A Planning Notes for Target Companies

Don't let these things sit on the back burner until they boil over and become a crisis. Attend to these no-cost or inexpensive items, listed from lowest to highest costs, now to save money down the road.

1. **Nail down the cap table.** There are three steps to reviewing the details of a company's capitalization table: review the details, especially those related to stock options (price, shares, vesting schedule, vesting start date, early exercise options, ISO/NSO, etc.); compare to board minutes, employee agreements and equity share plan; and ensure that the options or other awards were appropriately cancelled upon termination of employment, a step which is frequently overlooked. Don't be surprised if you find several reconciling differences in the details. It's never as clean as you think.

   Time needed to complete: Most companies should be able to complete this step in 5 days, but if significant reconciliation issues are discovered, it may take longer.

2. **Pull together critical agreements.** What are all your agreements—and are they signed and supported? RoseRyan team members observe that often the most current lease can't be found during crucial moments. Make sure you have an electronic copy of all signed, executed agreements in one place. Create a secure folder on your network to house them. Start now by having management create the list. Then scan materials and place them securely on your computer network.

Time needed to complete: Locating all the final agreements will take longer than you think, but most companies can pull together critical agreements in a week or less.

3. **Get revenue right.** The top line for any emerging growth company is critical. Revenue recognition impacts your operating income and net income in several ways. For smaller companies that are not yet profitable, just having some revenue can define success for investors. Deferred revenue is important for buyers to see because it's possible they might recognize a portion of that revenue post-acquisition. And revenue recognition directly affects the accuracy of projections or forecasts. Even if your sales process is fairly straightforward, what about return rights and warranty obligations? Do your research, get it right, and consult experts when you encounter questions.

   Time needed to complete: Estimate 4–8 hours per agreement.

4. **Document and formalize your accounting processes.** We suggest providing your accounting team with a template. If you think your company is too small to have "accounting processes," well, think again! If you're contemplating an audit, your auditors will want this documentation, so if you already have processes written up, you save time and money right off the bat. Also, a possible suitor may be interested, especially if the acquiring company is public and has SOX compliance on the brain.

   Time needed to complete: Plan for 1–2 weeks for documenting, but if new processes are needed or if you need to alter any, this will take longer.

5. **Review agreements for "change in control" language.** What if you license intellectual property from Company XYZ but the license agreement won't transfer to the acquiring company? This can derail a possible acquisition or be a sticking point. Review all agreements and highlight any section that gives you heartburn. Then, when you're ready to shell out more money, call in your attorneys to see what can be done to avoid any deal-killing issues.

   Time needed to complete: It depends on the number of agreements, but plan on up to 3 months to address any issues with your attorneys and other parties to the agreement.

About RoseRyan

Deploying its carefully selected dream team of seasoned consultants from offices in Silicon Valley, San Diego, and Orange County, RoseRyan has been providing top-tier finance and accounting expertise since 1993, serving more than 500 companies. The California-based firm's recent and current clients include Gilead Sciences, Netflix, NetApp, Ocarina Networks, Silver Spring Networks, and Seesmart LED. Visit www.roseryan.com for more information.

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