



## Risk Management: A Business Owner Imperative

Want your business to endure? Then protect it from Murphy's Law. This is risk management at its most basic.

Bad things happen. That's why you take measures to protect yourself — wear a seat belt, don't smoke, watch your weight and buy insurance. Bad things happen to businesses, too, so if you want your business to endure, identify what can hurt your business and find ways to protect it.

Jack Kelly did not protect his contract drilling business. He had just one rig and eight experienced employees but was netting about \$600,000 per year — until a freak accident damaged the rig beyond repair. It was insured for \$350,000, what he paid for it five years earlier. But Jack soon learned that a replacement rig would cost \$750,000. Ouch. He was vastly underinsured. Still, he could handle that amount. But what he could NOT handle was that the earliest possible delivery of the replacement rig was estimated to be 12 months out: no drill, no revenue.

Compounding the problem was that skilled drill operators were both essential and scarce. Jack decided to bite the bullet and try to retain his talented team of operators, to the tune of \$42,000 per month. After eight months and still no rig, he let them all go. Four months later, the rig arrived, but now Jack could not secure skilled operators. The story ended in bankruptcy and business liquidation.

It would not have been difficult for Mr. Kelly to identify the risk that brought down his business. All he had to do was initiate a two-hour get-together with his insurance specialist and attorney to brainstorm about risks and mitigation strategies. Odds are pretty good they'd have thought of the obvious: "What if the drill rig is destroyed?"

It's too late for Jack, but what about you? What could hurt YOUR business? This issue of *The Business Owner* urges you to think long and hard about this. Then devise mitigation strategies and put them in place. Your business survival depends on it. □



### ALSO IN THIS ISSUE

#### Special Section: Risk Management

- Eleven Steps to Smart Risk Management, Value Enhancement
- Insurance: What's Available, What It Does and Why You Need It
- Business Interruption Coverage
- Know Your Property-Casualty Policy
- Hidden Risk in Indemnities
- Liability Is Your Biggest Exposure: Are You Covered?
- Why Use a Commercial Insurance Specialist
- Commercial Multiline Policies
- How to Handle the Current Economic Tumult
- Seven Leadership Principles for Creating a Great Workplace
- Ask the Editor: Auto Lease Assumptions
- Your Guide to Holiday Gift Giving
- 2008 Tax Information

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# From the Editor

Insurance is one of the greatest inventions of the modern world. It protects you and your business from substantial losses that could result from random events outside of your control. In effect, through insurance, we all work together to protect one another. We each pay a little bit each month so that wherever the random loss lands, those who are harmed will be made whole.



David L. Perkins, Jr.

But insurance is simply one means for managing risk. It is used when other, less costly risk management measures are not possible.

Risk management is vital to every person and every business. We must protect ourselves if we wish to survive. The first step is to become aware of the various types of risk we bear. The second is to find the lowest-cost and most-effective means for mitigating those risks. In some cases, the answer is insurance — a transfer of risk from the insured to an insurer.

Skilled managers ensure the continuity of their business at the lowest effective cost. This issue gives you what you need to know to become a better risk manager.

Read. Be a better manager. Build a better company.

Sincerely,

A handwritten signature in black ink, appearing to read 'D.L.P.', written over a white background.

David L. Perkins, Jr.  
Publisher and Editor

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**MANAGEMENT**

# How to Handle the Current Economic Tumult

Multibillion-dollar institutions have failed in recent months and your little business is still standing. So is mine. Keep this in mind when you start to worry. Consider the following as you think about what this all means for your survival.

**Let them fall.** Darwin was right. It's survival of the fittest. It's the law of nature. The strong and adaptable will survive. The weak and unfit will perish. Let the weak fall. Don't let it rattle you. Stay focused on your own survival, on becoming stronger, faster and more essential to your customers.

**Diversify.** Lack of diversification (and high debt loads) brought down Bear Stearns, AIG, Washington Mutual and others. Too many assets invested in nonconforming residential mortgages and/or too much borrowing of auction-rate paper. You never know which investments, assets, financial sources, markets and relationships will implode. All you can do is stay diversified in all aspects of your business.

**Stay Light on Leverage.** High leverage (i.e., debt) also contributed to the recent bank and financial institution failures. Almost all bankruptcies are the result of too much debt. Debt adds financial risk. It makes you more vulnerable to downturns. To be sure, debt capital is needed at times to expand and get higher rates of return on equity. But use it with caution and moderation.

**Count on Change.** Things never stay the same. The pendulum is always swinging. Keep this in mind. These poor economic times will not last forever, so don't panic. Similarly, when times are good, avoid making decisions that assume the good times will always grace you and your business. They will not. Stay cautious and maintain a margin of safety. This is one of the core maxims of the greatest investor of all time — Warren Buffett.

**Don't Make Decisions Under Pressure.** Financial turmoil causes stress and confusion. Scammers and persuasive, cunning salesmen and dealmakers will try to use the stress and confusion to get you to agree to things that will line their pockets and empty yours. Don't make decisions during these times. Don't let someone "get in your head" and use scare tactics. When you feel the pressure, step back. Take some time and seek advice.

**Be a Low-Cost Provider.** Businesses fail when they run out of money. Businesses that last for generations are frugal. They spend money only on necessities that provide a return. Flaunt your wealth on the bottom line, not on shiny things that don't add value to your business or your customers. Seek to reduce your cost of doing business and expand your gross and net margins. □

**“Great minds discuss ideas, mediocre minds discuss  
events and small minds discuss personalities.”**

*Eleanor Roosevelt*

# Eleven Steps to Smart Risk Management, Value Enhancement

The recipe of business contains a dizzying array of ingredients — products, services, employees, websites, contracts, relationships, vendors, contractors, debt, equity, marketing, advertising, sales, branding, location, writing, inventory, service, etc. The gathering and assembling and mixing and preparing and maintaining take an immense amount of time, energy and hard work. If all goes well, and with a little luck — a la the Wright Brothers of 1903 — the creation takes flight. Everybody cheers.

Before long, you're flying each day. But your task has moved from getting airborne to wringing out the risk and variability. Only by skillfully managing the multitude of potential perils will the business endure. Only those who are able to wring out risk and deliver consistent and predictable results will be able to garner the essential support from vendors, lenders, insurance companies, employees and customers.

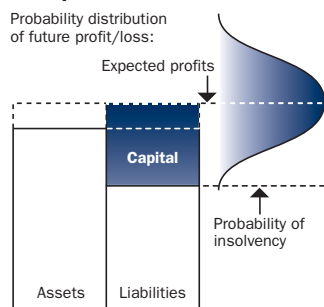
How can you do this? Where should you start? Follow these steps:

## Step 1. Determine the Maximum Tolerable Loss (Dollars):

Business owners, like pilots, want outcomes within an acceptable range. Outcomes outside of the acceptable range can result in demise. So, a key question for every business owner is,

### Capital Acts As A Buffer Against Unexpected Losses

Probability distribution of future profit/loss:



Source: Risk Consulting Magazine, A Holistic Risk Management Framework

“How big a financial loss can we sustain without risking the solvency of our business?”

You need to answer this for yourself. For your business. Seek the aid of your accountant. The number is, of course, different for every business and business owner. It's a function of the business' liquidity, capitalization, cash flow and funds availability.

It also takes into account the risk tolerance of the owner(s).

**Step 2. Assemble a Team:** Once you've established the maximum loss that is tolerable, you need to assess your risk status. To do that, you need to assemble a team. The first and most important member of the team is you. Nobody knows your business and its risks as well as you do and, being the largest shareholder (most likely), nobody has a greater financial interest in the success of your business. Then include your partners, your commercial insurance broker and your attorney. Add to this anyone else you respect for his or her business or strategic mind and creativity. This could be your accountant, financial advisor, spouse or friend.

**Step 3. Attend an Association Conference:** Talking to peers is an unmatched way of identifying the many things that could happen to your business. By peers, we mean persons who own and/or run companies similar to yours. Risks are unique to every business and come in different forms for retailers, distributors, service companies and manufacturers. Attend an industry conference and talk to your peers about

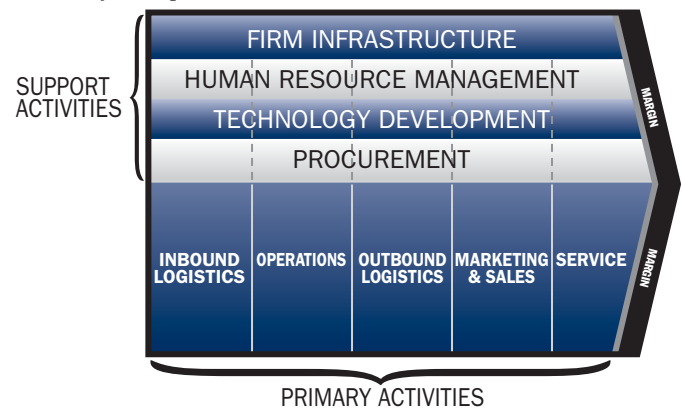
the types of risk events they've experienced, heard about and conceptualized. Then ask how they attempted to, or would, address each.

**Step 4. Meet with Your Team to Identify Risks:** To aid in risk identification, structure the discussions along the following lines, one at a time:

*Your Value Chain.* Value activities are building blocks a company uses to create a product or service. Every value activity involves inputs (material, labor, technology) that are important to the product or service you deliver.

There are two broad types of value activities — primary and support. Primary activities include physical creation of the product, its sale and transfer, and its after-sale assistance. Support activities buffer primary activities and one another by providing purchased inputs, technology and human resources.

Use the accompanying Generic Value Chain to lay out the key activities, or inputs, of your value chain. Then identify all of the various things (“risks”) that could interrupt each activity or input.



*Important Relationships.* Do you rely on a particular person's talent, reputation or connections? A particular association?

*Critical Data.* Do you rely on a certain code or formula? Set of information? Do you hold information that is important to your customers?

*Critical Assets.* Talent? Competency? Database? Equipment? Tool? Mold? Location?

*Important Customers.* Is a significant portion of your revenue coming from a single customer? Group of customers?

*Important Industries.* Is a significant amount of your revenue coming from a single industry? A narrow or related group of industries?

*Events and Accidents.* What if your facility catches fire? A piece of equipment blows up? A flood? A key person suddenly can't perform or cooperate or support?

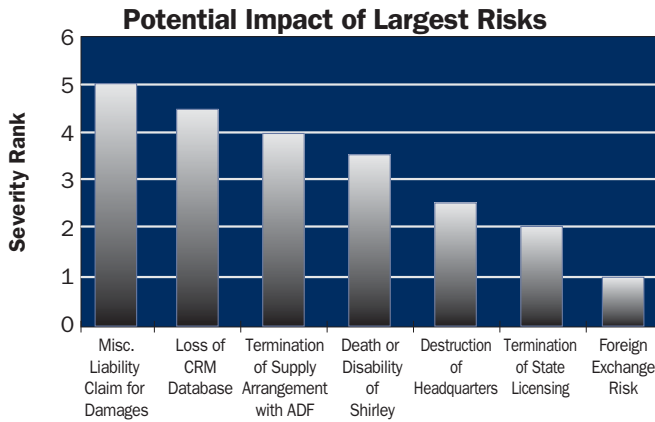
List each risk by name, assign each a letter (A, B, C, etc.) and include a description.

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Eleven Steps to Smart Risk Management, Value Enhancement, continued from previous page

**Step 5. Estimate the Financial Impact of Each Risk:**

Be sure to consider both direct and indirect costs. For example, inability to access key data would halt operations and cause loss but could also result in lawsuits by customers or vendors. Or a moral failure of a well-recognized and respected personality could result in losing that person, and indirectly lead, over time, to loss of additional employees, customers or financial providers. Once the risk has been estimated, it can help if you plot it on a chart, as in the example below.



**Step 6. Estimate the Likelihood of Each Risk:** Frequency of occurrence, or likelihood, is nearly as important as financial impact. Clearly, some risks are so rare that most people will just ignore them. They are risks at the level of “If that happens then we’re all in big trouble,” such as war. But once a risk hits the level of “I heard of it happening to others on occasion,” it needs to be evaluated. So rank each identified risk according to likelihood. We suggest the following categories:

1. Never heard of this happening to anyone before.
2. Heard of this happening before.
3. Know companies that this has happened to before.
4. It happened to us before.
5. It happens to us periodically or even frequently.

**Step 7. Create Your Risk Table:** To each risk that you’ve identified, place your frequency rating, severity rating, and then multiply the two and place the total in an additional column. Here’s an example.

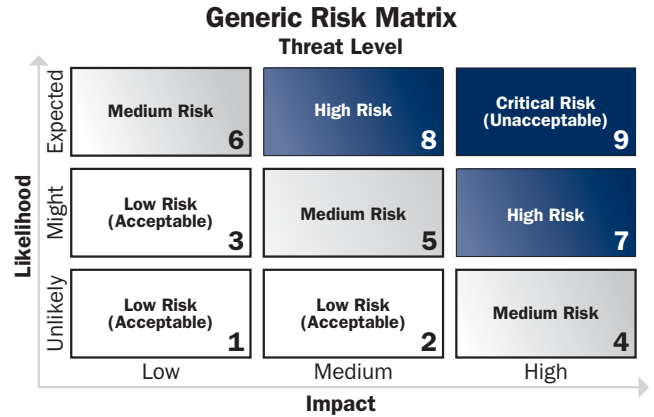
Risk #	Description	Frequency*	Severity*	Total <sup>1</sup>
A	Misc. Liability Claim	4	5	20
B	Loss of CRM Database	3	4	12
C	Termination of ADF Relationship	3	4	12
D	Death/Disability of Shirley	3	5	15
E	Destruction of Headquarters	3	5	15
F	Loss of State License	3	5	15
G	Value of dollar plummets	3	3	9
H	Worker Injury in Plant	4	2	8

<sup>1</sup> Frequency times Severity

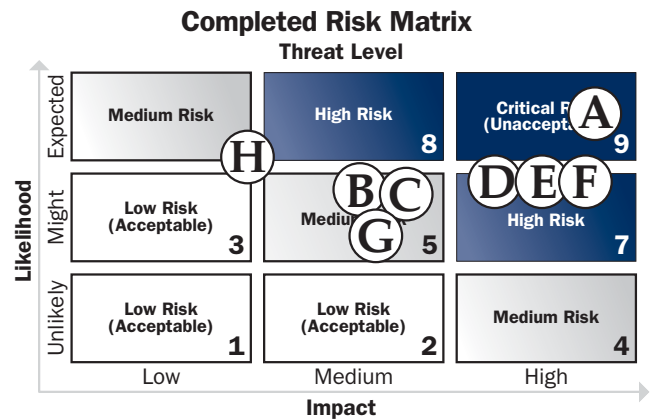
\*on scale of 1 through 5 (1 being the least)

**Step 8. Develop Your Customized Risk Matrix:** Using the data in your risk chart, create your risk matrix. Place likelihood

on the Y axis and financial impact on the X axis. Model your graph after the Generic Risk Matrix below. As you can see, your most dangerous risks will lie in the upper right of your matrix. Your least troublesome risks will be in the lower left.



Place each of your risks on your own matrix. Here’s an example of a completed Risk Matrix:



**Step 9. Develop Your Risk Response:** You have a choice in how you deal with risk. Your choices include:

**Terminate.** Avoid risk entirely by discontinuing the activity that gives rise to the risk. This might include, for example, not holding sensitive customer data or, if that’s not possible, not holding an existing credit card business at all.

**Mitigate.** This means reducing the risk somehow by, for example, hiring and training a second-in-command to buffer the company against potential loss of a key employee. Additional examples include diversifying your customer, product or vendor base to deal with concentration risk or buying the land and building to control your ability to retain a key location.

**Transfer.** Risk can be financially or contractually transferred to other parties by means of insurance, capital markets (such as hedging exposure to a rise in price of a key commodity)

**Risk (noun):**  
Any thing, occurrence or event that could cause a loss.

**Risk (noun):**  
Uncertainty of, or variability of, outcome.

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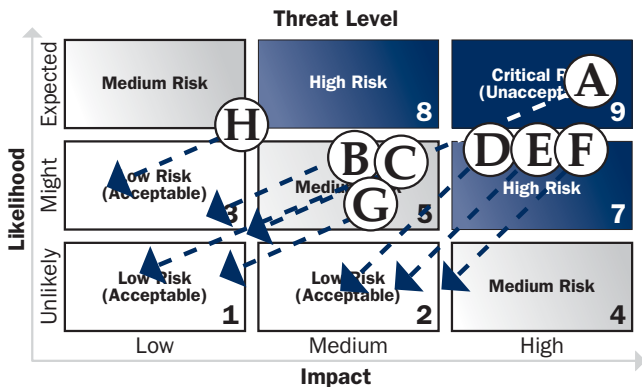
Eleven Steps to Smart Risk Management, Value Enhancement, continued from previous page

or contracts (such as requiring customers to contractually indemnify you for loss of their sensitive data or your inability to deliver because of certain events that might occur).

**Exploit.** In some cases, you may spot areas of risk, quantify the risk in loss per event and frequency, consider profit that is or could be earned, and then decide that the profit you could earn fully compensates for the risk. An exploit strategy typically entails savvy use of risk mitigation and transfers. In fact, areas of high risk can become high-value opportunities to those able to skillfully deal with risk.

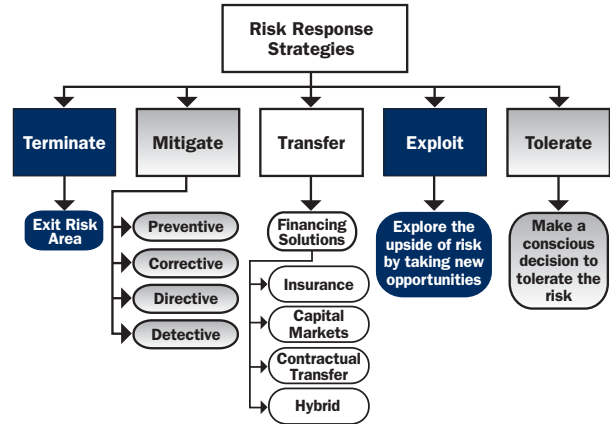
**Tolerate.** Many risks fall below a threshold of tolerance (lower left in the Risk Matrix chart above). Their financial impact and frequency do not render them a material threat to the business. The choice of this option always depends on the relative cost of alternate strategies. In cases where mitigation or transfer are cheap and easy, even low-level risks can be dealt with economically. In cases where risks are difficult or costly to mitigate or transfer, and an exit is not merited, toleration is the appropriate strategy.

Customized Risk Matrix



**Step 10. Implement Your Risk Response:** If you've made it this far, you've done more than most owners of small and midsize businesses. Now implement your strategies. Your company and

its stakeholders will enjoy the benefits for years to come. To be sure it gets done, consider delegating the task to one of your most loyal employees. Put it on his or her list of important jobs and evaluate him or her on the success of the implementation.



**Step 11. Periodic Review:** The good news is that this risk evaluation process does not have to be done every year. The risks usually don't change that quickly. An annual review of major risks laid out in your risk matrix, and the status of strategies in place, is sufficient. But every five years or so, we recommend that you start at Step 1, albeit with the old plan in hand, and consider the risks — new and old — once again.

I cannot emphasize enough that a thorough, strategic review of risk, response strategies and, of course, competent implementation will improve your business. As an owner, you will gain confidence and sleep better at night. Your employees and customers will see your professionalism and diligence, and you'll be better able to attract and retain staff with both of these qualities. Your bankers will become more willing to lend, your insurance cost will probably go down, and your earnings will, over time, become less volatile. This means higher valuations and — as we've said over and over in this publication — you enjoy value increases whether or not you sell your business. □

EMPLOYMENT

# Seven Leadership Principles for Creating a Great Workplace

By Kevin Kennemer, SPHR

Edward R. Murrow, the famous American broadcaster depicted in the movie *Good Night, and Good Luck*, once said, "The obscure we eventually see, the completely obvious takes longer." In your quest to build a successful company, do not assume that creating a great work environment is complicated. In fact, the steps are quite simple, if not completely obvious from a "people practice" perspective.

## Company Culture Flows from the Top

In the "people practice" profession, there is a tendency to overcomplicate work culture and how it impacts the bottom

line. The basic principles of a great work environment are quite straightforward and rest entirely on the leader's shoulders.

One of the most important business strategy questions leaders can ask themselves is, "How do I create a great work environment that attracts, motivates and retains the best and brightest talent?" You might be surprised that the answer is not any of these: above-market compensation, best-in-class benefits, top trends in office space design or technological superiority. The answer is summed up in one very important, highly relational, powerful word: trust.

continued on next page

*Seven Leadership Principles for Creating a Great Workplace, continued from previous page*

## Definition of a Great Workplace

The Great Place to Work Institute, after 20 years of thorough research on the top high-performance companies in America, formulated its definition of a great workplace as a place where employees “trust the people they work for, have pride in what they do, and enjoy the people they work with.”

A leadership team that can be trusted by employees is well on its way from average performance to a great workplace where magic happens. The good news is that employees are not necessarily looking for expensive perks such as coffee bars, gyms and daycare. Although these benefits are very nice options, they do not guarantee a great work environment.

When leaders sincerely care for their people and build an environment of trust, employees will believe in the company mission and develop respect for their coworkers. Trust is like the secret ingredient in Coca-Cola. Without it, the recipe will not work. Many have tried to copy great workplaces without trust, and have failed. Without trust, the environment will not click, no matter how grandiose the company's compensation, benefit and work/life programs. It is amazing how creating an environment of trust, the missing ingredient in many average-performing companies, will hasten transformation of your company into a great workplace with the potential to outperform your competition many times over.

## Seven Leadership Principles

How does a leader create a great workplace through the simple ingredient of trust? Robert Levering, founder of the Great Place to Work Institute, who has many years of experience researching successful companies, states that leaders must follow seven principles to build and maintain trust in their organizations:

1. **Leaders share information.** Leaders of great work environments willingly share information with their entire workforce. They are not afraid to provide employees at all levels with important updates about the company's status, whether financial or non-financial, positive or negative. Withholding important company information drives a wedge between employees and leaders and creates misunderstanding, fear and distrust among employees who spend most of their waking hours at your place of business. Because employees are investing their lives with you, isn't it likely they deserve to know where the company has been, where it needs to go, how it's performing and how their efforts make a difference? Open up the internal information highway and you are well on your way to greatness.
2. **Leaders are accessible.** Leaders in great workplaces do not hide in their execu-caves. Effective leaders get out of their offices, walk around, and mingle with employees. These same leaders allow employees to voice concerns without fear of reprisal or losing their jobs. Many of the 100 Best Companies hold regular lunches with employees, where leadership shares information, shows sincere concern for employees and listens to their concerns. More important,

leaders follow up on employee concerns and improve the work environment with each interaction.

3. **Leaders willingly answer hard questions.** Trust is built when employees see leaders who are not afraid to field hard questions. Employees do not expect leaders to have all the answers but develop strong trusting relationships with leaders who honestly admit when they do not have an answer but will respond at a later date.
4. **Leaders emphasize two-way communication.** Leaders who actively listen to employee concerns and engage in two-way communication earn the trust of employees. Most management teams are good at sending communications or orders down the pipeline but are not necessarily comfortable with receiving feedback from their workforce. Great workplaces have open, two-way channels of communication.
5. **Leaders always deliver on their promises.** Miss this one and you're done. Making a promise and not following through is like going thermonuclear on your workplace; people get burned. Employees want to know if leaders will deliver on their promises. This includes the small things and the big things. Treat your employees like your best customers and you should perform very well in this area.
6. **Leaders show recognition and appreciation.** Deep down, employees crave recognition for a job well done. Receiving recognition and appreciation is one of the biggest unmet needs that employees have in today's society. Go ahead and make a big deal about employee and team accomplishments. Brag about your employees in front of other employees. Then sit back and watch a special, positive, energizing company culture develop in front of your eyes.
7. **Leaders demonstrate sincere, personal concern.** According to the most recent Towers Perrin Global Workforce Study, the number one driver leading to employee engagement is determined by whether senior management is sincerely interested in an employee's well-being. You can't fake sincerity. It shows in your attitude and other nonverbal cues. If the leaders are not sincerely concerned for their employees as people, your best talent will likely move to a place where they are appreciated.

Live by these leadership principles and your organization will soon be inundated with resumes from the best and brightest talent in your industry wanting to work for your organization.

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# Insurance: What's Available, What It Does and Why You Need It

The Insurance Information Institute said it best in *Sharing the Risk*:

*“Our society could hardly function without insurance. There would be so much uncertainty, so much exposure to sudden, unexpected and possibly catastrophic loss that it would be difficult for anyone to plan with confidence about the future. Most importantly, it would be difficult to obtain credit or financing since few lenders or investors would be willing to risk funds without a guarantee of safety for their investments.”*

**What Insurance Is.** At its most basic, it's the sharing of risk — the chance of loss — among many. Every person in the insured group pays a small, known fee — an insurance premium — to an insurance company in exchange for assumption of the risk of a large loss and a promise to pay in case of such a loss. Misfortunes that could be crushing to one can be made bearable to all.

**How Insurance Benefits Society.** Aside from protecting people and organizations from random loss that could be crippling or devastating, insurance companies play another important role in our society — they are an important source of capital. Insurance companies collect premiums and then invest the money so that it will grow and provide for the payment of future claims. They invest it — either directly through equity investments or indirectly through debt finance — in businesses, real estate developments and other ventures, and thereby contribute meaningfully to the growth and development of our economy.

**Insurance Policy.** It is a contract that legally binds the seller (insurer) and buyer (insured or policyholder) to specific obligations over a certain period of time. The insured is obligated to pay a premium and do certain things such as attempt to avoid loss and notify the insurer in a timely manner in case of a loss. The insurer is obligated to pay for losses if an event covered by the policy occurs when the policy is in effect.

**Property Insurance.** It covers property such as business, home, machinery, equipment, patent, automobile, boat, jewelry and art. The property insurance policy will list the property it insures or “covers.” It also will state the perils that insured property is covered for. In most cases, the policy will cover loss that results from a wide range of perils, but policies also may be taken out to cover losses due to specific causes such as lightning or flood. Property insurance is referred to as first-party insurance because it covers loss suffered by the insured (first party) directly, such as damage to a home owned by the insured. The insurance company is referred to as the second party. Property coverage amounts are fairly easy to determine because replacement costs for tangible items can be estimated with some accuracy.

**Casualty Insurance.** It covers loss or liability arising from accident or mishap (excluding automobile). It includes, but is

not limited to, employee liability insurance, workers' comp, public liability insurance, automobile liability insurance, burglary and theft insurance, personal liability insurance and professional liability insurance. Typically, casualty insurance covers damage to property and people. Casualty insurance that includes personal liability can be very useful for business owners because it ensures that the business will be able to take care of people injured onsite. Homeowners also can take advantage of casualty insurance to help them replace items stolen during robberies or to protect them from claims related to a visitor injured while visiting.

**Liability Insurance.** It pays for property damage or bodily injury that the policyholder may cause to others. Liability insurance is unique in that loss is determined after a finding of fault, such as through a court of law. Liability coverage amounts are a little more difficult to determine. What is the potential maximum exposure that a business owner has to a customer's claims that injury was caused by negligence on the part of the owner or his or her employees? Most liability policies do not cover libel and slander.

**Business and Commercial Lines.** These are for businesses, organizations and institutions, and include property, casualty, liability (professional and product), business income insurance, worker's comp, and in some cases, suretyship.

**Personal Lines.** These generally include insurance products designed to protect individuals from damage or loss that relates to their personal ownership of automobiles, homes (including contents), boats, motorcycles, etc. These policies typically provide coverage for damage, loss or theft of the insured assets, and liability obligations that might accrue to the owner.

**Umbrella Policies.** Given that general liability policies will place a cap on the amount of loss covered, coupled with the fact that juries are now granting awards of once unthinkable amounts, many business owners take out extra liability coverage in the form of umbrella policies. These policies cover claims that exceed the limits of their primary liability policy.

**Deductibles.** Property and casualty insurance virtually always calls for the insured to pay some portion of a loss or claim before the insurance company begins paying. In effect, the insured agrees to self-insure or fund losses up to a certain amount. Deductible amounts are typically negotiable between the insured (first party) and the insurer (second party). Higher deductibles typically result in lower premiums, and vice versa. In selecting the deductible amount, the insured must consider his or her financial ability to absorb loss, risk tolerance, expense structure, etc.

**Suretyship.** It is an insurance-like product that includes:

**Surety:** A policy whereby the insurance company guarantees that the insured will perform a certain obligation.

continued on next page

*Insurance: What's Available, What It Does and Why You Need It, continued from previous page*

**Fidelity:** Often called “honesty insurance,” a type of insurance that covers a business or organization against losses due to theft, embezzlement or fraud committed by an employee or employees.

**Financial Guarantees:** Cover the insured from loss from certain financial transactions such as a default on obligation (e.g., bonds or commercial paper) or loss that results from changes in law.

That's why every business owner should employ the specialized knowledge and experience of a commercial insurance broker.

If your account is too small to garner the attention of a talented professional, pay them extra. It's that important. Tell them what you want and ask the terms they might be able to provide it under.

Insurance can be life-giving for you and your business, but a lot of money can be wasted on excess or inappropriate insurance, too. And risk exposures can be left insufficiently covered. Your job as a business owner is to get the job done right, economically. A basic understanding of insurance will help you. □

Sources:

*Sharing the Risk, Revised*, Third Edition, Insurance Information Institute  
*Dictionary of Insurance*, Lewis E. Davids, sixth revised edition

## Business Interruption Coverage Essential for Many

What if your business were shut down because of damage inflicted by a fire, storm or other peril? Profit would be wiped out. Expenses — payroll, rent, insurance and debt service — would continue unabated.

Few people would consider going without, say, fire insurance, but fire insurance pays you only for damage to your property. It doesn't pay you for lost profit due to a fire or for extra expenses you might bear in dealing with a fire, such as the cost of setting up operations in another location.

Business interruption insurance compensates you for lost income if your company can't operate due to disaster-related damage covered under your property insurance policy. The policy also covers operating expenses, such as electricity, that continue even though business activities have come to a temporary halt.

If your business facility is critical to your ability to produce revenue, you need business interruption insurance. Businesses most affected by this kind of loss include manufacturing, wholesale and retail. Businesses less affected include many service companies that experience little loss of income due to facility damage.<sup>3</sup>

The price of the policy is related to the risk of a fire or other disaster damaging your premises. All other things being equal, the price would probably be higher for a restaurant than a real estate agency. Also, a real estate agency can more easily operate out of another location.<sup>1</sup>

Business interruption coverage is not sold separately but is added to a property insurance policy or included in a package policy. Make sure the policy limits are sufficient to cover your company for more than just a few days. It can take time to recover from a major disaster.

Here are related types of coverage you might want to consider:

**Extra Expense Coverage.** Reimburses your company for a reasonable sum of money that it spends, over and above normal operating expenses, to avoid having to shut down during the restoration period. Usually, extra expenses are paid if they help to decrease business interruption costs. In some

instances, extra expense insurance alone may provide sufficient coverage, without purchase of business interruption insurance.<sup>2</sup>

**Contingent Business Interruption Coverage.** For losses suffered from loss/damage to property that prevents a supplier from supplying goods and/or services to you, or that prevents customers from accepting goods and/or services from you.

**Services Interruption/Off-Premises Power Coverage.** For losses suffered from loss/damage to the property of any service provider, including electrical equipment & systems, fuel, water, gas, feedstock, pulp, liquid gases, sewage, steam, telephone, fiber-optic cable, telecommunications, heating, refrigeration and/or air-conditioning systems, or utility plants.

**Interruption by Civil or Military Authority Coverage.** For losses suffered when, as a result of loss, damage, or other event, access to your property is restricted by order or action of civil or military authority.

**Ingress/Egress Coverage.** For losses suffered when, as a result of loss, damage or other event, entry to or exit from your property is impaired. This can include losses from closing of roads, bridges, tunnels, hotels, airports, etc.

**Rain/Weather Coverage.** Reimburses you for your net loss if a performance or event is cancelled, postponed or rescheduled due to rain or other bad weather.

Businesses can and do get shut down and/or interrupted as a result of disasters, accidents and failures outside of their control. Work with your insurance professional to estimate your exposure to these types of things, and if the risk is greater than your firm can handle financially, transfer the risk to an insurance company in exchange for payment of a small, regular premium. □

Sources: <sup>1,2</sup> Insurance Information Institute ([www.iii.org](http://www.iii.org))

<sup>3</sup> *Business Insurance: A 12-Point Checklist*, Lisa Chadderdon, Inc.com

**Business interruption insurance compensates you for lost income if your company can't operate due to disaster-related damage covered under your property insurance policy.**

# Know Your Property-Casualty Insurance Policy

Your insurance policies are valuable assets, but they're unusual in that they gain and lose value based on how well you know them and use them. So get going. Bolster your knowledge of insurance and begin managing it more effectively and using it more wisely. This is what you need to know.

Your property-casualty insurance policy has four sections:

1. **Declarations Page:** Names the policyholder, describes the property or liability insured, states type of coverage and maximum dollar limit the insurer pays.
2. **Insuring Agreement:** Describes the insurer's and policyholder's responsibilities during policy term.
3. **Conditions of the Policy:** Spells out details of coverage and what is required of insured and insurer in case of loss that the insured wishes to file a claim for.
4. **Exclusions:** Details any types of property and/or losses not covered.

Here are common provisions you'll see in most insurance policies that you should be familiar with:

**Concealment, Fraud:** If the policyholder in any way willfully conceals or misrepresents facts or circumstances in applying for the policy or in filing a claim, the insurer may void the policy and refuse to pay any loss.

**Perils Not Covered:** Coverage may be denied if the insured fails to use all reasonable means to protect, save and preserve his or her property during and after a loss. Also, policies exclude losses caused by certain perils such as enemy attack, rebellion or civil war.

**Waiver Provisions:** Any changes to the policy must be written and attached in the form of an endorsement to the policy. No change will go into effect unless and until it is written by the insurance company as an endorsement to the policy.

**Cancellation:** The insured typically can cancel the policy anytime. Some administrative costs may be charged for cancellation by the insured. Premiums paid are usually prorated and returned.

**Mortgage Interest and Obligations:** If the insurance covers a property subject to a mortgage, the insurance company — under this clause — recognizes the interests of the lender (that holds the mortgage).

**Pro Rata Contribution:** If more than one insurance policy owned by the insured covers the same claim, each insurance company will pay a share of the loss in proportion to the amount of coverage it agreed to provide.

**Requirements in Case of a Loss:** Typically, in case of a loss, the insured will be responsible for promptly notifying the insurance company; submitting proof of loss; and for making any and all pertinent or relevant information available to the insurance company.

**Appraisal:** If the policyholder (insured) and the insurance company disagree on the amount of the loss, this provision outlines procedures by which an appraiser will be selected and the amount determined.

**Insurer Options:** In case of a loss, this allows the insurer to choose whether to:

- Take all or part of the damaged property at an agreed value after payment to the insured, or
- Repair, rebuild or replace the damaged property with material or goods of a similar kind and quality, or
- Settle the claim entirely with cash.

**Subrogation:** The insurer, after paying a claim to a policyholder, has the right to seek recovery of the amount of the payment from a third party that either caused or was responsible for the loss.

As a business owner and individual, your insurance premiums paid during your lifetime are staggering. Be sure you know what you are paying for, and thereby work to get the greatest liability protection for your hard-earned dollars. □

## Hidden Risk in Indemnities: Read Before You Sign!

Legal agreements are part of doing business. They define the terms of transactions and relationships. They also can transfer all sorts of liability to you and your business — even liability that you are not obligated to take on.

Let's say, for example, you enter into a lease agreement for office space. The lease agreement between your company and the building owner (landlord) includes a lot of obvious things, such as the rental rate and terms, but it also says you agree to indemnify the landlord if one of your customers or employees sues the landlord for an injury suffered in the building. Are you sure you want to take on that liability? Should the landlord be responsible for the overall safety of the building?

Indemnify means “to protect from or secure against loss, damage or harm.” In most cases, we would expect to remain responsible for our own actions or negligence. But few of us want to take on liability for another person's actions or negligence. Many agreements today attempt to pass liability from one party to another. Make sure it's not passed on to you through legal agreements you sign.

Laura Conway, an attorney who specializes in insurance-related litigation with Porzio, Bromberg & Newman, PC, says, “This is a real issue. People are shocked to find out that, through an agreement they signed, such as one that a distributor might sign with a product manufacturer, they took on financial responsibility for a liability they did not create. Business owners need to read their contracts and agreements carefully and, if necessary, have them reviewed by their legal counsel.”

Watch out particularly for the words indemnify, indemnity, “hold harmless,” and any language that addresses responsibility or liability. □

# Liability Is Your Biggest Exposure: Are You Covered?

Liability means obligation. Liability insurance protects you and your business from loss due to claims that others make against you. This type of insurance differs from property and casualty insurance, which protects you from damages to you or your business.

Liability claims arise when they are established, or determined, by a court of law. Again, this differs from property/casualty claims, which are determined directly by assessing the damage.

Liability stems from the responsibilities that people and businesses have to employees, customers and to the public in general.

**Public Liability.** Businesses and business owners come in contact with the public when they open their doors, conduct business and commerce and provide products and services. In doing so, businesses and professionals face potential liabilities stemming from legal obligations that, if neglected or broken, could require payment of monetary damages to another party. Some of these obligations come from:

- Ownership and maintenance of premises
- Conduct of the owner or employees at or away from the business premises
- Manufacture, distribution or sale of products
- Faulty construction, installation, service or repair work done by a company
- Liabilities assumed by contract, such as hold-harmless or indemnification clauses

**Professional Liability.** If you hold yourself to be an expert (professional) in your field and you offer advice and/or services based on your expertise, you could be exposed to claims that you caused harm due to misrepresentation, mistake, failure to use adequate care, etc.

Under the general heading of professional liability, insurers use two categories. The first is malpractice liability, which technically applies to professionals whose services include touching other people's bodies (such as doctors). The other category is errors and omissions (E&O) coverage, for professionals whose services usually do not involve touching bodies.

Professional liability insurance protects professionals from financial loss resulting from claims, including lawsuits, against them by their clients or others. For many of the recognized professions — publishing, accounting, tax, securities, engineering, construction — standard policies are designed to fit the types of services provided.

**Commercial General Liability (CGL) Policy.** Although policies are available that provide coverage for specific types of public liability, most businesses gain coverage for a wide range of liability exposures through a commercial general liability policy (CGL). A CGL is a package of coverages that provides protection for most of a business' insurable liability exposure. Under the CGL, insurers agree to cover all sums up to the policy limits for which the policyholder is found legally liable for bodily injury or property damage arising from the premises, operations or products of the policyholder. The CGL policy

does not cover liabilities provided for under workers' comp, unemployment insurance or disability benefits laws, and professional and personal liability also may be excluded. Other common exclusions include:

- Damages resulting from release or escape of pollutants
- Damage to someone else's property in policyholder's care, custody or control
- Losses resulting from withdrawal, recall, repair, replacement or loss of use of any policyholder product already on the market
- Liability resulting from product's failure to do what it is intended to do

Liability is your greatest exposure risk. If you are found by a court of law to have caused harm due to negligence, incompetence, misrepresentation, fraud, etc., the verdict could be many millions of dollars. The odds of this happening are low, but it does happen and, if the spinning wheel happens to stop on your slot, you're wiped out.

Liability insurance covers legal expenses, court costs and, if legal liability is found, any sums up to the limits of the policy that the court awards. Get covered. □

## Why Business Owners Should Use a Commercial Insurance Specialist

We live in a world where insurance, liability and risk are all complex. As a result, we've had to become risk specialists. To handle unique, multidimensional risk management needs, business owners should engage a firm that specializes in business risk management and placement of business risk management programs, including insurance.

Agents who represent major carriers such as Allstate, Farmers, Firemen's Fund and State Farm tend to specialize in personal lines such as life, home and health. These agents also represent the insurance company, not the insured. Talk to your insurance agent and ask: What are your specialties? Whom do you represent? What is your experience and training?

Risk management is a serious issue for companies and their owners. Failure to manage and protect against risk could cause a business to fail. *The Business Owner* urges you to find a trusted risk management professional who specializes in serving the needs of businesses and business owners. Sizeable firms can write many different types of coverage from many different underwriters, and have the resources and specialists to handle a variety of needs.

Find a business insurance firm you trust and that is good at what it does. Ask your peers in the community. Interview the candidates. There's too much at stake to go with less than the best. □

# Commercial Multiline Policies: Easy, Economical, but Not Necessarily Sufficient

The terms “multiple-line” or “multiple peril” are used to describe an insurance policy that combines more than one of the traditional lines, or types, of insurance. There are many such commercial package policies on the market, each with a common purpose: to cover the major property and liability exposures faced by a business, organization or group of businesses. These policies are designed to meet virtually all your business insurance needs. For some specialized operations, unusual hazards may be covered separately or by endorsement.

Two commonly used multiple-line policies are the business owner’s policy used for small stores and offices, and the commercial package policy (CPP) used for insuring other businesses.

**Business Owner’s Packaged Policy.** Under the business owner’s policy, both the building and business personal property are covered. Business personal property includes property of others held by the policyholder, improvements made by tenants and items temporarily away from the policyholder’s location.

In addition to property coverage, the business owner’s policy covers loss of business income and extra expenses resulting from damage to or interruption of business by an insured peril. Businesses can also purchase protection against burglary and robbery.

This policy also includes business liability and coverage for medical expenses. The liability section of the business owner’s policy contains:

**Personal injury liability** — protection against harm other than physical injury, such as false arrest, slander or defamation of character.

**Host liquor liability** — applicable to situations where liability results from serving liquor at functions incidental to the policyholder’s business.

**Fire legal liability** — coverage of the policyholder’s liability, in case of fire or explosion, for damage to another person’s real property that the policyholder rents or occupies.

**Commercial Package Policy (CPP).** The commercial package policy (CPP) is used primarily for larger, more complex businesses such as those in manufacturing, industrial and contracting. It is more flexible than the business owner’s policy — in both the types and amounts of coverage — but contains fewer automatic coverages. Coverages needed are added by policy endorsement, and virtually all types of coverages are available under the CPP except workers’ comp and surety.

Multiple-line policies are a convenient, economical and simplified means for obtaining a broad range of coverages. Your commercial insurance broker or agent will almost certainly steer you toward one, but don’t be lulled into complacency. Every business is unique and the risk borne by each business is unique. Multiline policies are great, but make sure you know the risks you bear, the extent of each risk, and whether or not you’re covered. □

## Did you know you are reading an award-winning publication?

The Association of Marketing + Communication Professionals recognized *The Business Owner Journal* with two Hermes Creative Awards: the Platinum Award for our e-newsletter, and Gold for our hard-copy version. See more at [www.hermesawards.com](http://www.hermesawards.com).

*The Business Owner* also took home two Apex Awards of Excellence, for newsletter (writing) and for newsletter (Web and electronic) from the 20th annual awards for Publication Excellence Competition, sponsored by Writing that Works, a division of Communications Concepts Inc. See more at [www.apexawards.com/A2008\\_Win.List.pdf](http://www.apexawards.com/A2008_Win.List.pdf)

## About the Publisher



David L. Perkins, Jr. owns, writes, edits and publishes *The Business Owner*, the

newsletter of choice for more than 40,000 business owners who are serious about building wealth through successful private business ownership.

Perkins draws editorial ideas and inspiration from his own life as a business owner and investor, and his daily work as a mergers & acquisitions consultant, where he has advised on more than 100 purchase/sale transactions involving both private and public companies. His M&A consulting firm is Acquisition Advisors, which he founded in 1997 and which specializes in transactions valued between \$5 million and \$75 million. Visit [AcquisitionAdvisors.com](http://AcquisitionAdvisors.com) to learn more.

Perkins holds a bachelor of arts degree in psychology from the University of Oklahoma and an MBA from the University of Notre Dame, and has completed the executive education course titled “Mergers and Acquisitions” at The Wharton School, University of Pennsylvania. He also pulls editorially from prior experience in commercial real estate leasing and brokerage, commercial bank lending and private company financial management.

Perkins is the author of *A Concise Overview of Business Valuation* and co-author of *The Business Sale, An Owner’s Most Perilous Expedition*. You can buy the former at [www.TheBusinessOwner.com](http://www.TheBusinessOwner.com).

Contact him at 800-634-0605 or [DPerkins@DLPerkins.com](mailto:DPerkins@DLPerkins.com).

## Ask the Editor: Auto Lease Assumptions

**Dear Editor:** A friend recently told me that great car lease deals are available at [www.LeaseTrader.com](http://www.LeaseTrader.com), which facilitates transfer of leased autos and trucks to new owners/lessees. My friend also said that auto lease expenses are 100% deductible as a business expense if the lease is taken out by the business itself. Is this true?

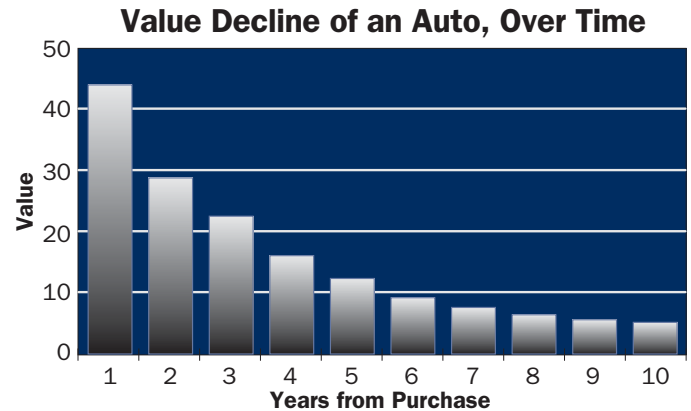
**Editor's Reply:** As with any marketplace, there's opportunity for both good and bad deals. During an economic downturn, more people want to get out of financial obligations such as leases. You may be able to find a way to turn this to your benefit, but, as always, it's buyer beware. There will be winners and losers on both sides. Also, I'm not a big fan of leasing, for three reasons:

- 1. No Equity Buildup.** When you purchase a car and make payments, you'll eventually build equity (i.e., owe less than it is worth). Sure, you may get "under water" in the early years, but in the later years you'll have something of value — an asset that's paid for and can be put to productive use. Not so with a lease — in most cases.
- 2. Expensive:** Most auto leases are for new vehicles. Terms of two, three and four years. These are the most expensive years of a vehicle's life due to rapid value erosion (depreciation). This expense is factored into the lease rate. Incidentally, this is true whether you originated the lease or assumed it.
- 3. Low-Cost Option Not Available:** Automobile leases are primarily for new cars and are, as such, a luxury. Ditto for buying a new car. But if you buy rather than lease, you'll have the additional option — if your financial circumstances turn downward — of driving the vehicle deeper into its useful life, possibly even after it's fully paid for. This is a worst-case scenario option not available to those who lease. Given how quickly fortunes can change, having options can sometimes mean the difference between financial survival and failure.

Of course, some people lease because they don't have, or don't want to part with, the down payment required to purchase a nice new car. True, that's a benefit to leasing, but you're going to fully pay for the cost of driving a new car whether you lease or buy. The more financially conservative thing to do — especially if you don't have the money available to make a down payment — is to buy a late-model used car.

**Good deals to be had?** From the comments made by my friend, the enticing part of the lease assumption idea seemed to be that the original lessee will have paid the tax and title and, in some cases, a little "money down." If the lease is transferred to another, the succeeding person or entity will get the automobile

and have completely avoided all up-front monies! This is true, but before you conclude that a free lunch is available here, consider that the value curve looks like this for any new vehicle:



Consider as well that the lease payment amount is the same every month even while the value of the underlying vehicle declines rapidly over the lease term. Shouldn't the payments be a lot larger in the earlier years? Lower late in the lease term? Well, of course, they're not. They're constant. If you assume a vehicle lease, you may avoid certain payments that had to be made at origination, but you also pay the same monthly rate as the person who got to drive the vehicle during the most valuable period of the vehicle's life. Free lunch? Doesn't sound like it to me.

**Deductibility of Vehicle Leases:** Auto lease payments, as well as all other auto-related expenses such as fuel and insurance, are deductible *to the extent the vehicle is used for business purposes*. If you use the vehicle for personal use, the person who drives the vehicle will be taxed personally on the value of the personal use. In addition, the IRS caps the dollar amount of lease payments that can be deducted, in effect disallowing deduction of lease payments for "luxury vehicles." So, as is often the case, there is no free lunch here with respect to leasing a vehicle through a business.

Jeffrey Burns, CPA, provided his expertise for the tax-related parts of this article. □

**"Each of us is responsible for the kind of community we have."**

*Elizabeth Eckford*  
(one of the "Little Rock Nine")

## Your Guide to Holiday Gift Giving

Holiday gift giving has become almost obligatory in our society, but it really is a wonderful custom. We give to express our appreciation and build goodwill among our friends, relatives, customers and associates. If you don't see it this way, maybe you could learn to see it in a more positive light.

True, our crowded world can be cold and cruel, but every human being has a basic need to be appreciated. As Aristotle said, people are social beings.

So take the tradition of holiday giving as a joyous opportunity to genuinely show your appreciation. Do so by approaching it with care and sensitivity.

**Avoid the Blunder.** To avoid giving a gift that could be misunderstood or become an ethical blunder, do your homework. For example, many larger companies have strict policies on giving and receiving gifts. Companies discourage vendors from giving gifts for fear they could create an unfair advantage for one vendor over another. Be sensitive to this. Call the company's human resources department to inquire about the company's gift policies. By doing so, you eliminate embarrassment of the giver or the receiver by staying within the boundaries of company policy.

**Think Before You Give.** Gifts should be appropriate and thoughtful, but not too personal. Whether gifts are expensive or not is less important than the thought that goes into selecting them. Gifts should be matched to the recipients. For example, avoid giving liquor to everyone on the holiday business list because not everyone drinks. Even more basic is to consider whether the recipient is Christian, celebrates Christmas, etc. Call it a holiday gift? Here are some additional suggestions:

- Avoid gifts with sexual or racial overtones.
- Consider cultural sensitivities.
- Choose different gifts for different clients and coworkers (instead of giving everyone on your list the same item).
- Generally, companies will not bristle at gifts from vendors of small consumables that cost less than \$25.
- If you give a gift that contains your company logo, it should be of high quality. Avoid putting your logo on anything that does not reflect well on your company.
- Consider a charitable gift in the name of your customer's company. Charitable contributions to the American Heart Association, Boys and Girls Clubs of America, Make a Wish Foundation and others show philanthropic concern while honoring your client.

**Gifts from Employees to Employers.** Typically, employees do not give gifts to the boss. A personal assistant might give a gift to the boss as a gesture of appreciation. The gift should not be extravagant. Though quality is important, employees should not spend beyond their means — or feel pressure to do so. A nice card or letter of gratitude and good wishes is considered appropriate and all that you, the business owner, should expect.

Other gestures for an employee toward a superior might be homemade goodies, cookies or breads that can be shared with others.

**Presentation of the Gift:** The wrapping, presentation and handwritten enclosure card are as important as the gift. The gift should be neatly wrapped (or, if this is not practical, adorned with a bow or other festive flair), presented in person, if possible, accompanied by a personalized card. A gift worth giving is a gift worth presenting well.

**Holiday Cards:** A personalized holiday card is sufficient and appropriate in most cases. Be sure that it is of good quality and preprinted with your company name and logo. Sign each card personally and, if possible, add a few words of thanks or holiday wishes. The recipient will appreciate the personalized touch.

Remember, business may be about sales and money, but real people occupy those workstations and cubicles and offices. Show them respect and care.

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*Jana Christian provided her expertise for this article. She is president of The Etiquette School of Oklahoma. You can reach her at [www.OKetiquette.com](http://www.OKetiquette.com) □*

### Gifts That Never Should Be Given in Business

- Anything that may embarrass the recipient.
- A gift that is considerably more expensive than your budget allows.
- Anything in bad taste (even though it may be humorous).
- Anything of a sexual nature.
- A substantial gift to a businessperson you are negotiating a deal with.
- Anything that could be offensive for religious, cultural or sexual reasons.

**“Gratitude is the most exquisite form of courtesy.”**

*Jacques Maritain, French philosopher*

# 2008 Tax Information

<b>PERSONAL EXEMPTION</b>	\$3,500 per person (none if filing as a dependent)
<b>EXEMPTION PHASEOUT</b>	Starts at \$239,950 (MFJ), \$199,950 (H of H), \$159,950 (single), \$119,975 (MFS)
<b>MAXIMUM SALARY DEFERRALS</b>	\$15,500 for 401(k), 501(c), 457 and 403(b) plans. (\$20,500 if over 50) \$10,500 the Simple, \$13,000 if 50 or older.
<b>MAX. RETIREMENT PLAN CONTRIBUTIONS</b>	<b>IRA (Regular and Roth*):</b> \$5,000; \$6,000 if 50 or older <b>Defined Contribution Plans:</b> \$46,000 <b>Defined Benefit Plans:</b> \$185,000 * Roth phaseout begins @ \$99K AGI for Single; \$156K for MFJ; \$0 for MFS
<b>STANDARD MILEAGE RATES</b>	<b>Business:</b> 50.5 cents (Jan 1 - June 30); 58.5 cents (July 1 - Dec 31) <b>Charity</b> 14 cents; <b>Medical/Moving</b> 19 cents
<b>ITEMIZED DEDUCTION PHASEOUT</b>	Starts at AGI over \$159,950 (MFJ, HOH, S) 79,975 (MFS) (MFJ, H of H, S), \$78,200 (MFS)
<b>SOCIAL SECURITY</b>	7.65% (6.2% SS +1.45% Medicare) SS levied on first \$102,000 in wages only (\$6,324 max. SS paid by any individual). <b>Household help:</b> SS tax levied only after \$1,600 paid.
<b>KIDDIE TAX (Children under 18)</b>	First \$900 not taxed; \$900 to \$1,800 at child's rate; over \$1,800 at parents' rate. (Beginning in 2008 kiddie tax applies to college students under the age of 24 who do not provide over 1/2 of their own support)
<b>FOREIGN INCOME EXCLUSION</b>	\$87,600
<b>SECTION 179 LIMIT</b>	250,000 (285,000 for qualified enterprise zone property and qualified renewal community property) This is reduced by amount of sec 179 property from previous year exceeds \$800,000.
<b>CAPITAL GAINS RATES*</b>	<b>Assets held 1 year or less:</b> taxed at ordinary income rates <b>Assets held more than 1 year:</b> • 15% for taxpayers in brackets higher than 15%, • 0% for taxpayers in 15% or lower tax bracket
<b>*Non-collectables ("collectables" are taxed at 28%)</b>	
<b>CHILD TAX CREDIT</b>	\$1,000 for each child under age 17. Phaseout begins at \$75K AGI for Single; \$110K for MFJ and \$55K for MFS.
<b>AMT RATES</b>	26% of income up to \$175,000 (\$87,500 (MFS)); 28% thereafter
<b>AMT EXEMPTION</b>	\$33,750 (S, H of H); \$45,000 (MFJ); \$22,500 (MFS). Phaseout begins at \$150K; \$112.5K and \$75K, respectively.
<b>DIVIDEND INCOME</b>	0% for 10% and 15% income tax rate payers; 15% for taxpayers in brackets higher than 15%
<b>ANNUAL GIFT EXCLUSION</b>	\$12,000
<b>ESTATE TAX EXCLUSION</b>	\$2,000,000
<b>RETIREMENT PLAN WITHDRAWALS MANDATORY</b>	Age 70 1/2
<b>HOME SALE EXCLUSION</b>	\$250,000(S), \$ 500,000 (MFJ)

## ESTATES AND TRUSTS

If Taxable Income Is:	The Tax Is:
Not over \$ 2,200	15% of taxable income
Over \$2,200 but not over \$ 5,150	\$330 plus 25% of the amount over \$2,200
Over \$5,150 but not over \$7,850	\$1,067.50 plus 28% of the amount over \$5,150
Over \$7,850 but not over \$10,700	\$1,823.50 plus 33% of the amount over \$7,850
Over \$10,700	\$2,764 plus 35% of the amount over \$10,700

## MARRIED FILING JOINT/SURVIVING SPOUSE

If Taxable Income Is:	The Tax Is:
Not over \$16,050	10% of taxable income
Over \$16,050 but not over \$65,100	\$1,605 plus 15% of the amount over \$ 16,050
Over \$65,100 but not over \$131,450	\$8,962.50 plus 25% of the amount over \$65,100
Over \$131,450 but not over \$200,300	\$25,550 plus 28% of the amount over \$131,450
Over \$200,300 but not over \$357,700	\$44,828 plus 33% of the amount over \$200,300
Over \$357,700	\$96,770 plus 35% of the amount over \$357,700

\* Standard deduction \$10,900 (+ \$1,050 for each spouse age 65+ or blind, \$2,100 for each spouse age 65+and blind.)  
\* Standard deduction (SD) for the dependents is the greater of \$900 or earned income plus \$300 (not to exceed the SD for dependent's filing status).

## HEAD OF HOUSEHOLD

If Taxable Income Is:	The Tax Is:
Not over \$11,450	10% of taxable income
Over \$11,450 but not over \$43,650	\$1,145 plus 15% of the amount over \$11,450
Over \$43,650 but not over \$ 112,650	\$5,975 plus 25% of the amount over \$43,650
Over \$112,650 but not over \$182,400	\$23,225 plus 28% of the amount over \$112,650
Over \$182,400 but not over \$357,700	\$42,755 plus 33% of the amount over \$182,400
Over \$357,700	\$100,604 plus 35% of the amount over \$357,700

\* Standard deduction \$8,000 (+\$1,350 for each spouse age 65+ or blind, \$2,700 for each spouse age 65+ and blind.)  
\* Standard deduction (SD) for the dependents is the greater of \$850 or earned income plus \$300 (not to exceed the SD for dependent's filing status).

## SINGLE

If Taxable Income Is:	The Tax Is:
Not over \$8,025	10% of taxable income
Over \$8,025 but not over \$32,550	\$802.50 plus 15% of the amount over \$8,025
Over \$32,550 but not over \$78,850	\$4,481.25 plus 25% of the amount over \$32,550
Over \$78,850 but not over \$164,550	\$16,056.25 plus 28% of the amount over \$78,850
Over \$164,550 but not over \$357,700	\$40,052.25 plus 33% of the amount over \$165,550
Over \$357,700	\$103,791.75 plus 35% of the amount over \$357,700

\* Standard deduction \$ 5,450 (+\$1,350 for each spouse age 65+ or blind, \$2,700 for each spouse age 65+ and blind.)  
\* Standard deduction (SD) for the dependents is the greater of \$850 or earned income plus \$300 (not to exceed the SD for dependent's filing status).

## MARRIED FILING SEPARATE RETURNS

If Taxable Income Is:	The Tax Is:
Not over \$8,025	10% of taxable income
Over \$8,025 but not over \$32,550	\$802.50 plus 15% of the amount over \$8,025
Over \$32,550 but not over \$65,725	\$4,481.25 plus 25% of the amount over \$32,550
Over \$65,725 but not over \$100,150	\$12,775 plus 28% of the amount over \$65,725
Over \$100,150 but not over \$178,850	\$22,414 plus 33% of the amount over \$100,150
Over \$178,850	\$48,385 plus 35% of the amount over \$178,850

\* Standard deduction \$ 5,450 (+ \$1,050 for each spouse age 65+ or blind, \$2,100 for each spouse age 65+and blind.)  
\* Standard deduction (SD) for the dependents is the greater of \$850 or earned income plus \$300 (not to exceed the SD for dependent's filing status).

## CORPORATE TAX RATES

If Taxable Income Is:	The Tax Is:
\$0 to \$50,000	15%
Over \$50,000 but not over \$75,000	\$7,500 plus 25% of excess over \$50,000
Over 75,000 but not over \$100,000	\$13,750 plus 34% of amount over \$75,000
Over \$100,000 but not over \$335,000	\$22,250 plus 39% of the amount over \$100,000
Over \$335,000 but not over \$10,000,000	\$113,900 plus 34% of the amount over \$335,000
Over \$10,000,000 but not over \$15,000,000	\$3,400,000 plus 35% of excess over \$10,000,000
Over 15,000,000 but not over \$18,333,333	\$5,150,000 plus 38% of amount over \$15,000,000
Over \$18,333,333	\$6,416,666.54 plus 35% of the amount over \$18,333,333

# What Every Business Seller Should Know (Part I of IV)

**SELLER REPRESENTATION**

**EMPLOYEE BUYOUTS**

**RECAPITALIZATION**

## Buyers Won't Really Appreciate the Work That Went into Building Your Business.

If you want to sell your business for the best price and terms, get comfortable with the fact that the buyers won't really care about you or your business. Not that they're cold-hearted; they just haven't built the relationship. They don't have the history. They haven't shed the blood, sweat and tears that made it your baby. Made it a part of you.

So do yourself a favor — get comfortable with this fact before you sell it. The buyers are interested in one thing — making money. That's it.

Might the buyer be good for the business? Yes.

Might the buyer be good for the employees? Yes.

Can you choose your buyer based on, in part, his/her character, integrity and track record? Based on the degree of likelihood that he/she will be able to succeed with the business? The degree of likelihood that he/she will invest in the established employee base? Yes. Yes. Yes.

But don't ask for more than is reasonable and don't sell until you are ready to let go. All you can guarantee is a fair price and terms. You can do your best to place the business in good hands, but you won't be able to guarantee it.



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