THE VELD GROUP | VELD MERGERS & ACQUISITIONS

Preserve and Protect Your Business On All Fronts

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Today, most owners are so focused on cutting expenses and minimizing risk and taxes that they've ignored their ultimate goal: creating a company with enough value to leave it for an amount of money that will support them — in style — for the rest of their lives.

Owners can use cash flow as a tool:

- To gauge the financial condition of their companies.
- To evaluate the efficacy of any cost-cutting measure they consider.

With that tool in hand, today we discuss four areas where it might be used to preserve and protect value:

- Reducing Expenses
- Minimizing Risk
- Minimizing Taxes
- Ensuring Business Continuity

Expenses

Most owners have, by now, taken action to eliminate non-essential expenses. These actions, or reactions to the faltering economy, typically include terminating or laying off employees, reviewing company financial information, eliminating "perks," and reducing and/or eliminating employer contributions to 401(k) plans. If you would like more information about what other companies are doing to reduce expenses, please contact us.

After the initial round of expense reduction, there may be more you can do — even if you have resuscitated your company's cash flow. Cost cutting increases gross margins, increases cash flow, and thus increases business value. Second-round cuts often include benchmarking expenses to industry standards to see if they vary significantly from industry norms. If they do, owners are asking the hard question, "Why?"

Another strategy is to subject employee costs to further scrutiny. For many businesses, labor constitutes a huge chunk of their budgets, but for all business owners, having a successful, motivated management team in place is critical to a successful exit. Because balancing these two is no easy task, many owners are

conducting employee-by-employee reviews, are re-aligning salaries and incentive programs and evaluating whether their current employees are the best ones to meet today's economic challenges.

Risk

Every company faces risk from both inside and outside its doors. Today's economic climate, however, has increased the level of risk that many companies face from claims of discrimination by laid-off employees, employee fraud, or patent infringement by desperate competitors.

While many owners see their Property & Casualty (P&C) premiums as a great place to cut costs, they forget that their exposure to risk is heightened and their ability to absorb a claim (given their weakened financial state) is compromised. Consider meeting with your P&C firm to examine deductibles and coverage limits, but this year, ask questions about the strength of the insurer and its loss reduction programs.

Smart owners also are taking a close look at the financial condition of their suppliers and customers. Especially if owners have depended on a small number of suppliers, or if suppliers are in an especially hard-hit industry, owners are diversifying their supplier lists. They also are reviewing credit-granting policies, updating them as necessary and most importantly, adhering to them.

Many owners find themselves on the receiving end of "let's talk about that line of credit" calls from their bankers. Others are pre-empting that call by creating written plans that show how their companies will respond to today's challenges. They are sitting down with their bankers to examine those plans and often renegotiating the payment terms of their loans.

No discussion of risk is complete without considering the personal component: Do you have a plan to protect your personal assets? And, does that plan include ensuring that your family receives full value for your company if you do not live to sell or transfer it? Since each owner's situation is unique, we encourage you to schedule a time for a frank conversation with your advisors about your family's exposure to risk.

Taxes

Every new presidential administration brings with it new tax rules affecting your company. Under the Obama Administration, the rules governing the treatment of net operating losses have changed as have those related to the built-in gains assessed in conversion from a C to S corporation. If you haven't already done so, take time to talk to your CPA about his or her ideas about how these (and other) new rules can reduce your personal and company's tax liability.

Business Continuity

This last area of protecting your company during tough economic times is one that many owners overlook: business continuity. Is your business continuity plan appropriate for the current value of your company? Many owners created their plans when all they could foresee was growth. If that is your situation, we remind you that the disability or departure of a co-owner could have a devastating affect on your company. The

departing shareholder will want his or her buy-out at the highest reasonable value — one the remaining shareholder may simply be unable to pay (given cash flow constraints) or, in this credit market, unable to finance.

Unless your business continuity plan specifically states that the value of the company will be its fair value — as determined by an impartial appraisal — on the date of the triggering event, one of you (the remaining or the departing shareholder) will be unfairly harmed and the other unfairly enriched. So, pull that business continuity agreement out of your bottom drawer and read it carefully.

If you sense that there is more you should be doing to shore up the financial stability of your company, please call us today.

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