

IS NOW THE TIME TO GROW YOUR BUSINESS?

BY ANTHONY ROSICH, CPA

It's no secret that times are tough. On a daily basis, we are bombarded by media reports detailing the state of our economy. Despite the downturn, however, current economic conditions can offer substantial growth opportunities for companies that are well positioned. Often, the first step in growing a company entails a plan to increase sales. Some of the more common methods used to accomplish this goal may include: expending resources on cultivating new customers in existing markets; increasing market share by winning customers from direct competitors; expanding product lines; moving into new geographic areas; or expanding into unrelated products or services. With limited resources, growth through one or more of these methods may be frightening, to say the least. If poor decisions are made in an attempt to grow, the results can be disastrous.

Growth through acquisition is an often overlooked alternative. Valuations as a result of current market conditions make this option even more attractive. For many companies, managing sales growth and margin performance have become an afterthought. The energy that was once focused on growing the business is now focused on keeping creditors at bay. This, in turn, results in a heightened focus on managing assets and working capital. As things continue to spiral downward, owners inevitably discuss the idea of selling the business. This has resulted in an increase in the number of small to mid-sized businesses for sale.

So, why is the number of completed transactions down when compared with last year? To begin with, private equity groups comprise a large portion of small to mid-sized deal activity. This is largely due to a lack of sources of debt capital, which private equity groups rely on in order to see a return on their investment. Many of these firms are well funded, but are simply not willing to invest without the ability to leverage a significant portion of the acquisition price. As these financial buyers continue to stand on the sidelines, opportunities for strategic buyers increase. During the course of the past twelve months, the median EBITDA (earnings before interest, taxes, depreciation and amortization) multiples have

decreased from approximately 11.2x to 6.3x. It is likely that purchase prices will continue to decline in large part due to the scarcity of debt financing.

Due to these factors, many businesses are becoming undervalued, which is a compelling reason to consider growth through acquisition. It may be the perfect time to acquire a bolt-on business or to acquire a complementary product or service line. While lenders are exercising caution when extending credit and requiring more rigorous due diligence, a strategic buyer can offer advantages that a financial buyer may not. These include reductions in operating costs and an in-depth knowledge of the industry. These synergies, along with an independent diligence report, can increase the ability to secure financing.

For more information, or assistance with analyzing a potential merger or acquisition, preparing information for a sale or financing, or minimizing the tax implications of a purchase or sale, contact one of KBA Group's Transaction Advisory professionals today.

KBA GROUP LLP ANNOUNCES THE PROMOTION OF GEORGIA SALINAS TO AUDIT PARTNER

KBA Group LLP is pleased to announce the promotion of Georgia Salinas to Audit Partner. A member of the Firm since 2000, Georgia has more than 11 years of accounting and auditing experience serving both public and privately-held entities. Formerly

with a large, Chicago-based Certified Public Accounting Firm, she has extensive experience in advising clients on a variety of complex transactions and financial reporting matters.



Georgia Salinas, Partner

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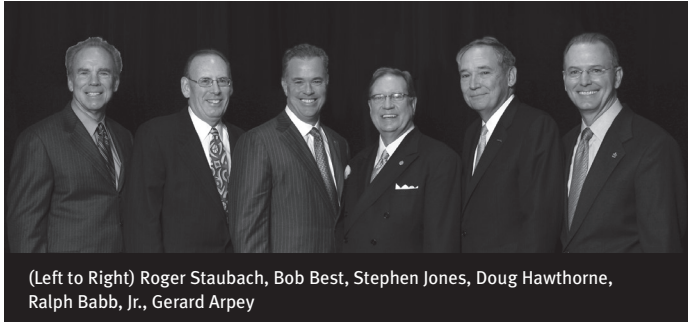
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GEORGIA SALINAS
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In her new role as a partner in the Firm, Georgia will continue working with clients in a variety of industries including technology, health care, manufacturing, real estate and professional services, among others. All of this experience has allowed her to develop a broad base of technical expertise and a strong commitment to responsive client service.

A graduate of the University of Illinois at Urbana-Champaign, Georgia is involved in several professional organizations including the American Institute of Certified Public Accountants (AICPA), the Texas Society of Certified Public Accountants (TSCPA), the Dallas CPA Society and the National Association of Corporate Directors (NACD).

KBA IN THE COMMUNITY



(Left to Right) Roger Staubach, Bob Best, Stephen Jones, Doug Hawthorne, Ralph Babb, Jr., Gerard Arpey

On December 9, KBA Group served as a sponsor of the **Dallas Business Journal Industry Outlook 2009** event. The prestigious list of panelists, representing six different industry groups, included: Doug Hawthorne, chief executive officer of Texas Health Resources; Gerard Arpey, chairman, president and CEO of AMR Corp., the parent of American Airlines; Ralph Babb, Jr., chairman and chief executive officer of Comerica Inc. and Comerica Bank; Bob Best, president and CEO of Atmos Energy Corp.; Stephen Jones, executive vice president and chief operating officer of the Dallas Cowboys; and, Roger Staubach, executive chairman-Americas for Jones Lang LaSalle Americas Inc. All six painted the North Texas economy as a market that is not immune from national trends, but resilient.

On December 16, **Eric Drews** served as a panelist at the **AeA CFO Forum** entitled, "In the Eye of the Storm: Why CFOs Have Never Mattered More." His presentation covered the tax proposals of then President-Elect Barack Obama.

On January 8, **Chris Mitchell** presented material on statistical based sampling at the joint meeting of the **IIA** (Institute of Internal Auditors) and **ISACA** (previously known as the Information Systems Audit and Control Association).

On January 24, **Camille Irvin** served as a judge for the Middle School Citywide Business Plan Competition sponsored by the **National Foundation for Teaching Entrepreneurship (NFTE)**. Six middle school finalists presented their business plans. The First Place awardee received \$500 for her business, a line of custom gift bags distributed through two local retail shops and her school. NFTE helps young people from low-income communities build skills and unlock their entrepreneurial creativity. Since 1987, NFTE has reached more than 230,000 young people and currently has programs in 22 states and 12 countries with more than 1,300 active Certified Entrepreneurship Teachers. Learn more about NFTE at www.nfte.com.

On February 5-7, **Larry King** attended the **Polaris International** Board of Directors meeting in Miami, Florida. As Chairman of the North American Region, Larry represented the region at the annual meeting, which also included the chairmen from other regions.

On February 18, KBA Group co-hosted and presented at a forum entitled "**Dealmaking after the Downturn.**" Co-sponsors included Lockton, Bowne & Co., GuideCap Partners and Value Incorporated. **David McCully** presented a segment on transaction readiness. His comments to attendees suggested that being prepared is key when it comes to closing a deal in this economic environment. He also discussed ways to differentiate businesses for sale in this difficult business climate.

On February 22, **KBA Group's Community Service Committee** launched a canned food drive. Current economic conditions have increased the demand on local food banks. In an effort to help, KBA team members and friends are eagerly showing their "CAN do" spirit. Donations, which will benefit the North Texas Food Bank, are being collected through March 31.

On February 24, **Georgia Salinas** and **Connie Cagle** launched the first in a series of events aimed at professional development for the women of KBA. This event, entitled **Wine, Women & Networking**, featured three guest panelists who provided their insight into professional networking.

On March 5, KBA Group LLP and CARR LLP were proud to sponsor **The Leadership Series** at the Park City Club in Dallas. The Leadership Series is an annual executive forum held exclusively for past and present winners of The Dallas 100, an awards competition that recognizes the fastest growing privately-held companies in the Dallas area. This year's event featured keynote speaker, Albert Black, Jr., President & CEO of On-Target Supplies & Logistics, Ltd., a corporate supply chain management business. Applications for the 2009 Dallas 100 will be accepted beginning in April. For more information, visit <http://www.kbagroupllp.com/news/events.aspx>.



(Left to Right) Greg Carr, Albert Black, Jr., Larry King

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KBA IN THE COMMUNITY

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On March 5, **Camille Irvin** served on the steering committee for the 3rd Annual TECH SUCCESS 2009 event presented by the **North Texas Regional Center of Innovation and Commercialization (RCIC)**. The event featured Governor Rick Perry as he honored 9 new Emerging Technology Fund (ETF) Awardees with announcements of \$13 million in investment funds and showcased an additional 11 of the region's previous ETF awardees. The ETF was established by the Texas Legislature in 2007 and has since invested nearly \$70 million in commer-

cially-important technology innovations, attracting and/or retaining the best scientists and researchers to Texas. For more information on the ETF, visit www.EmergingTechFund.com or contact Camille Irvin at 972.788.0330.

On March 12, KBA Group hosted the monthly meeting for the Dallas/Ft. Worth Chapter of the **National Association of Black Accountants (NABA)**. **Chris Mitchell** was the technical presenter for the evening and spoke on "The 7 Deadly Sins of SAS 70's."

A TIGHT CONTROL ENVIRONMENT CAN SAVE MONEY

BY: PHILIP S. BAKER, CIA, CISA, CCSA

In the current economic environment, preserving profit is not always about growing revenue. Although increasing revenue is usually the preferred method of growth or maintenance of an organization, tighter internal controls can have the same bottom line effect. There are several areas to look at when attempting to reduce costs.

Accounts Receivable. Many customers are forced to stretch payables during tough economic times. This, of course, can age receivables and ultimately result in a working capital issue. To attempt to alleviate this problem, the following may be considered:

- ▶ Impose finance charges or fees on stale invoices
- ▶ Offer favorable terms for prompt payment
- ▶ Ensure that invoices are going out in a timely fashion
- ▶ Review agings more frequently
- ▶ Start the collection effort earlier

Quite often, businesses wait to contact a customer until an unpaid invoice falls into the 60 to 90 day past due range. It may be beneficial to extend a friendly reminder at 30 or 45 days to move your invoice to the top of the stack. Additionally, a frequent aging review and trend analysis can help a company forecast potential issues and plan accordingly.

Inventory Management. There are always ways to better manage inventory and operate more efficiently. Following are some areas to look at when revamping an inventory management process:

- ▶ Maintain the minimum stocking level necessary to meet your sales

- ▶ Establish a repeatable ordering period (once or twice a month)
- ▶ Establish tracking mechanisms for each period to forecast inventory demands for the upcoming ordering period. Some common ones include average sales, maximum sales, bulk order quantity, order lead time, quantity on hand and quantity on order.
- ▶ Perform cycle counts in addition to annual physical inventories. Cycle counts are regularly scheduled counts that include only a portion of a facility's total inventory.
- ▶ Properly segregate warehouse personnel and accounting personnel, and establish accountability for the inventory
- ▶ Implement proper physical controls over inventory (counts prior to acceptance and removal from inventory, cameras, security, limited access, etc.).

When it comes to inventory management, an old adage applies. If you can't measure it, you can't manage it. So, the first and most important step in managing inventory is to keep good records including typical sales volume and current stocking levels. Without this information, it would be nearly impossible to know when to place reorders. For inventory calculations, it helps to establish a regular ordering period (semi-monthly, monthly, bi-monthly, etc.) and base your tracking on that unit of time.

Travel and Entertainment. Nobody likes tighter controls around travel and entertainment expenses, but this can be a big cost saver for some companies. A strict and enforced Travel & Entertainment (T&E) policy is a great starting point. Consider the following tips as well:

- ▶ Establish consequences for violation of the T&E policy
- ▶ Define hotel class, flight class, car rentals, meal limits, etc.
- ▶ Establish a tip limit; this may sound harsh, but everyone can be a big tipper on the company dime
- ▶ Require receipts for everything (beyond cash tips, it is hard to think of an expenditure for which a receipt cannot be obtained)

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WANT TO GO ELECTRONIC?

Would you prefer to receive our newsletter via email? Send your email address to our Marketing Director, Aimee Glass, at aglass@kbagroupllp.com. Be sure to include "KBA Focus" in the subject line.

FOCUS ON SERVICES

▶ www.kbagroupllp.com

TIGHT CONTROL ENVIRONMENT

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- ▶ Use a common method to book airline flights, cars and hotels (internal or external agent)
- ▶ Monitor the use of corporate cards and require monthly balances to be paid in full

A 2001 Gartner Group study found that just a 5% reduction in operating costs in the expense-management process can have the same effect as a 30% increase in sales. Sometimes a penny saved is more than a penny earned.

The areas discussed above are just some of the ones that lend themselves to cost and expense reduction. All processes within an

organization can be looked at to determine if there is a more efficient way to operate. The best place to start is with current policies and procedures that are communicated to all employees and handed down by executive management. Also, monitoring compliance with these policies and procedures and establishing consequences for non-compliance is key to the success of any new initiative.

For more information, or assistance with a risk assessment or the design/implementation of a control environment, contact one of KBA Group's Risk Advisory professionals today.

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