



10 Legal Strategies to Survive A Recession

1. Make sure to get paid by your vendors

In economically difficult times, many vendors try to maintain liquidity by delaying contractual payments. Make sure to review the contracts governing your business relationship to see when payments are due. If necessary, renegotiate agreements with your vendors and insert language with stiff contractual penalties and adequate interest rate payments. If your business is in a struggling industry, such as construction, consider asking for down payments and security deposits before performing any services. Use escrow agents and accounts for larger transactions. In addition, file security liens to secure your debts and avoid default if your vendor goes under. You can take action together with other creditors to file a bankruptcy petition against your debtor.

Keep in mind that estimates suggest that one in four businesses will go under in the looming recession. Don't be the one that bites the dust as a result of one of your vendors.

2. Get your corporate documents in order

If going gets tough, shareholder disputes about the right business strategy, capital calls and other major corporate decisions are commonplace. Make sure that your agreements with other shareholders or members are soundproof and contain provisions on all possible scenarios. Disputes between shareholders or members of your company are a distraction and will further weaken your company in a soft economy. More than often shareholder disputes result in costly litigation and can result in the dissolution of the company. In addition, make sure to keep minutes of shareholder meetings to document what has been discussed and which decisions have been made.

3. Check your employment procedures and guidelines

In times of economic uncertainty, you will have to cut your workforce to keep your ship sailing. Review and update your employee handbooks and employment procedures to avoid disputes with ex-employees. When it is hard to find a new job, more than often, ex-employees will initiate retaliatory litigation alleging harassment or discriminatory practices. Use release agreements whenever possible when employees leave the company involuntarily.

4. Work on legal strategies to retain qualified key personnel

While you will have to cut your workforce to stay competitive, you will need to make sure that key personnel stays aboard. Often executives are the first to start shopping around for a new job when they think your business is struggling. Work on a retention strategy including stock option plans and other incentive compensation plans. Don't



hesitate to offer equity in your company if you know the particular employee is a key to the success of your company.

5. Make sure that you have sufficient financial resources to survive without new banking loans

With the cost of borrowing going up, analyze your financing needs and use a worst case scenario to do so. If borrowing money from commercial banks is an uncertain option, consider adding new equity investors to your business.

6. Consider strategic partnerships and mergers

In tough economic times, economies of scale make more sense than ever. If you have the cash reserves or debt financing is certain, consider buying up competing companies. Companies valuations are down and many entrepreneurs are keen to sell their business to maintain liquidity. When your market shrinks, consider strategic partnerships with competitors to join forces. This might even be a good time to merge with other companies to use synergy effects and reduce overhead.

7. Consider adding new equity investors

Equity investors might be the only way to continue financing the growth of your company. Start talking to potential equity investors such as family, friends, current employees or strategic and financial investors. Don't limit yourself to domestic investors: There is a lot of "new" cash all around the world that should be invested in the United States.

8. Go global

While your domestic market is in the decline, there is still a global market out there that is growing. Consider exporting your goods and services to customers worldwide. In order to cut expenses, consider outsourcing labor intensive work to less expensive foreign nations.

9. Sell unproductive assets

In order to cut down expenses, start selling off unproductive assets or divisions that do not constitute your core business. Other businesses with cash flow might be interested in acquiring them.

10. Consider restructuring or filing for bankruptcy

If your business has been struggling during boom times, consider selling now to obtain liquidity and start a new business venture or just to weather the storm. If finding a seller is not working, consider filing for bankruptcy. You will need all your cash reserves and it makes little sense to sink more money in a business that has no long term future.



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