

# GOERING CENTER

## FAMILY BUSINESS REPORT



Finding Solutions  
Sharing Experiences



Goering Center  
For Family & Private Business

UC College of Business

PROFESSIONALLY SPEAKING

AN ADVERTISING SUPPLEMENT TO THE BUSINESS COURIER DECEMBER 5, 2008



Dr. Sidney L. Barton  
Goering Faculty Executive

### Going in a New Direction, Want to Join Me?

Thanks to the generosity of John and Gloria Goering, as of September 1, 2008, I have assumed a new role at the Goering Center here at the University of Cincinnati, College of Business. For lack of a better title, I am now officially called the "Goering Faculty Executive." Therefore, instead of the administrative roles I have been playing for the past 20 plus years, I am now free to explore the family business field as a researcher/author. The goal is to complement the education and information activities of the Goering Center with relevant, useful original research for our family business constituents.

Based on the headline of this article, you may be wondering where you, the reader, figure into this change. The key to that question can be found in the goal statement above. We want to do research that is "relevant and useful" to family firms and their professional advisors. In order to accomplish that goal, we need to engage our family firms and their advisors to discover just what you want to know. In addition, to make the greatest impact, we need to motivate as many faculty as

*Continued on Page 8B*

### Red Letter Days

November 21, 1989 and August 4, 2008 will be remembered as a red letter days for me. Nearly twenty years ago John and Gloria made their initial contribution to the University of Cincinnati Foundation that endowed the Goering Center for Family and Private Business. Their generosity has positively impacted the lives of thousands of employees of the Goering Center member companies over the last two decades. By informing and teaching the best practices of private and family businesses, our members have grown and prospered.

Earlier this year, following thirty-seven years in the financial services industry, I retired from the executive ranks of the Western & Southern Financial Group. On August 4, 2008 I began my encore career as the President of the Goering Center. It is an exciting way to be involved in practical community service. While other community non-profit organizations can stir greater emotions as they serve the under-privileged, children, the elderly, or animals, the Goering Center quietly helps create jobs and retain family and private businesses here in the Greater Cincinnati region.

The mission of the Goering Center is to drive family and private firm success through excellence in training and education. We can achieve this mission because of the tremendous community engagement in our efforts. For two decades the University of Cincinnati and its College of Business have provided



Larry Grypp,  
President

continuous support to the Center. The College of Business dean, Will McIntosh, not only serves on the Goering Center board of directors, but provides valuable insights into the role of professional education for our member companies.

More than twenty-five of our Goering Center members serve on our Board of Advisors. Over the last year they have proactively provided suggestions that have changed the very structure and operations of the Center. Many non-profits look to their boards for fund raising and advice. Our board members do that – and much more. Many of our educational programs are developed and taught by our board of advisor members, while others engage in membership growth, marketing and special events execution. The Center provides superior results to our members because of the continued activities of our board members.

In addition, ten local companies and professional firms financially sponsor our Goering Center programs. From our premier Next Generation Institute program to our annual Family Business of the Year banquet, our sponsors generously provide various resources to ensure our member companies receive quality education and information.

The recent American Family Business Survey reports that ninety-one percent of the owning family's values are emphasized in the business itself. Family orientation does indeed seem to translate into more ethical behavior.

Sixty percent of family businesses believe that their ethical standards are more stringent than those of competing firms. It clearly shows that the values that make a family successful do carry into a family business and its leadership.

It is well known that family and private businesses provide over half of America's existing and new jobs. While many of the nation's mega financial firms have lost over 80 percent of their market value over the last year, most our region's family and private businesses continue to grow and prosper. Yes, our member companies are concerned about the current economic trends, but they are proactively addressing their particular industry and company challenges. Creativity and the entrepreneurial spirit abounds in the region, serving as a foundation for continued innovation, ingenuity, and growth in the private sector. Critical to this spirit is the family enterprise. Not one member company has told me of mass layoffs or severe cutbacks of business. They continue as a solid source of employment and presence here in our community.

Having just completed my first three months at the Goering Center, I have learned that the passion of a local non-profit organization is different from that of large national corporations. While financial results are important to the Goering Center, the measure of real success is the service we provide to our member companies and their ultimate prosperity. If each of our members reaches their goals, and we played a small part in their growth, it will create a full calendar of red letter days.

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## Helping Your Bank Lender Help You

By **Chris Ramos**, Vice President Fifth Third Bank

Many businesses thrive with little or no debt. However, there are many situations where additional debt becomes an appropriate alternative. One such example is a generational transfer of the business. The selling generation's desire for liquidity typically results in an increase in the company's level of debt. A likely source for this debt is a commercial bank loan.

Commercial lenders primarily use depositor money to fund loans earning a 2-4% net interest margin. With these relatively low expected returns, it is nearly impossible for a bank to succeed financially if it suffers a recurring series of loan losses. In addition, banks have a duty to protect their depositor's assets.

For these reasons, most banks try to select loan situations where risk can be minimized. Bank loan decisions are typically determined by assessing the expected level of future cash flow of the business, along with the collateral and/or guarantee(s) which provide additional support if the company defaults. Of course



**Chris Ramos**

every situation is unique and there are no hard and fast rules for every loan. In addition to the cash flow and collateral, the character of the company's leadership team, and the conditions (industry, government regulations, competition etc.) under which the company oper-

*In spite of the recent challenges to the financial system, competition for the highest quality borrowers remains very strong.*

ates must be carefully considered.

This process not only determines if a loan will be approved, but also determines the terms and conditions for the loan. This includes key items like the interest rate and maturity date for the loan, as well as personal guarantee and financial covenant requirements.

With so much riding on the subjective judgment of your bank, how well does your bank know you?

How well do you know your bank? If you can answer "yes" to the following questions you have positioned yourself well to get the best financing package available for your company:

- 1.) Have you provided detailed historical financials and projections of future performance, including descriptions of the factors that influence past and future results?
- 2.) Do you understand the details of your bank's loan decision-making process?
- 3.) Does your bank have a credit committee or a signature system?
- 4.) Have you met all of the individuals involved in your company's credit decisions?
- 5.) Have you equipped these individuals with the knowledge and understanding of your business



that allows them to be effective advocates for your loan?

The answers to these questions can also help you decide which bank is best for you. Most importantly, these questions will help you determine how your bank will react if your financial performance deteriorates.

In spite of the recent challenges to the financial system, competition for the highest quality borrowers remains very strong. The highest quality borrowers set goals and expectations for future performance, which they routinely meet or exceed. Throughout this process, they continuously keep their bank informed and involved in their challenges and triumphs. They help their lenders help them.

*Chris Ramos is vice president and senior relationship manager in Fifth Third Bank's Commercial Banking group. He can be reached at 513-534-3667 or Christopher.Ramos@53.com.*

## SAVE THE DATE!

### Exciting Luncheon Program

New Administration – The Impact on your Business

February 17, 2009

Crowne Plaza, Blue Ash

Watch for details.



## What Our Members are Saying...

"What we learned through the Goering Center's Next Generation Institute was critical to our successful transition to the fourth generation."

*Bob Graeter, V.P., Graeter's, Inc.*

"The preparation we received at the Goering Center's Next Generation Institute alerted us early to issues we would face and provided solutions that helped make our succession planning more effective."

*Mike LaRosa, CEO - LaRosa's, Inc.*

"The Goering Center Leadership Institute has helped me to understand myself, my management and our staff better. It has made a significant and immediate impact on the way we plan and a better bottom line has resulted. I am appreciative of the skills, assessments and mentoring that this series has given to us and I have passed it on to others."

*Jonathan Theders,  
Clark-Theders Insurance Agency*

# Surviving the Slow Times.... How to Weather a Stormy Economy

Rob Heidenreich, Vice President and Business Advisor, PNC Commercial Banking

Slow times require fast thinking for small business owners. Since smaller companies typically do not have the financial resources to weather dry periods as effectively as a larger company can, it is critical to move quickly when business shows signs of slow-



ing down. With the U.S. economy presently struggling to avert a recession, the time for action is at hand for many small businesses.

As a business owner, you have a choice in terms of how you view a slowdown. It can either be a time of frustration, stress and panic – or you can approach the situation as an opportunity to upgrade your business processes and put new initiatives in place to enhance your efficiency and weather the downturn.

## Trimming the Fat

When the economy slows, an initial response by many small companies is to cut back on areas that are considered non-essential because they may not have a direct impact on sales or profits.

Although cutting back is an easy way to save money, many experts agree that slashing budgets for items that are commonly targeted when business is sluggish – such as advertising, employee training and business travel – is precisely the opposite of what a company should do during slow periods.

The key to making budget cuts is to carefully evaluate each area of your business and identify those that are not as efficient as they could be. You also should re-evaluate your suppliers of insurance, telephone service and other business services to ensure that you are getting the most for your money.

## Bringing in New Business

While it is questionable to cut your marketing budget during slow periods, it is a great time to refine and improve

your marketing program to generate better – or more targeted – results. You can start by revisiting your marketing plan and adding new initiatives to help bring in business. Here are some things to consider:

### • Follow Up With Existing Customers

Most small businesses focus more on attracting new customers than retaining their existing ones. A business slowdown is a great time to get in touch with existing customers to find out what needs they have and to remind them of your capabilities.

### • Offer Something Free

Promotions are a great way to attract new prospects. Consider targeting prospective customers and offering them a free consultation or a free sample of your product or service.

### • Create an E-Mail Survey

Send out an e-mail survey to your customer base and ask them about the biggest issues they face related to your field of business. Compile their answers and prepare a brief report on the results. You can publicize the results on your web site and leverage the report as a basis to set up a meeting with prospective customers.

### Making the Most of Your Cash Flow

When business slows, maximizing the effectiveness of how you manage your cash flow can be critical to the survival of your business. Here are some areas where you should focus your attention:

### • Accelerate the Collection of Payment

You can improve your cash position by streamlining your systems for collecting payments with merchant services, remote deposit, lockbox and other treasury management services.

### • Improve Processes for Making Payments

Consider utilizing online bill pay services to reduce the time and costs involved with paying your bills, as well as online payroll services to make tax payments more efficiently.

### • Invest Your Excess Cash Effectively

Put your excess cash to work in a business money market account or business certificate of deposit.

### • Explore Solutions for Cash Shortfalls

Establish a business line of credit that you can access in case of a cash crisis, as well as to take advantage of unexpected opportunities.

### • Utilize Information Reporting Tools

Online information reporting tools can help you make better business decisions by providing you with the latest information on your cash position.

### Position Yourself for Profitability

While economic cycles and business slowdowns might be inevitable, they don't have to lead to doom and gloom for your business.

Use the slow periods as an opportunity to make improvements in the way you manage your business. Doing so will help you weather the stormy economic conditions, and you'll be well-positioned for greater profitability when economic conditions turn brighter.

PNC Bank can help you prepare for the cash peaks and valleys that all businesses experience, and we provide a wide range of cash flow resources to help ensure you have the funds you need to enable you on your journey to business success.

*Rob Heidenreich is Vice President and Business Advisor, PNC Commercial Banking. For more information, contact robert.heidenreich@pnc.com or 513.651.7128.*



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Goering Center  
For Family & Private Business

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### The Family Business Report

Sidney L. Barton, Ph.D.  
Faculty Executive

Larry Grypp  
President

M. B. Hammond  
Editor

(513) 556-7185 • E-mail: goering@uc.edu • Website: www.Goering.UC.edu

# Obama Tax Policy

CPA and CFP – Principal – Tax Department, Clark Schaefer Hackett & Company

On January 20th, 2009, Barack Obama will be sworn in as the 44th President of the United States. During his campaign, President-elect Obama introduced several tax proposals that would become part of his tax policy. Many of the proposals that were discussed during the campaign have not yet been fully developed by Obama and his advisors. However, now that the election is over, we have highlighted some of these tax proposals in order to give you an indication of what you will likely see as tax policy in the future.



## Individual Taxes

During his campaign, President-elect Obama proposed a permanent extension of the 2001 and 2003 Bush tax cuts for most individuals. However, he proposed increasing taxes on married couples and single taxpayers, earning more than \$250,000 and \$200,000, respectively. Obama has proposed the following:

- Reinstating the top two individual income tax rates that were in effect prior to the 2001 Bush tax cuts, 36% and 39.6%. The top two individual income tax rates are currently 33% and 35%. No changes would be made to the 10%, 15%, 25% and 28% tax brackets.

*the current state of the US economy may make it difficult to raise taxes on high income taxpayers and provide (Obama's) promised tax cuts to the middle class.*

## Business Taxes

President-elect Obama's theme for businesses during his campaign was to create more jobs in the United States, relieve healthcare costs for companies and provide incentives for companies that invest in innovation. Below are several of the key business provisions of Obama's tax proposals:

- Lowering the corporate tax rate for companies that start or expand their operations within the United States.
- Retaining the corporate tax rate of 35%, however potentially broadening the tax base and eliminating special interest loopholes.
- Eliminating capital gains taxes for entrepreneurs and investors in small business and start-up companies.
- Permanently extending the research and experimentation credit that is set to expire in 2009.
- Allowing small businesses a new refundable 50% health tax credit on employee health insurance premiums paid by employers.
- Providing businesses a new \$3,000 refundable tax credit for each full-time employee hired during 2009 and 2010.
- Enacting a windfall profits tax on oil companies.
- Extending the credit for electricity produced from renewable resources.
- Taxing carried interests as earned income subject to ordinary income tax rates and self-employment taxes.
- Cracking down on international tax havens by requiring greater disclosure of financial transactions in certain jurisdictions.

- Increase the capital gains rate for taxpayers in the top two tax brackets to 20%. The capital gains rate would remain unchanged for the all other taxpayers.

- Increase the tax rate on qualified dividends for taxpayers in the top two tax brackets to 20%.

- Restore the phase-outs of personal exemptions and itemized deductions for high-income taxpayers.

In addition to preserving a portion of the 2001 and 2003 Bush tax cuts, Obama proposed the following middle class tax relief:

- The Making Work Pay Tax credit would provide for a refundable tax credit of approximately \$500 for working individuals (\$1,000 for married couples). The credit would refund an amount equal to the social security tax paid on the workers first \$8,100 of wages. This credit would phase-out for individuals whose income is in excess of \$75,000 (\$150,000 for married couples).

- The American Opportunity Tax credit would provide a fully refundable tax credit of 100% of the first \$4,000 of qualifying higher education expenses.

- The Universal Mortgage Credit would be a maximum credit of \$800 for individuals that currently take the standard deduction on their tax return. The credit would provide a 10% refundable credit for mortgage interest paid.
- Eliminate income taxes for individuals over age 65 who currently earn less than \$50,000.
- Expand the earned income tax credit.
- Expand and make refundable the Saver's credit for families earning less than \$75,000.
- Increase the dependent care from 35% to 50% and income thresholds for the phase-out of the credit.
- Allow for taxpayers to withdraw 15% (maximum of \$10,000) from an IRA through 2009 without penalty. The

withdrawal would be subject to tax.

- Suspend the penalty for taxpayers who do not take the required minimum distribution from their retirement accounts.

The alternative minimum tax (AMT) would not be repealed under Obama's tax plan. Obama has proposed extending and indexing the AMT patch that was recently enacted for 2008. AMT currently impacts about 4 million taxpayers, but without the AMT patch that number would increase to over 26 million taxpayers. As the cost of full repeal of the AMT is too high, it is more likely that the AMT patch will be made permanent.

Obama also proposed additional payroll taxes on individuals with income above \$250,000. The additional tax would be at a rate of between 2% and 4% and would be split between the employer and employee. This additional payroll tax would not take effect for at least 10 years.

## Estate Taxes

Under current law, the repeal of the estate tax is scheduled for one year in 2010. The estate tax would be reinstated in 2011, but with a top tax rate of 55% and an estate tax exemption

of \$1.0 million. Obama has proposed retaining the existing estate tax rates that range from 18% to 45%. However, the estate tax exemption would be set at \$3.5 million per individual or \$7.0 million per couple. The increased exemption would effectively repeal the federal estate tax on 99.7% of estates, therefore only 0.3% of estates would pay the tax. There was no mention of any changes to the current gift tax system during the campaign.

## Conclusion

As we stated earlier, many details on Obama's campaign proposals have yet to be provided, but the above proposals are what was outlined in his campaign including some that surfaced in the last few days. More guidance should be released as soon as Obama assembles his advisory team and works with the new Congress to determine their short term and long term priorities. However, it is unknown as to the timing of when these proposals may become law.

Although Obama will be working with a Democratic controlled Congress, the current state of the US economy may make it difficult to raise taxes on high income taxpayers and provide his promised tax cuts to the middle class. At a minimum, a stimulus package will most likely be introduced in early 2009 to help stimulate the economy. Major tax legislation may not be enacted until late 2009 or even 2010. Recent tax history would indicate that legislation is likely in 2009 and the provisions would be made retroactive to January 1st.

Taxpayers should continue to work with their tax advisors to finalize their 2008 year-end tax planning and develop their initial plan for 2009. With the prospect of a top marginal individual income tax rate of approximately 40.7% (including phase-outs of personal exemptions and itemized deductions) in 2009, taxpayers may want to consider accelerating income or deferring expenses in 2008 as they may be subject to higher tax rates in 2009. Also, with the likelihood of no major AMT reform in the near future, taxpayers need to continue to monitor their exposure to AMT and develop their tax plans accordingly.

Clark, Schaefer, Hackett & Co.



# Insurance and the Financial Crisis

By Paul Jacobs, USI Midwest

Is the insurance industry next? Let's face it: that's the question on everyone's mind. If not for massive, and completely unprecedented, federal assistance AIG would have been an early casualty of the current economic meltdown. So far the direct damage appears to have been largely confined to the banking industry. To the extent that a dysfunctional credit market impacts every industry, the indirect damage has cut across our entire economy. However, the companies that have actually hit the wall have by and large been in the financial sector.

The property and casualty insurance industry is a roughly \$300 billion industry segment. The amount of capital retained and invested by the industry as reserves and surplus is approximately \$1.3 trillion. With all of this exposure to the financial markets, it is natural to wonder whether the insurance industry may experience the same sort of crisis the banking industry is undergoing.

The past several weeks have made it perfectly clear that predictions simply are not reliable. On the other hand, given the importance of the insurance industry to every business and the economy as a whole, it is a good time to take a closer look at some of the industry fundamentals and consider how they will be impacted by the current turmoil.

## Background

Analysis of the ongoing financial crisis is beyond the scope of this article and this author. However, a brief discussion is necessary in order to understand the difficulties AIG is experiencing, and to distinguish them from the industry as a whole.

As the housing market boomed over the past decade, the mortgages

which fueled that growth were increasingly bundled up and sold on secondary markets. These instruments, Mortgage Backed Securities or "MBSs," were a significant part of the booming and largely unregulated derivatives market. Without getting into the arcane details of the derivatives market, an essential component of it was instruments known as a Credit Default Swaps or "CDSs."

CDSs are designed to protect the purchaser of derivatives from the possibility of a default. In this broad sense they perform an insurance function. However, they are not insurance policies and are not regulated as such.

*The past several weeks have made it perfectly clear that predictions simply are not reliable.*

## AIG: Not Your Father's Insurance Company

This is where the breadth and diversity of AIG's operations separate it from the overwhelming majority of insurance companies. One of the largest issuers of CDSs was the non-insurance division of AIG. This division is an entity located outside of the United States, and not subject to the same regulation which all insurance companies, including the insurance divisions of AIG, are subject to when they do business in the U.S..

When the housing market went into decline, mortgage foreclosures spiked. This, in turn, greatly increased the default rate on MBSs.

These defaults triggered AIG's obligations under the CDSs it had issued to make the parties whole. It is this exposure, still not quantified as of this writing, which created huge losses for AIG and drove the company into the arms of the Federal bailout.

## Regulatory Environment

Understanding that it was the operations of the non-insurance (and largely non-regulated) division of AIG which resulted in the current crisis, let's turn briefly to the regulation of insurance company investments.

Property and casualty insurance companies tend to invest their surplus conservatively due to restrictive state regulatory guidelines. At year end 2007, over 65% of the industry's total invested assets were in long-term bonds; 14.5% in common and preferred stocks; 7.5% in cash and short-term investments and the balance in other investments. Moreover, according to Edward Keane of A.M. Best, one of the most prominent industry ratings companies, property and casualty insurance companies do not have significant exposure to MBSs.

If you go to the website of the Ohio Department of Insurance or the National Association of Insurance Commissioners you will find articles making it clear that in their opinion the insurance operations of AIG are sound, well funded and fully capable of paying their claims.

## The Current Insurance Market

So how are insurance companies weathering the current economic crises? The industry is dealing with a number of factors, each of which tend to have an adverse impact on their financial performance.

- Ongoing "Soft" Market – Insurance is a cyclical industry. Currently, the industry is several years into a "soft" market cycle which is char-

acterized by falling prices and a loosening of underwriting standards. As with any business, when the price it can charge for its product (the "premium" in insurance jargon) goes down, the impact on financial performance is negative.

- Catastrophe Losses – Hurricanes Gustav and Ike, along with a fairly severe tornado season, have pushed catastrophe losses through the third quarter of 2008 over \$22 billion.
- Deteriorating Investment Performance – While insurance companies' investment portfolios are not heavily weighted in equities, the continuing slide in the value of stocks has hurt the returns generated by investments. Such returns are a significant part of the overall financial performance of any insurance company, so this too has a negative impact.

## Outlook

During these extremely unsettled times, it is impossible to predict what is going to happen next. The insurance industry relies on a healthy credit market like every other industry. It has a large exposure to the financial markets due to its investments, and so must face the same risks – many of which may still be unknown – that other investors face.

However, unlike those segments of the financial industry which went largely unregulated in the recent past, the insurance industry remains well regulated at the state level. Because of this sound regulatory environment it is unlikely that "main street" insurers have the sort of unknown risks that have caused so much damage to our economy recently. It is much more likely that the industry will weather the current storm as it has in the past and remain a dynamic part of our nation's economy.

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# Turning Your Dream into an Entity: What Entity Is the Best Fit for Your New Business?

By Shaun Patsy, Attorney, Business and Finance Department, Graydon Head & Ritchey LLP

GRAYDON HEAD  
LEGAL COUNSEL SINCE 1871

Today is the day to make your dreams a reality. Your great idea is ready to hit the market and business is sure to be booming. There is just one issue to consider before you launch: what type of entity is appropriate for your new business?



mind, comparing the needs of the business with the entity options outlined below will assist in determining the choice that's right for you.

## Sole Proprietorship

Forming this type of entity is simple and requires no formal filings of any sort because the sole proprietorship does not have a separate legal existence from the business owner. The sole proprietorship requires no formalities to operate and offers flexibility to the owner, who will have the ability to control all aspects of the business. The entrepreneur who chooses this form of entity can avoid the "double-taxation" problem experienced with corporations. Sole proprietorship profits are taxed once at individual tax rates because profits and losses are considered personal to the business owner.

The choice of the correct business entity may seem daunting, but it does not have to be a difficult one. If you can focus on what aspects of a business entity are the most important for both the business and for the owners, you can better decide which entity is best. Consider the following questions to assist in your decision-making:

### 1. Do you need capital to get the business off the ground?

Finding investors or banks willing to loan money may be easier if the business is formed as a corporation or limited liability company as opposed to a sole proprietorship or partnership.

### 2. Are you comfortable with being personally liable for the debts and liabilities of the new business?

Only the corporation, limited liability company, or, in some circumstances, the limited partnership provide the protection from the debts and liabilities of the business.

### 3. Are you comfortable with the double taxation of corporate dividends or do you prefer to be taxed once as the profits pass through to you individually?

C corporations are subject to double taxation while all other entities allow the ability to be taxed on profits and losses on an individual level.

### 4. Are you comfortable with structured rules or do you prefer to call the shots yourself?

Corporations and LLCs have much more structured rules as they are subject to state law requirements. Sole proprietorships and partnerships are much more flexible and the business owner can set the agenda for operation.

Considering these questions will better prepare you to have a discussion with your outside advisors about the best choice of entity for your new business. Armed with your goals in

*it is possible to change your corporate entity structure after you begin operating, it is not as simple as forming the new entity and will require additional time and costs.*

However, the benefits and flexibility of a sole proprietorship come at a great cost. The biggest drawback of the sole proprietorship is that the business owner is subject to unlimited personal liability. If the income derived from the business and the assets of the sole proprietorship are insufficient to satisfy the sole proprietorship liabilities, such liabilities must be paid out of personal assets. In addition to this risk, the sole proprietor may also have difficulty obtaining business loans or outside investors to satisfy the capital needs of the business.

## General Partnership

Any time two individuals associate to carry on as co-owners of a business for profit a general partnership exists. No "paperwork" is required. Just like the sole proprietorship, the general partnership does not require any formal filings to set up the entity and also helps to avoid the "double taxation" problem.

One disadvantage of the general

partnership is that each partner is personally responsible for the debts and liabilities of the partnership. In addition, the death, retirement or withdrawal of one partner usually leads to the dissolution of a partnership. General partners may also have difficulty obtaining loans or investors to satisfy the capital needs of the business.

## Limited Partnership

The limited partnership is similar to the general partnership except for one key difference: certain partners can have limited liability. Partners who are considered "limited partners" are protected from the debts and liabilities of the partnership. Any "general partners" of the limited partnership are still subject to the same liability risks as partners in a general partnership. Furthermore, unlike with a general partnership, the creation of a limited partnership requires filing the proper paperwork with the

Corporate law is well developed and provides corporations with consistent rules and regulations for decision making. Unlike the partnership structure, a corporation typically enjoys an unlimited duration beyond the death of any shareholders.

Despite the benefits of incorporation there are various costs. As mentioned above, corporations are subject to the "double taxation" problem. This results from the fact that corporation profits are taxed at the entity level. However, Uncle Sam does not stop there. After the tax is paid at the corporate level, profits are taxed a second time in the event the corporation distributes its profits as dividends to its shareholders. "C" corporations are the default entity when a business decides to incorporate. "S" corporations represent an alternative. The two forms share characteristics with the primary difference between them being the method of taxation. S corporations can elect the "pass through" taxation that partnerships enjoy, thus dodging double taxation of corporate dividends. Individual owners of an S corporation are taxed at the individual level. However, there are various restrictions on S corporations including the requirements of having a limited number of shareholders and only one class of stock.

## Limited Liability Company

The limited liability company or "LLC" is certainly one of the most popular entities these days. An LLC enjoys the limited liability of a corporation while also having the ability to have "pass through" taxation like a partnership. S corporations have various restrictions relating to the number and type of owners. LLCs have no such restrictions. In addition, LLCs enjoy greater flexibility than an S corporation when it comes to the allocation of profits and losses to its owners or "Members."

## Making Your Choice

As tedious as it may seem, it is important to think through these issues before you launch your new business. Although it is possible to change your corporate entity structure after you begin operating, it is not as simple as forming the new entity and will require additional time and costs. Once you get through some of these important start-up issues, you will be on the road to launching your great idea!

Secretary of State.

## C Corporations and S Corporations

A corporation differs greatly from all of the entities discussed above. To start, a corporation is a separate taxable entity from its owners. Furthermore, a corporation is created through state law by making required filings at the state level. The greatest advantage of establishing a corporation is the ability to limit the liability of the owners. Owners of a corporation are shielded from the debts and liabilities of the corporation as a whole. Any owners or "shareholders" are generally at-risk only for the amount of their investment in the corporation. Unlike many of the entities above, the owners of a corporation may not actively manage the business. This task is specifically assigned to the "Directors." Directors delegate various day-to-day decisions to the "Officers." Examples of typical officers include the President, Vice President, and the Secretary.

# Succession Plans Essential For Meeting Business, Family Goals

By Timothy Rodgers, Senior Trust Administrator, Southwest Ohio District, KeyBank N.A.

Business succession plans can smoothly transfer family-owned companies to the next generation and provide secure retirement income to the seller.

A family-owned business is often the largest part – 65 to 90 percent – of a business owner's taxable estate. So the owner's heirs must pay inheritance tax on the business. Accountants, attorneys and bankers can help guide entrepreneurs through this process, smoothing out family issues and minimizing taxes.



and legal steps.

Entrepreneurs who want to keep the business in the family can reduce the value of their estates, and the estate taxes, through tax-free gifts (by both owner and spouse) to heirs, heirs' spouses and their children.

They can also reduce the value of the business by offering discounts on family business stock, arranging deferred compensation to the seller, leasing assets such as real estate or equipment, and charging licensing and royalty fees for intellectual

*To develop and implement succession plans, entrepreneurs should rely on their attorneys, accountants, bankers and estate planners.*

Starting early is crucial, certainly three to five years before retirement.

The most fundamental decision is whether to keep the business in the family or sell it.

If the owner decides to keep the business in the family, it's important to identify the key traits necessary in the next generation to take over the business. What skills are needed to help the business grow, thrive and prosper?

The next step may be the hardest: to assess realistically whether members of the owner's family have the necessary traits and skills. Many entrepreneurs turn to their financial team to help provide an objective analysis.

In a situation where an entrepreneur's heirs may have some of those traits and skills, but not all of them, starting the succession planning process early allows time to groom and train successors. The owner can place them in challenging situations, observe their performance and guide the development of essential skills.

Starting early also affords time to determine the value of the business.

For entrepreneurs who want to sell the business to non-family members, starting early allows moves to maximize the value of the company for the best sale price. The financial and legal team can assist by recommending appropriate accounting

property, such as patents or copyrights.

Even when a family-owned business will stay in the family, rather than be sold to outsiders, accurately setting the value of the business is important. Knowing this information will guide family members in shaping their strategy for the transfer. It will help determine how inheritance taxes will be paid, how ownership and management will be transferred to the next generation and how to satisfy the need for retirement income of the generation passing the torch.

The need of the owner/sellers for retirement funds will determine whether they want to sell the business outright for a lump-sum payout or if they want a regular, continuing income from it. They may want their wages to continue as employees, to be paid after they leave the business (deferred compensation) or to receive consulting fees. Each arrangement has different tax implications.

Common sale methods include a stock redemption, where the company buys the stock from a seller, and a cross purchase where other shareholders or family members buy the stock directly from the seller. If heirs cannot buy the stock directly, a bank can provide financing, including a down payment on the purchase.

An effective business succession

plan takes into account the fact that ownership and management are different. For example, if a business owner has six children but only two are involved in the business, the value could be divided equally but the management responsibility remain with the team the seller designates. Those not involved in management would get non-voting shares.

As this overlapping of family dynamics and business considerations clearly suggests, developing a clear and comprehensive business succession plan is essential for achieving family consensus.

A business succession plan, although it is a binding legal framework, must also be a living document, subject to changes of the owner's objectives, value of the business and market conditions.

Entrepreneurs should periodically revisit their succession plans, just as they review their insurance coverage (see sidebar, below). Keeping these two documents current is crucial in achieving the disparate goals of sellers seeking a comfortable retirement and buyers hoping to continue the operation of a family-owned business.

To develop and implement succession plans, entrepreneurs should rely on their attorneys, accountants, bankers and estate planners. Continuity counts. For example, a wise business owner will engage the same banker in the succession planning process as he or she uses for the business's banking needs. This ensures that banker working on the succession plan is familiar with the company, its management team and operations. It's all about relationships – within the family, within the business, and between the business owner and the financial and legal team.

*About the author: Timothy Rodgers is a Senior Trust Administrator for KeyBank N.A.'s Southwest Ohio District. His office is located at 303 Broadway in Cincinnati. Tim may be reached at 513-830-1154 or [Timothy\\_Rodgers@KeyBank.com](mailto:Timothy_Rodgers@KeyBank.com).*



## Insurance Can Help Protect Family-Owned Businesses In Transition

Insurance is a key component of a business succession plan, and may take these forms.

### KEY PERSON LIFE INSURANCE.

When a key executive dies, this coverage provides a tax-free death benefit to fund the recruitment, hiring and training of a new key executive. This coverage helps the company remain solvent during the leadership transition and assures customers and creditors of continuity. The corporation purchases the insurance policy on the key employee's life, becoming the owner, beneficiary and payer of premiums. After the death of the employee, the corporation receives the total death benefit, tax free.

### BUSINESS OVERHEAD.

When a business owner becomes partially or totally disabled, this coverage protects against financial disaster, covering building operations such as rent, utilities, equipment rentals and mortgage payments, plus professional expenses, including salaries and group insurance for employees.

### BUY-SELL AGREEMENT.

Life insurance to insure each partner for the benefit of the other partner or partners is commonly used in conjunction with a buy-sell agreement. This is a contractual obligation involving the purchase of all or a portion of a business by an established party at a set value.

### DISABILITY INSURANCE.

Disability insurance covers an injury or illness that prevents a business owner from working. Health insurance covers most medical costs but does not replace lost income.

### LONG-TERM CARE.

Long-term care insurance can protect a business owner's assets when the owner can no longer be independent. This type of insurance may be less costly for a business owner under a group discount plan than when purchased individually. Purchasing this coverage through the corporation may bring a significant tax advantage.

## Make it your New Year's Resolution to Become a Better Leader Leadership Development Institute Starts February 11, 2009

Are you at the top of your game? As a family business leader, your performance has a direct impact on your company's bottom line. You can inspire new levels of achievement or take an organization nowhere fast. It's a fact: family businesses face tough odds. Less than 30% of family businesses survive to the 2nd generation.

Designed exclusively for the Goering Center by Leadership Excelleration, Inc., the Leadership Development Institute (LDI) will address the unique challenges faced by those leading a family business and will help you maximize your effectiveness as a leader, so you can maximize the performance of your organization. Through interactive workshops and practical applications, you'll gain greater self-awareness and learn how to create a place where people want to do their best.

Leadership Excelleration is

passionate about "excellerating" performance, and they have a proven track record, working with such leading local and Fortune 500 companies as Cincinnati Bell, General Electric, LaRosa's, and Natorp's.

Tuition is only \$2,500 for the eight ½ day sessions, and Goering Center members receive a 10% discount.

Your family business has taken years, perhaps even generations, to get where it is today. Now you have the opportunity, and the responsibility, to lead it into the future.

Act now. The next class for LDI starts February 11, 2009, and space is limited.

Take your company to new heights. Register for the Leadership Development Institute today by phoning the Goering Center at 513-556-7185 or by email at [Goering@uc.edu](mailto:Goering@uc.edu).

### Leadership Development Registration and Referral Form



I am interested, please contact me.

Name: \_\_\_\_\_

Company: \_\_\_\_\_

Address: \_\_\_\_\_

City/State/Zip: \_\_\_\_\_

Phone: \_\_\_\_\_ Fax: \_\_\_\_\_

e-mail: \_\_\_\_\_

Goering Center for  
Family and Private Business

University of Cincinnati, Telephone: (513) 556-7185  
P.O. Box 210228, Fax: (513) 556-7090  
Cincinnati, Ohio 45221-0228 e-mail: [goering@uc.edu](mailto:goering@uc.edu)

#### Professionally Speaking, Continued from Page 1B

possible to work on issues of interest to these constituents. We need your help in both these endeavors.

First, we need your willingness to meet with faculty to discuss the questions you would like answered. From the faculty perspective, we will ask faculty to share their areas of expertise and interest with you, the family firms and their advisors. My hope is that we can find some areas of intersection between practitioner and faculty interests. Second, as it relates to the motivation for faculty to participate, family firms can help immensely by being willing to offer some of their time and access to their firms for research. One of the most challenging things for academic researchers is to obtain access to executives and their firms. The hope is that if we can identify some areas of mutual research interest, that firms will be motivated to allow researchers in, and faculty will

be willing to allocate some of their research to the interests of family firms.

What I am proposing is extremely unusual. In fact, I have never heard of a similar attempt at any other college of business. But if we want to optimize our research activities, it makes all kinds of sense to me to ask those that could most benefit exactly what they are interested in knowing. Who knows, if this proves successful perhaps we can start a trend!

In order to kick this off, I want to schedule some joint practitioner-faculty meetings in the next few months to explore the idea. I will be working on assembling interested faculty, but I need to have some family firms and advisors willing to participate. To that end, if you are willing to explore this idea with me, please email me at [Sid.Barton@uc.edu](mailto:Sid.Barton@uc.edu), and let me know what you think. Thank you in advance for your consideration.

### Goering Center Calendar of Events



#### December 2008

9th Next Generation Institute Cincinnati:  
Session 2: Forming the Team

12th Board of Directors Meeting

11th Leadership Development Institute: Session 1:  
Leadership Style Effectiveness

17th Next Generation Institute Steering Committee

17th Executive Luncheon Series

25th Leadership Development Institute: Session 2:  
Understanding Personality Preferences

#### January 2009

13th Next Generation Institute Cincinnati:  
Session 3: Goals, Expectations &  
Contingency Planning

20th Next Generation Institute Steering Committee

27th Executive Luncheon Seminar:  
The Value of Business Planning

#### March 2009

6th Board of Advisors Meeting

10th Next Generation Institute Cincinnati:  
Session 5: Valuation & Financing Options

11th Leadership Development Institute: Session 3:  
Performance coaching and Feedback

24th Executive Luncheon Series

25th Leadership Development Institute: Session 2:  
Understanding Personality Preferences

#### February 2009

10th Next Generation Institute Cincinnati:  
Session 4: Strategic Planning & Management

Please call the Goering Center at 513.556.7185 if you would like additional information, or visit our web site at [www.Goering.uc.edu](http://www.Goering.uc.edu).