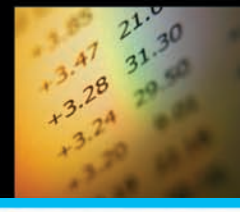
Winter 2007

Bober, Markey, Fedorovich & Company



INFOLETTER

Certified Public Accountants/Business Advisors
A Professional Corporation

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Managing Partner Notes

By Richard C. Fedorovich, CPA

Bober, Markey, Fedorovich & Company Receives Highest Marks for Quality

Every three years, CPA firms are required to undergo a comprehensive review of their accounting and auditing quality control process. We are pleased to report that we have again received an unqualified opinion with no letter of comments. This is the highest level of report that a firm can obtain through the peer review process. Receiving an unqualified opinion with no letter of comment is a significant achievement and evidences the high quality that we provide to our clients.

More impressively, since our Firm now conducts public company audit work (in the employee benefit plan area) and did not do so during our last peer review cycle, we were required to engage a CPA firm with

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Partner's Perspective

Exit Strategies: How Will You Hand Over the Reins?

By James E. Merklin, CPA, CFE, M.Acc., Partner

Many business owners spend years building their companies without giving much thought to an exit strategy.

That's understandable; after all, most owners are so busy running and growing their firms that it's hard for them to imagine a day when they'll be doing anything else. However, even the most enthusiastic owners who love owning and managing their businesses will eventually be faced with handing over the reins to someone else.

Therefore, it's wise to begin planning for this day as far in advance as possible. This allows not only for a smoother transition of the business to new ownership, but also for careful anticipation and planning for how you can reap maximum financial rewards and security from the enterprise you have devoted much of your life to building.

Questions to Ask

An exit strategy should be part of every business owner's long-range strategic plan. As you begin planning your strategy, the first questions you need to ask yourself are:

1. When do you think you'll be ready to leave the business?

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2. How much money do you think you'll want to realize from the sale of your business in order to meet your post-business or retirement income goals?

3. Will you want to sell your business to a buyer outside your company or to family members, employees and/or managers?

Types of Buyers

There are a number of different kinds of potential buyers for your business.

Complementary buyer — This is another company in a niche or industry that may complement or enhance your business. Here, the combination of the two businesses could strengthen each company and result in new opportunities.

Strategic buyer — This could be a competitor that might bring enhancements to your company's products or services (as could your business to theirs). Take care in choosing this strategy, though, to make sure that the merger of the businesses makes sense from both an economic as well as a marketing standpoint.

With a strategic or complementary buyer, it's critical to consider how well the cultures of the two companies will fit together. Incompatible values, cultures and business philosophies can be disastrous to the company and are the main reasons for failed business mergers and acquisitions.

Employees or management — The sale of your company to employees or management can be accomplished in several different ways, but most commonly through an Employee Stock Ownership Plan (ESOP) or Management Buyout (MBO). Each of these options can take a number of different forms, and they may enable you to sell the company to your employees or managers over time and thus phase yourself out of the business.

Investor — Private equity investors may be interested in buying your company in order to grow it and then sell it at a profit at some point in the future. A partial private equity sale can also be used to raise capital to help grow and expand your business. Private equity investors may be either silent financial partners or individuals who take an active managerial role in the business.

Family members — If yours is a family business, you may want to pass the business on to the next generation of owners in your family. Communication among all family members is critical — you can't just assume that other family members want (or don't want) to buy the business and keep it going. Also be sure to communicate openly and honestly about the financial considerations involved in the sale, including the value and price of the business and your personal financial requirements in order to achieve your lifestyle goals for retirement.

Going public — For some owners, taking their company public is the "pot of gold" that waits at the end of the rainbow. While going public may end up reaping the owner huge financial rewards, there are potentially large risks and costs involved in making an initial public offering (IPO).

Preparing for the Sale

It is really never too early to start planning your business exit strategy. The further in advance you plan, the better able you will be to prepare the company for sale.

There are many things you can do in the years leading up to your exit from the business to position it most favorably for sale and, thus, maximize the selling price. Consider these suggestions:

Do some "housecleaning." In the same way that you wouldn't put your house up for sale without tidying things up, you shouldn't put a "messy" business up for sale.

Start with the financials. If you have excessive debt, for example, begin paying that down. If sales are lacking, hire a top-notch salesperson or two and invest in some new marketing initiatives. If there are key positions that need to be filled, do so now, and hire the best people you possibly can.

In fact, investing in your employees is time and money well-spent. Your employees represent "intellectual capital," which is one of the most valuable assets that a purchaser can buy. This includes providing ongoing training, clear career development paths and competitive compensation.

Concentrate on building the business' value. A number of "value drivers" can reduce a purchaser's risk in buying your business and enhance the business' future growth prospects for the buyer. For example, are all legal documents and contracts current and up to date? Are financial controls in place and well-documented? Having a strong and well-motivated staff, as noted above, is one of the greatest value drivers.

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Issues to Consider

Your exit planning strategy will encompass a variety of different issues. Among the most important are:

Your post-sale role in the business. Will you want to stay involved in the business in some capacity after the sale? Often, owners agree to stay on for a period of time (as a consultant, for example) to help with the transition to new ownership. This should be part of the sale negotiations.

Estate planning. You need to determine how the sale of the business is going to impact your estate planning strategies. Estate planning laws are currently in flux — various pieces of legislation have been proposed recently to bring about a compromise over the estate tax, but as of press time, none have passed yet. Be sure to consult with your attorney and accountant about how this may impact your sale.

Taxation. Selling your business may trigger myriad and complicated tax consequences. As a general rule, you should begin establishing legal and tax structures at least one year before the sale to help lower your potential income tax liability. One tax strategy to consider: Extending the terms of the sale over several years, which may enable you to defer some taxable income and cushion the tax hit.

Plan for Supply-Chain Disasters

By Michael J. Moldvay, CPA, Senior Manager

What If One of Your Critical Vendors Burned to the Ground?

It happened in 2000 to Nokia, whose hot-selling cell phone depended on a chipmaker's Albuquerque plant. Ericsson — Nokia's main rival — relied on the same plant, and when it went up in flames the stage was set for a comparison study.

Nokia formed a C-level team, convinced the vendor to produce the chip at other plants, and redesigned the part so other suppliers could make it. Nokia not only met its goal, but also increased its market share.

Ericsson, however, recognized the problem late. It couldn't meet demand and had no other suppliers who could easily step in. It posted a huge loss — and ultimately outsourced handset manufacturing altogether.

A Flexible Chain

Every manufacturer should prepare for the possibility of vendor disaster to ensure continued access to raw materials, subassemblies, storage and transportation.

Today's longer supply chains are subject to many kinds of disruption — which, in this lean and just-in-time world, can have an immediate effect.

Here are key ways to make your supply chain more flexible and prepare for unexpected changes:

- Advise supply-chain partners upstream and down about supply and demand changes. Give them access to relevant data and forecasts.
- Work with suppliers on product and process design. Establish different chains for different lines, but standardize components and processes where possible. And stockpile a limited inventory of inexpensive parts.
- If you buy in a foreign country, use consultants with local knowledge to find reliable vendors there. Watch the local economy and political situation for signs of disruption.
- Clarify vendors' responsibilities and share the risks and costs of supply-chain excellence. Reward for performance that strengthens the chain overall.
- Build relationships. After the September 11th attacks, businesses whose purchasing departments had forged strong bonds with IT vendors were up and running fastest.

Today's longer supply chains are subject to many kinds of disruption — which, in this lean and just-in-time world, can have an immediate effect. Disaster planning is an essential part of supply chain operations.

Our firm can help you identify your supply-chain vulnerabilities. Please call or email me at **mikem@bobermarkey.com** if you would like to talk further. **BMF&C**

Document Management in the Information Age

Back in the "old days," document management was fairly simple for most companies. It was mostly a matter of dealing with the retention and storage of paper documents, and the biggest decisions to be made were how long to keep documents, where to store them and how to dispose of documents that were no longer needed.

In today's Information Age, you can add to this all of the challenges that come with the management of electronic documents and data. Recent news headlines have told one story after another of electronic documents and correspondence not handled or disposed of properly and the resulting consequences for employees, executives and their firms.

Creating a DRP

Given the complexity of document management today, companies should take the time to create a formal document retention policy (DRP) that dictates all aspects of how corporate documents, both print and electronic, should be retained, managed and destroyed. There are many benefits to creating a formal DRP:

- Organization and cleanup of what may be huge amounts of paper documents that literally fill rooms full of boxes or file cabinets.
- Saving of valuable disk storage space on your computer networks and on your employees' desktop PCs, helping optimize network performance.
- Less likelihood that documents may be used in a lawsuit against your company and/or individual employees.
- Less likelihood that stolen or misplaced documents may be used for identity theft against your employees and/or customers or clients.

Dealing With Electronic Documents

While you can shred paper documents, it's not always so simple to just "delete" electronic data (including emails), which can often be recovered long after files have been deleted (or even after hard drives have been reformatted). And electronic data and documents can exist in many places outside of your physical offices, such as on employees' laptops, in clients' email programs, on phone messages and tape recorders, and even on old reformatted computers that have been donated to charities.

Given this, the first step in creating your DRP is to determine exactly what electronic data you have and specifically where it is located. Determine who has access to the data, how secure and easily retrievable it is, and how and when it can be destroyed.

Your DRP doesn't have to be long, cumbersome or complex — it can be as short as a few pages (or even paragraphs). All DRPs should, however, address a few fundamentals:

1. Define how long and where all paper and electronic records should be stored, and specify retention periods for specific categories of records.

2. Deal with all forms of electronic data in all devices and media (including digital printers/copiers and voicemail).

3. Specify how records should be destroyed after their retention period expires. Is the process automated or are individual users responsible for the destruction?

4. Identify which specific individuals are responsible for enforcing, monitoring and updating document retention policies.

You'll likely want to involve employees from various areas of your company — financial, legal, IT, etc. — in the drafting of your DRP, as well as outside legal counsel and a CPA and perhaps an independent electronic discovery consultant.

Considering drafting a DRP that will protect your company's interests? Please call or email me at **danielle@bobermarkey.com** to learn more about how we can help. BMF&C

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Exit Strategies: How Will You Hand Over the Reins?

Determine your business' value. Most business owners don't have a clear idea of the true value of their companies. While the value of a business will change over time based on many factors (business fundamentals, capital availability and liquidity, interest rates, the value of comparable business sales), it's a good idea to obtain a professional business valuation whenever you are ready to get serious about selling your business.

There are a variety of different business valuation methods, with most of them using some kind of market multiple as a benchmark — multiples of operating cash flow (also known as EBITDA), revenue or book value, for example. A business valuation professional can work closely with you to choose the right method and help determine a defensible value for your business.

Put together a strong advisory team. Your financial advisor can be a tremendous help as you begin planning your exit strategy and how this will impact your personal financial situation. As you get closer to the time to actually begin the sale process, you'll want to include an attorney and accountant who are experienced in business sales and acquisitions. You may also want to involve a business broker, who can help identify potential buyers for your business.

Reap Your Just Rewards

Given the amount of time, money and effort you will put into growing and nurturing your business over its lifetime, you owe it to yourself to carefully plan your business exit strategy. Doing so will help you reap the rewards you deserve from a lifetime of hard work, sacrifice and leadership.

We have extensive experience in helping business owners plan and execute exit strategies. For assistance with your strategy, please call or email me at jimm@bobermarkey.com, or your partner contact with the Firm. BMF&C

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IRS Representation

Employee Stock Ownership Plans (ESOPs)

Consulting Services

Business Valuation

Litigation Support

ESOP Valuations

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Due Diligence Transaction Support

Preservation of Family Wealth Planning

Ownership Succession Planning

Strategic Planning

Financial Management, Reengineering & Restructuring

Profit Enhancement Studies

Fraud Investigation

Lender Collateral Audits

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Managing Partner Notes

enhanced credentials to conduct this peer review. This Firm, headquartered in Hagerstown, Maryland, is roughly double the size of our Firm and has one of its partners who served as a member of the AICPA's Auditing Standards Board. They were very complimentary of the attention that our Firm pays in providing the highest quality of service to our accounting and audit clientele.

As we have reported in the past, you can trust that the quality of service we are providing to you meets the highest quality standards in our profession. We are dedicated to ensuring that this level of excellence will be our focus in the future.

IRS Announces Individuals and Businesses May Request Refunds

Taxpayers may request refunds of the long distance portion of the telephone tax. Tax paid from March 1, 2003 through July 31, 2006 are eligible for the refund. Individuals can apply for refunds on their 2006 returns using safe harbor amounts: One exemption $30, two exemptions $40, three exemptions $50 and four exemptions $60. Individuals who do not elect the safe harbor amount will need to use the actual amount of tax paid and substantiate the actual amount of tax charged and paid. Businesses and non profits must use Form 8913 to claim the refund using the actual amount of tax paid. In any event, if you receive a credit or refund directly from your telephone service provider, you cannot claim the refund.

Firm Relocation

We have finally moved to our new office building at 3421 Ridgewood Road, Suite 300, Akron, Ohio 44333-3119, and it is everything we had hoped for! It provides us with ample room for the growth our Firm has been experiencing, more than doubles our access to conference room space for meetings, and provides us with a state of the art training facility. Please note that our phone numbers and email contacts have not changed. We look forward to your visit to our new home. **BMF&C**

Profiles

In this feature of InfoLetter, each quarter we provide a profile of one of our professionals who is available to work with our clients and friends.

Dale A. Ruther, CPA, CIT, CDS

Partner, Audit and Taxation Services

Dale focuses on providing audit, taxation and advisory services to his clients in a variety of industries, including wholesale/ distribution, construction, franchises, restaurant and tax-exempt organizations. In addition, Dale represents a number of manufacturing and industrial product businesses within the Firm.

A 1981 magna cum laude graduate of Walsh University with a Bachelor of Arts Degree in Accounting and Management, Dale was with Main Hurdman (now KPMG Peat Marwick) from 1981 – 1982. Dale joined BMF&C in late 1982 and was elected Partner in 1992.

Dale is currently serving as a board member for ProfitCrew™ and the Construction Financial Management Association's (CFMA) National Tax & Legislation Committee. He is the Vice President of the local CFMA chapter, and is an annual speaker for the CFMA conference as well as a guest speaker for the Builders Exchange. Dale is Past President and current Treasurer of Evant, a non-profit organization with group homes for the developmentally disabled. He is also Treasurer for Nazareth Housing Development Corporation, Past President and Honorary Board Member of Big Brothers and Sisters of Akron, a member of the United Way Community Investment Committee and Past Instructor for Junior Achievement.

"BMF&C has shown its continued commitment to serving the construction industry by joining ProfitCrew, a national association of independent accounting firms that serves clients in the construction field. This membership will keep us on the cutting edge of the latest accounting and tax issues related to the construction field. In addition, many value-added consulting services to help increase a contractor's bottom line are being developed in conjunction with Clemson University's Construction Science Department and iLumin, two of ProfitCrew's strategic partners. We look forward to sharing their ideas with our construction clients and prospects." BMF&C

About Our Staff

In order to support continued growth in our practice, the Partners of Bober, Markey, Fedorovich & Company are pleased to announce the following additions to our professional staff:

- **Leif Erickson** rejoined the Firm as a Manager in the Tax Services Department. Leif, a graduate of Malone College, has significant experience in working with manufacturers and wholesale distributors, and has a strong background in tax research of complex matters.

- **Tim Nikles** joined the Firm as a Supervisor in the Tax Services department. A graduate of the University of Akron, Tim has 19 years of accounting and tax experience with specialization in working with manufacturers and professional services firms, most recently having spent nearly nine years with a regional accounting firm in Akron.

- **Karen Stallings McDorr** joined the Firm as a Staff Accountant in the Tax Services department. Karen is a graduate of Husson College in Bangor, Maine.

- **Nichole Prater**, a graduate of Myers University, rejoined the Firm as a Staff Accountant in the Tax Services Department. Nichole had previously worked for the Firm before relocating out of state, and recently moved back to the Akron area.

- **Christine Casanova** joined the Firm as a Senior in the Tax Services department. A graduate of The University of Akron, Christine has more than 20 years of tax experience, principally in individual, corporate and payroll taxes. She has spent most of her career working for a local CPA firm.

On September 21, 2006 **Cindy Mitchell** presented "Charitable Giving and the Pension Protection Act" to Leave a Legacy at the Akron Community Foundation.

On November 21, 2006 **Jim Merklin** presented “What You Need to Know About the Sarbanes-Oxley Act” to the Akron Chapter of the National Association of Production Managers. Jim was also pictured in the *Akron Beacon Journal* on December 23, 2006 in a photo summary of our office move.

Allan Markey was selected to serve on the Community Learning Center Monitoring Committee of the Akron Public Schools capital project. He also was appointed to be Principal for a day at Essex School.

The following Bober, Markey, Fedorovich & Company Partners have been retained in leadership positions within the PKF North American Network for 2007:

- **Cindy Johnson**, Member, Manufacturing/Distribution Committee

- **Jim Bowen**, Member, Public Companies Task Force

- **Jim Merklin**, Chair, Employee Benefit Plans Task Force

- **Mark Bober**, Vice-Chair, Legal Services Committee

- **Rick Fedorovich**, Member, Strategic Planning Committee

Dale Ruther has been appointed to the Board of Directors of ProfitCrew™.

Paula DiVencenzo was extensively quoted in "Merry tax time? Humbug" published in the *Akron Beacon Journal* on December 25, 2006. **BMF&C**

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www.bobermarkey.com

This newsletter is designed to present ideas for building and preserving wealth. Items are discussed in general terms and, therefore, should not be relied upon for professional advice.

Bober, Markey, Fedorovich & Company

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