



10-Tax Considerations for Growing Businesses

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TaxOps

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Taxes, the Budget and Politics

"The budget should be balanced; the treasury should be refilled; public debt should be reduced; and the arrogance of public officials should be controlled."

- Cicero. 106-43 B.C.

Taxes are among the top three expenses of business organizations.

Goals in managing taxes

- ✓ Minimize tax burdens
- ✓ Maximize cash flow
- ✓ Manage risk
- ✓ Ensure compliance and reporting
- ✓ Identify tax planning opportunities

10 Tax Considerations

1. Business Formation
2. Compensation and Benefits
3. Accounting Method Review
4. Research and development credits
5. Other Federal and State credits

10 Tax Considerations

6. Other tax minimization strategies
7. State and local taxes
8. International operations
9. Mergers, acquisitions and other transactions
10. Net operating losses and other tax attribute preservation

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About Daniel DeLau

Dan has been distinguishing the tax implications of business transactions and guiding the tax operations of business enterprises for multi-national and multi-state entities for 28 years. He specializes in identifying and implementing tax strategies that have generated millions of dollars in income and transactional tax deductions and credits for businesses. Dan also has successfully negotiated audit issues at the local, state, and federal jurisdictional levels; advised on domestic and international acquisitions; worked on start-up issues with emerging businesses; and assisted organizations with debt restructuring.

Dan is a certified public accountant in Colorado and is a member of the American Institute of Certified Public Accountants, the AICPA Tax Division, and the Colorado Society of Certified Public Accountants. He has a Master of Taxation from Denver University and a Bachelor of Science in accounting from Indiana University.

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About TaxOps

TaxOps specializes in providing dynamic businesses with tax solutions that maximize value and reduce tax exposure. Each customized solution aligns client objectives with tax optimization strategies that include tax planning, cash flow management, tax risk management, compliance and reporting, and department operations. Engagements range from full tax function outsourcing to specific projects, such as research credit and cost segregation studies, loan staffing, and preparation of income tax returns and provisions.

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Today's Funding Environment

Douglas Fahoury

July 28, 2011

IRON♦GATE
CAPITAL

Today's Funding Environment

- **Four channels for funding:**

1. Venture capital/small private equity

- Strengthening, but varies by geography and industry

2. Mid-Large Private Equity (Recapitalizations)

- Shows signs of life, but big gap between bid & ask price

3. Bank Lending

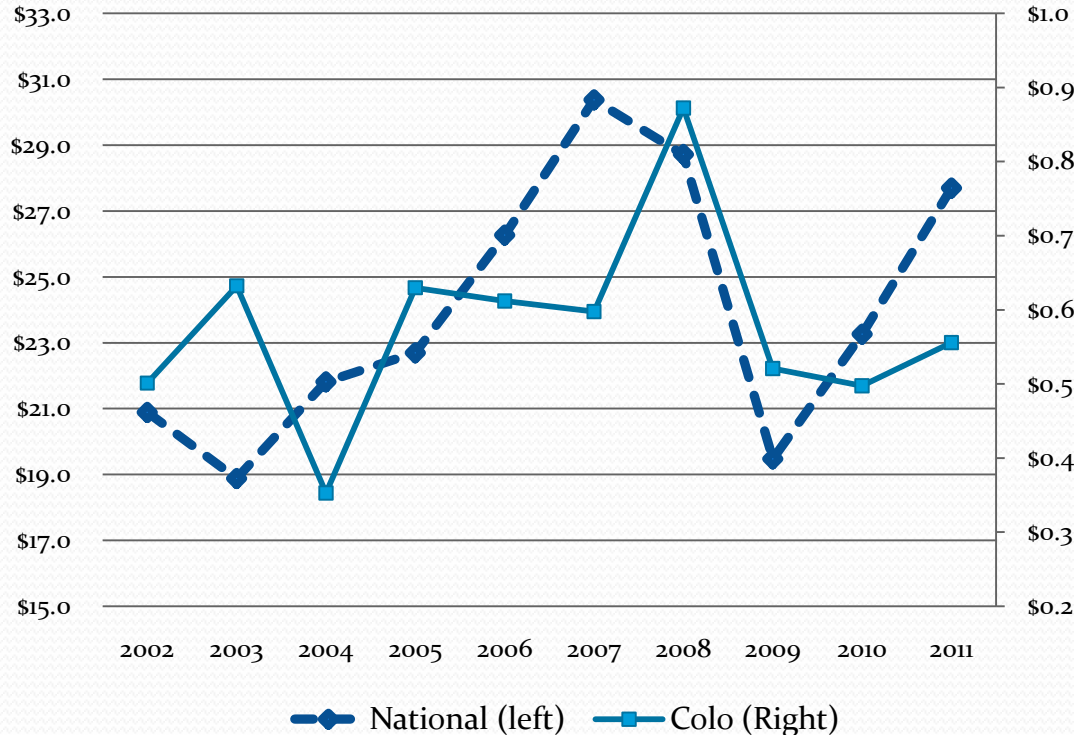
- Out from the black hole but still weak

4. Grants

- Has been a source for some industries, but likely to weaken with national debt issues

VC Investment Trends

VC Investments
(in billions/ 2011 annualized)



- Equity investments rebounding strongly from financial recession
- National trend near 2007 peak
- Colorado lagging...
- Our state lost a number of venture funds
- Angel investors remain cautious

VC Investment by Region

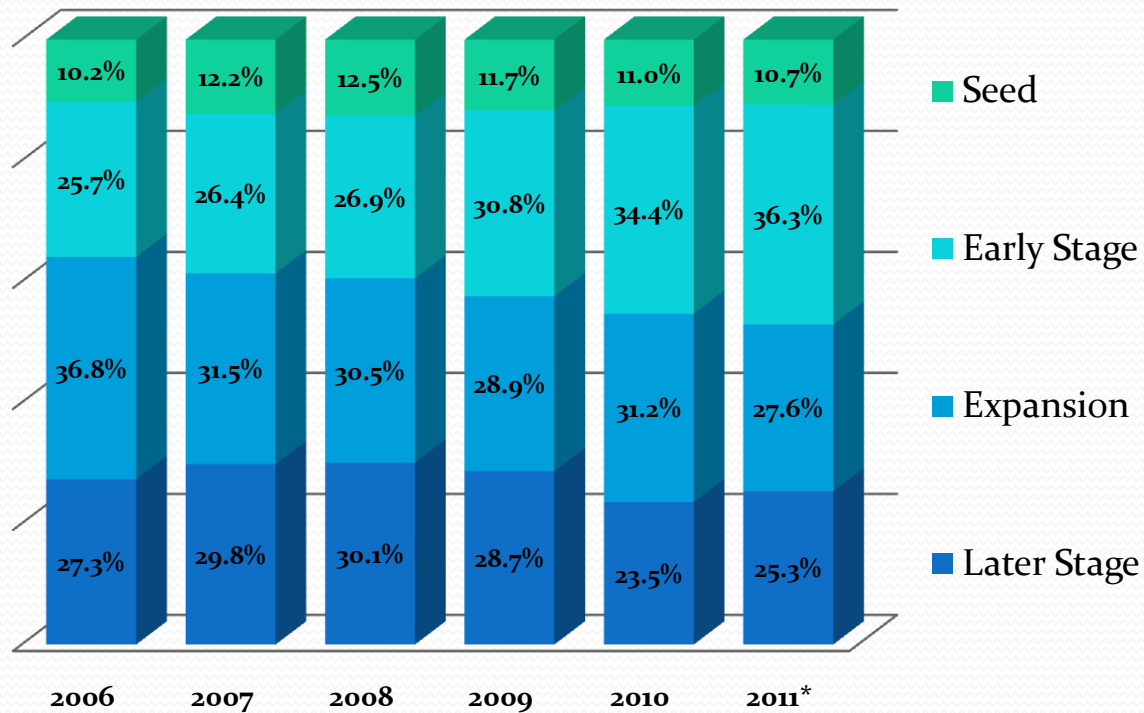
2008		2011		Delta
Silicon Valley	\$ 6,178	Silicon Valley	\$ 5,581	-10%
New England	\$ 1,756	New England	\$ 1,818	4%
LA/Orange County	\$ 1,126	NY Metro	\$ 1,240	22%
NY Metro	\$ 1,017	LA/Orange County	\$ 968	-14%
San Diego	\$ 797	Midwest	\$ 730	24%
Southeast	\$ 762	Southeast	\$ 659	-14%
Northwest	\$ 660	Texas	\$ 512	-17%
Texas	\$ 619	DC/Metroplex	\$ 475	-7%
Midwest	\$ 588	San Diego	\$ 357	-55%
DC/Metroplex	\$ 513	Northwest	\$ 332	-50%
Colorado	\$ 502	SouthWest	\$ 321	23%
Philadelphia Metro	\$ 361	Colorado	\$ 278	-45%
North Central	\$ 304	Philadelphia Metro	\$ 217	-40%
SouthWest	\$ 261	North Central	\$ 185	-39%
South Central	\$ 56	Upstate NY	\$ 66	95%
Upstate NY	\$ 34	Sacramento/N.Cal	\$ 55	813%
AK/HI/PR	\$ 8	South Central	\$ 55	-2%
Sacramento/N.Cal	\$ 6	AK/HI/PR	\$ 1	-92%
Total	\$15,547	Total	\$13,848	-11%

(in millions)

- Since the market peak in 2008, Colorado equity investment growth among weakest in country

VC Deals by Stage

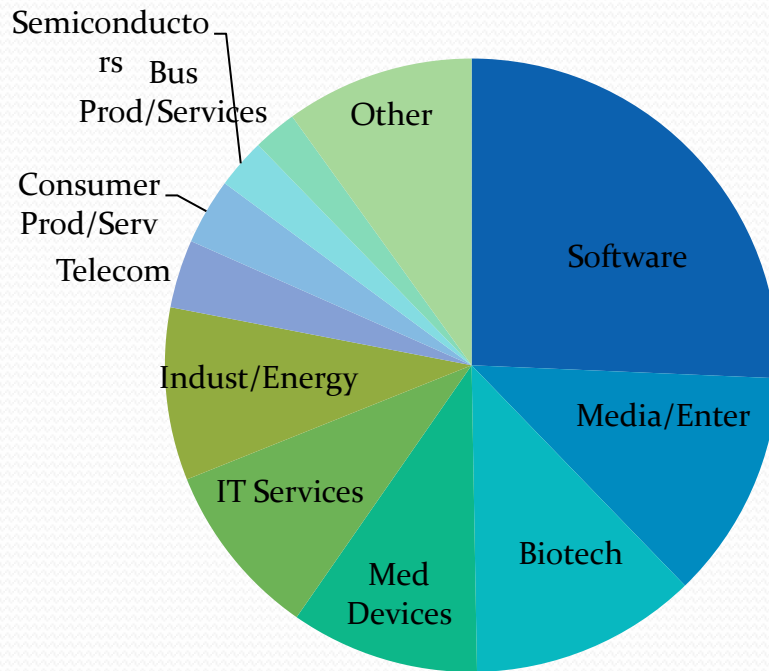
Number of Deals by Stage



- Perception that equity investors have moved to later stage investments during/after recession is false!

Investment by Industry

Number of Deals by Industry
1st 6 mos 2011



Growth of Deals by Industry

2011 vs. 2010		2011 vs. 2007	
Retailing/Distrib	117%	Consumer Prod/Serv	24%
Bus Prod/Services	24%	IT Services	20%
Telecom	12%	Media/Entertainment	10%
Semiconductors	11%	Retailing/Distrib	8%
Consumer Prod/Serv	5%	Industrial/Energy	6%
Healthcare Services	4%	Software	-8%
Networking	0%	Med Devices	-11%
Financial Services	0%	Biotech	-15%
Med Devices	-5%	Bus Prod/Services	-23%
Electronics	-5%	Financial Services	-26%
IT Services	-5%	Electronics	-27%
Media/Entertainment	-15%	Healthcare Services	-33%
Software	-19%	Computers	-43%
Industrial/Energy	-29%	Networking	-48%
Biotech	-30%	Telecom	-55%
Computers	-31%	Semiconductors	-57%
Total	0%	Total	-13%

Source: National Venture Capital Association

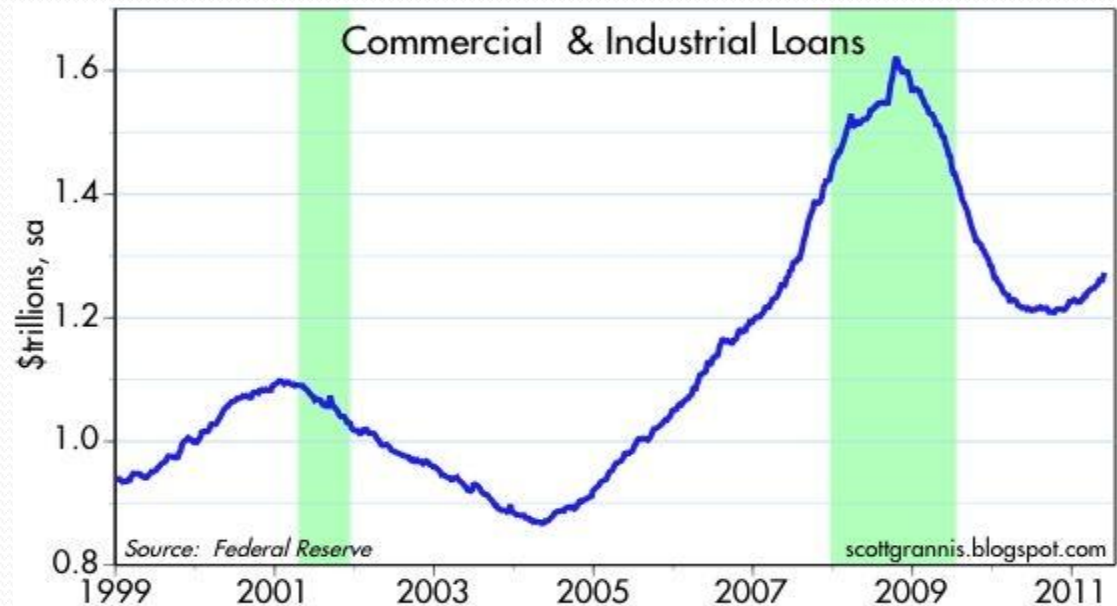
Strategies for Raising Equity

- **Most important, be able to articulate your business and strategy**
 - Makes sure the right person is point person with investors
- **Show strong business metrics**
 - End user adoption/retention; Cost of acquisition; sales & margin growth
- **Know your industry & competitors**
 - How are you positioned against them
- **Create two funding strategies**
 - Low capital/modest growth & High capital/high growth
- **Know what your business is worth**
 - Valuation multiples/market comparables
- **Find a referral source to the fund/group**
 - Linked in, trade associations, etc.

Lending Environment

- From 2008 to mid 2010, C&I (commercial & industrial) loan growth was negative as banks managed underperforming loans and struggled with capital ratios.
- Loan growth returned to positive in late 2010 with 2Q11 likely up an annual rate of about 7%.
- But banks and borrowers both remain cautious:

- Economy
- Real estate
- Debt issues in D.C.
- Europe
- Energy prices



Strategies for Finding Debt

- Unfortunately there are not a lot of banks doing straight term loans or loans based on cash flow
 - They may if tied to some kind of asset-based lending or equity investment
 - Pick an equity investor that has a track record paying back banks
- Three triggers/keys for C&I borrowing – all based on assets:
 - Hard assets/capital ex spending
 - Inventory increases
 - Accounts receivable increases
- Unfortunately, many banks will require personal guarantees
- Try to establish a competitive process
- As with equity, referrals help, especially from current investors

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