

MANUFACTURING

POSSIBILITIES

Selling Your Manufacturing Company is Possible — Even in a Down Economy

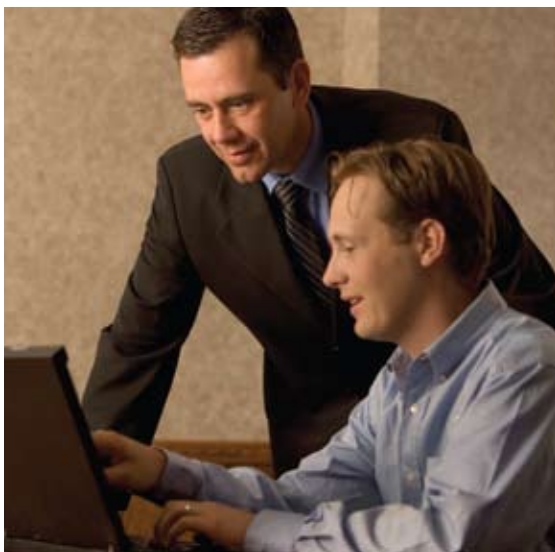
OVERVIEW

If you're considering selling your manufacturing company, you don't have to wait until the economy picks up. This article provides tips to help you position yourself as a discerning and prepared seller, and set the stage for a successful sale.

"We're just going to wait it out." In an uncertain economy, this seems to be a business owner's mantra for everything from hiring freezes to putting off large expenditures. Prudence may be preferable when it comes to some business decisions, but if you're considering selling your manufacturing company, you don't have to wait until things pick up. Although some flexibility is necessary, an acceptable price is within reach if you position yourself as a discerning and prepared seller.

Look for the Silver Lining

Whether you're ready to retire or want to move on to new pursuits, a down economy presents unique incentives and benefits when it comes to selling a business. Manufacturers looking to grow aren't going to pass up the chance to acquire a profitable



business, regardless of the economic climate. And because your wary peers may be waiting until the economy improves, fewer profitable businesses are for sale, making those that are more appealing.

Additionally, the recession has produced a new crop of downsized executives who may be looking for businesses to buy.

Broker or Bust

Regardless of your business' size, getting it ready to put on the market and completing a successful sale can be daunting. So, don't try it on your own. Instead, hire a business broker to help guide you through the selling process from start to finish. A broker is paid only if a sale occurs, which is incentive for helping the sale succeed—and solace for you if it doesn't.

Your broker can help you set the stage for a successful sale. In most cases, a desirable business will attract desirable buyers. Aesthetically, you'll want to review any necessary renovations, additions and cleanup. Ask your CPA to help you gather needed financial information, tax returns, bank statements, inventory lists and employee compensation information for prospective buyers' due diligence.

Get Real About the Asking Price

While you can set your sights on a buyer with a high offer, a down economy calls for flexibility in setting a selling price — especially because potential buyers will likely be hesitant to pay top dollar for a business when its revenue isn't at its best.

To avoid having your business sit on the market for a prolonged period, start with a realistic view of the price you can command. Your broker and a valuation professional can aid in the valuation process, providing a price that's palatable to you and will attract the right buyer.

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How to Deal with Customer Bankruptcy

OVERVIEW

In these unprecedented economic times, business owners must refocus their attention on issues typically overlooked during promising times. To excel and remain proactive in identifying collection problems, business owners must understand the tools and techniques used by customers to relieve economic pressures—including filing for bankruptcy. This article highlights items to keep in mind if you encounter these situations with your customers and vendors.

In this economy, businesses are doing all they can to keep their general ledgers in the black. But some may not make it. If you have customers who are hovering on the brink of bankruptcy—or even wallowing through it—don't panic. But don't just sit there either. You need to take certain steps to ensure your customer's bad fortune doesn't cause your business to suffer too. Here's how.

Different Types of Bankruptcy

Debtor companies typically file for bankruptcy so a court will cancel or reorganize some of their debt and allow them to pay off non-cancelable debts gradually. The bankruptcy chapters businesses most frequently file under are either Chapter 7 or Chapter 11. These are common terms, but many people don't understand what they truly mean.

When a business files under Chapter 7, it typically must liquidate all of its nonexempt assets, and use the proceeds to pay creditors who have timely filed a proof of claim with the court. This chapter doesn't involve filing a plan of repayment. Unsecured creditors often receive little in a Chapter 7 liquidation.

With a Chapter 11 bankruptcy, however, the debtor company can reorganize its debts and pay them off over time. The company also is allowed

to continue operating the business while repaying its debts to creditors and may reject leases, stay lawsuits, reduce interest, extend the repayment period and eliminate some debts.

First Steps

After a debtor files for bankruptcy—regardless of the type—an automatic stay goes into effect that requires all creditor collection efforts to cease, with minor exceptions. So once you know that your customer filed for bankruptcy, halt collection efforts. Also try to reclaim any goods currently in transit to the customer. Then determine whether you're going to pursue repayment or write off the debt.

To help make that decision, review the paperwork the debtor filed with the court to see how much money is available for distribution to creditors. Identify other creditors and compare what they're owed against the debtor's listed property.

The Importance of Participating

Collecting most of the debt owed to you usually requires that you participate in the proceedings—particularly under Chapter 11, where debtors reorganize and pay off their debt. However, even in a Chapter 7 filing, a secured creditor will be able to proceed against the collateral with permission of the court.



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Attending all court-mandated creditors' meetings ensures you have a voice in the proceedings and gives you an opportunity to ask the debtor questions about your claims. You can also inquire about circumstances that might affect the amount of assets available for payment, such as under-reported income, overstated expenses or the discovery of hidden assets.

In addition, make sure you speak to a bankruptcy attorney about filing a proof of claim with supporting documents, such as contracts and other agreements.

Resolution Takes Time

Before creditors can vote on the debt reorganization plan, the bankruptcy court must approve the disclosure statement. The statement should include sufficient information about the debtor's assets, liabilities and financial affairs to help creditors decide whether to accept or reject the plan of reorganization.

After court approval of the disclosure statement, a copy is sent to creditors with the plan and a ballot. Creditors who will receive less than their full claim under the plan may vote against the plan.

If there are sufficient votes in favor of the plan, and it satisfies the bankruptcy requirements, it's confirmed as a consensual plan. If not, the bankruptcy court determines whether to "cram down" the plan if creditors object to it.

If a plan is approved, you may be entitled to a tax-deductible write-off of any amounts owed that exceed planned future payments.

Preventive Measures

As you can tell, once a customer enters the bankruptcy process, it's hard to regain what's rightfully yours. But you can protect yourself against future customer problems through preventive measures like these:

- Require customers to submit pre-loan disclosure of credit and other relevant financial information.



- Ask for personal guarantees of corporate accounts, which can give you a recovery option against the guarantor in the event of bankruptcy filing or default.
- Structure customer transactions to minimize the impact of a customer's future bankruptcy, such as eliminating credit accounts, requiring cash on delivery (COD) payments or obtaining some sort of collateral.

Remember, when it comes to customer bankruptcies, the old adage holds true: The best defense is a good offense.

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Don't Go it Alone

Although hearing of a customer bankruptcy can be unnerving, keep in mind that you don't have to go it alone. Your CPA, along with your attorney, can help you get through the process and recover as much as possible. ■



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Selling—from page 1

Offering Financing May Help

As bank financing becomes harder for buyers to secure, you can encourage a potential buyer's decision by offering seller financing. If, after evaluating the buyer's net worth and credit history, seller financing seems like a mutually beneficial option, it could be just what it takes to close the deal.

By financing part or all of the transaction, you'll be showing the buyer that you have confidence he or she will be able to pay you back, with interest, via the revenue from their newly acquired business. One caveat: You'll maintain a financial tie to the business until the buyer has paid off your loan. Your CPA can help you further weigh the pros and cons of this option and suggest financing alternatives as well.

No Time Like the Present

The economy may be far from its peak, but savvy business owners are continuing to buy and sell manufacturing companies. If you're interested in selling your business, there's a lot to be said for defying conventional "wait-it-out" wisdom and moving forward with a

knowledgeable team of advisors, a realistic perspective and a business-as-usual attitude.

The "Bottom Line"

A major financial consideration in the sale of any business is the net after-tax proceeds (bottom line) that you are able to realize. In some instances, the sale of a business entity will be taxed at the long-term capital gains rate. Currently, the maximum Federal income tax rate for long-term capital gains is 15%; compared to the maximum rate of 35% for ordinary income. In addition, a number of states also have tax advantaged legislation involving the sale of certain qualifying business entities. While there is no crystal ball to foresee future tax legislation, it appears likely that changes in this area will occur. Therefore, this could be a prime time to explore the prospects of selling a business from an income tax perspective. ■



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