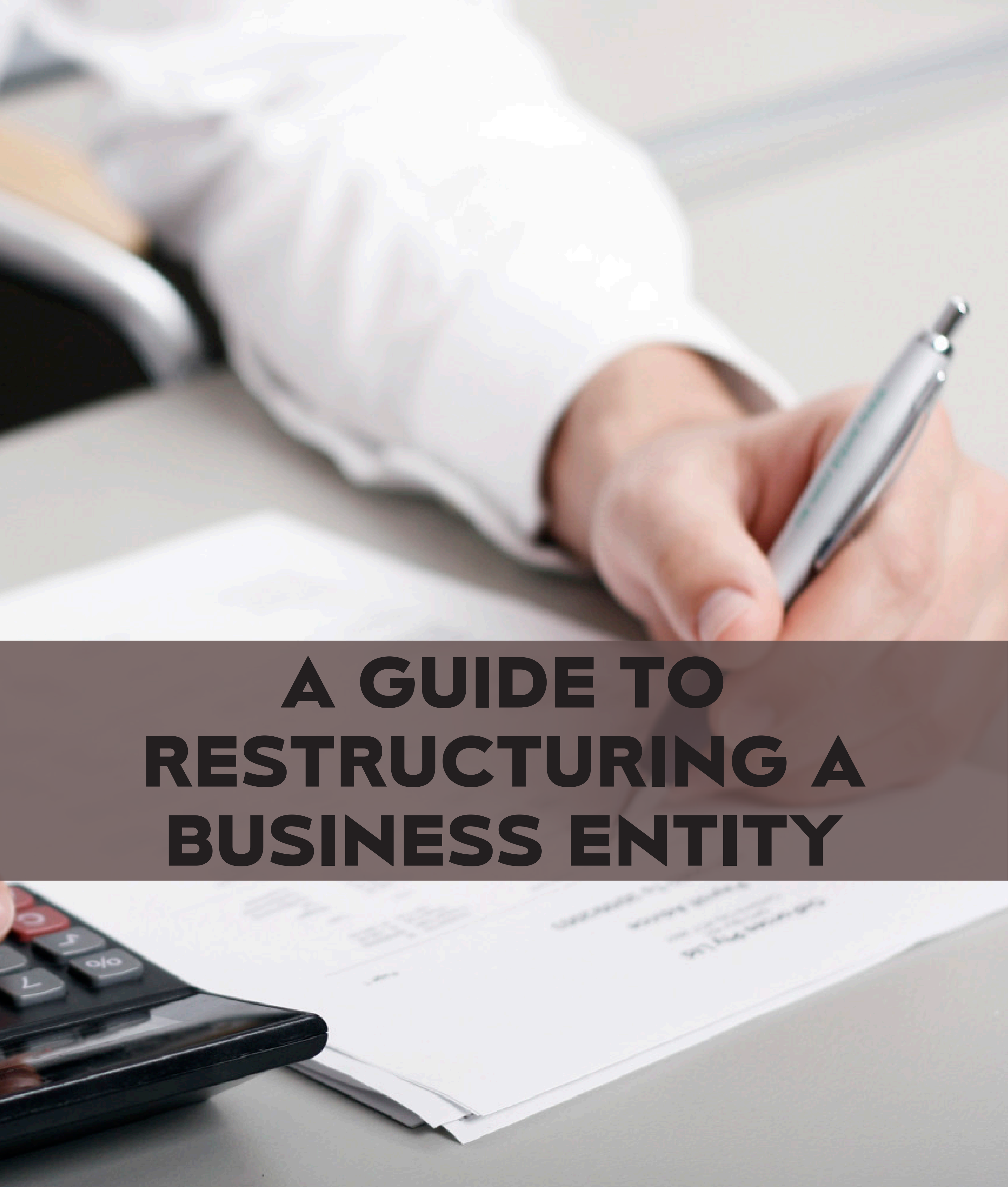

A GUIDE TO RESTRUCTURING A BUSINESS ENTITY

LORMAN®

Published on www.lorman.com - September 2017

INTRODUCING
Lorman's New Approach to Continuing Education

ALL-ACCESS PASS

The All-Access Pass grants you UNLIMITED access to Lorman's ever-growing library of training resources:

- ☑ **Unlimited Live Webinars** - 120 live webinars added every month
- ☑ **Unlimited OnDemand and MP3 Downloads** - Over 1,500 courses available
- ☑ **Videos** - More than 700 available
- ☑ **Slide Decks** - More than 1700 available
- ☑ White Papers
- ☑ Reports
- ☑ Articles
- ☑ ... and much more!

Join the thousands of other pass-holders that have already trusted us for their professional development by choosing the All-Access Pass.

Get Your All-Access Pass Today!

SAVE 20%

Learn more: www.lorman.com/pass/?s=special20

Use Discount Code Q7014393 and Priority Code 18536 to receive the 20% AAP discount.

*Discount cannot be combined with any other discounts.

Today’s business environment is more unpredictable and unstable than it has been in decades. The market rises and falls without rhyme or reason. New technological advances enter the business world on a daily basis. Customers and clients have become finicky and can quickly dump a company for another with similar products and services. Any company that has survived in this climate without restructuring has made it against the odds, and even businesses that are thriving may benefit handsomely from carefully planned restructuring.

The type of business entity that is chosen for a company can impact several financial aspects of that company, including taxes and other liabilities. In addition, reorganization of a business model, operations and personnel can impact much more than the financial aspects of a company.

The ultimate goal of business restructuring is to increase profit. Some businesses undergo restructuring just to tweak their expenses and liabilities, but many other businesses are forced into restructuring so that they do not fail. Restructuring can benefit any company as long as the process is planned and vetted by experienced certified public accountants (CPAs). However, accounting consultants are only one of many types of consultants that should be sought when considering company reorganization. Operations consultants and human resources consultants may also play large roles in the restructuring process.

Starting the Restructuring Process

The work involved in restructuring a business entity is enormous, and many company executives do not know how to begin. Many simply hire consultants and give them free reign over the process, but a savvy business leader always starts with him or herself and works within the company before seeking outside help. This allows a foundation for the restructuring to be set and provides consultants with a clear direction on what needs to be accomplished and when. Starting in this fashion also keeps the restructuring process in focus while permitting executives to see the big picture.

Far too many businesses are restructured on the fly with no thought given to how it affects the company as a whole. Although small changes may not seem to have a big impact on the company at first, they may create cracks in the structure of the business that are not readily apparent. In time, these cracks may grow until the business finally collapses.

Business restructuring has to start at the top and work its way down. The CEO, president or owner of the company should sit down with other executives and make a list of changes that need to be made and the reasons behind each change.

Department leaders can be called in to discuss the roles of the personnel within the department and any changes that could be made. Workflow bottlenecks, redundancies and outdated systems should be discussed. This process may take some time, but the information obtained can be invaluable.

After discussing changes with department heads, they should hold similar discussions with the employees under them, and all of the information should be brought to the table to discover if any of it makes sense and is usable. After this initial stage, a meeting should be held that brings together the department heads to share what they discovered. This is an excellent opportunity to make sure that everyone is on the same page. It is also a good time to make certain that everyone understands that restructuring may include making difficult decisions, such as layoffs, department reorganization and changes in management. The information obtained at this meeting will be the foundation of the restructuring process.

Bringing in Advisors and Consultants

Restructuring a business is a complex process for businesses of all sizes, and even the smallest of businesses will benefit from at least one consultant. If only one consultant can be hired, then it should be a CPA, preferably one who is already familiar with the business. With the help of the consultant, the objectives of restructuring can be further defined and a strategy can be developed that will make the objectives a reality for the company. The development of an effective strategy for restructuring requires clearly defined goals and accurate forecasts. Many businesses that have undergone restructuring have completed the short-term goals of cutting costs and slimming budgets only to find that the long term goals for the company never solidified because of inaccurate predictions. In extreme cases, restructured businesses have been cut off by creditors and unable to obtain new loans, which causes liquid assets to dwindle and debt to accrue.

Hiring the proper financial consultants is imperative for restructuring a business. For the most efficient transition, only experienced consultants should be hired. At a minimum, a consultant or consulting firm should have the following:

• A respectable list of previous clients

• A proven record of successful business restructuring

• The ability and willingness to provide ongoing support during and after restructuring

• At least 10 years of experience with business restructuring

Public Perception of Restructuring

One aspect of restructuring that is often left unconsidered is the public perception of the business during the process. Much of a business's success depends upon how it is perceived by the public, and public perception may waver when restructuring begins. Restructuring is commonly viewed as a sign that a business is failing, and customers may look toward competing businesses to provide them with the uninterrupted supply of goods or services they require.

When the public perception of a business changes, customers can be lost and revenue can drop tremendously. Public image consultants may be needed to prevent this from happening. The best public image consultants can turn public perception around and actually make the company's image more favorable than it was before restructuring began.

Another reason why public image is important has nothing to do with customers. Public image has a direct effect on the attitude of shareholders and investors. Restructuring requires money, and new capital may be necessary to get through the process. If the company is publicly traded, the stock must hold its value or the company could sink even before restructuring is complete. When spun correctly, restructuring can be used to show that company executives are willing to make drastic changes in order to satisfy creditors, shareholders and customers.

Financial consultants will be a necessary part of projecting a positive image for the public and for investors. Accurate and honest forecasts can alleviate much of the fear caused by restructuring, and timely updates showing that the business is stable will help as the process is underway.

Leadership During Restructuring

Identifying leadership early during restructuring can save a business from experiencing problems down the road. Difficult decisions will have to be made throughout the process, and without the right leadership, the results of restructuring may not be as intended. Some businesses actually appoint new CEOs just for restructuring. In some cases, it is understood that the appointment is temporary, but it is not unheard of for a temporary CEO to be made permanent if the restructuring goes well.

Whether a temporary CEO is appointed or not, a business going through restructuring requires a leader with the following qualities:

• He or she can define the vision of the company and refine the mission statement as needed.

• A good business leader can implement new directives and control operations efficiently and objectively.

• The CEO or president of the company has experience with both financial and operational restructuring.

Those working in a leadership capacity for the business have to deal with several issues during restructuring. The business will be scrutinized by both creditors and shareholders during the entire process, and someone must have the ability to reassure them that business will not only continue as usual during restructuring but noticeably improve afterward.

Tax Issues

One of the major issues that must be considered during restructuring is how tax liability will be affected by the change. In many cases, tax liability is the most important element of the process. Getting into a desirable tax structure can make or break a business during this period, and the effects, good or bad, may last for several years.

The specific tax issues that must be addressed vary by the type of business entity being restructured, and the issues can become very complex if restructuring involves changing the legal framework of the business. When a business emerges from restructuring, it will have a lean balance sheet, lower costs and a highly focused business model. However, these attributes mean very little unless the business's tax attributes are used wisely. For instance, net operating losses experienced during restructuring may be able to be used as a tax shield for several years.

Some of the tax issues that should be considered during restructuring are as follows:

• Many businesses are able to receive forgiveness for one or more outstanding debts as a part of restructuring. However, this may increase taxable income.

• Businesses may experience changes in several attributes that may affect taxes, such as net operating loss and capital loss.

• Rules for corporate reorganization allow businesses to restructure equity and liabilities, which can affect taxes.

• Changes in ownership may negate tax benefits for specific types of business entities.