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# ***PRACTICAL TIPS TO GET THROUGH CASH DIFFICULTIES***

**[www.practicalpd.com](http://www.practicalpd.com)**

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**PRACTICAL**  

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**PD**



# Introduction

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- Welcome to all
- I hope this helps save businesses and jobs, now & in the future
- Some of you are in crisis, other want to be ready if it comes...or just need PD hours...
- I wish we were live!
- I want you to see me
- The bad and the good ...



# Introduction

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- There are lots of blanks \_\_\_\_\_ to make the delivery more interesting...
- You may want to fill some in, but don't worry if you can't, you will be told how to get the completed slides at the end of the seminar
- Don't take everything I say too seriously

# All my live seminars/webinars have an opportunity to win prizes

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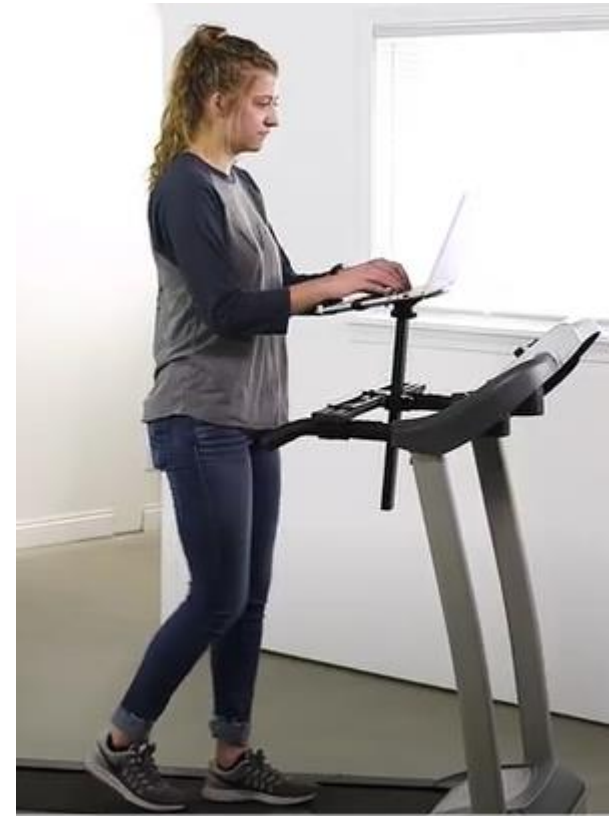
I can't do that on the self-study version  
BUT, send me an email with:

- example of how you plan to apply a tip
- another tip idea
- useful feedback
- clean relevant joke

and you will enter a draw for a prize  
(value at least \$30) [spriddle@bell.net](mailto:spriddle@bell.net)



# Watch this any way you want



# Do not watch while driving please!



## Introduction

- All are welcome to this webinar
- I hope to help save businesses and organizations and jobs
- I wish we were live!
- I want you to see me
- The bad news and the good news...

# Where am I?

- I am at home in Ottawa, 9 km from







# Course background

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- I have created many practical courses for accountants and I saw a need for this one, an expansion of some existing course content
- Created in the midst of the 2020 COVID-19 crisis to help, **but 98% applies** to any cash crisis situation, at any time or for any reason (commodity price, product life cycle, competition...)



# My background

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- Corporate CFO 24 of the last 25 years
- KPMG 5 years, then large corporation for 5 years
- Medium-size corporations since then
- Have always taught on the side: university, CPA/CA/CMA/CGA licensing, PD, college & more

# Currently



- CFO, Director & co-owner
- SureWx group - aviation weather systems, SAAS business
- You have benefited, unless you never fly in the winter





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# I am sort of living what I am teaching

- Because my customers are airlines....
- I fondly remember in one company when I had ....\$200M in the bank and short-term investments





# I have been authoring cases for over 30 years, including

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- Dozens of published professional cases on businesses and organizations **in financial crisis**
- Customers: Many you know, including Big Four accounting firms
- A large number of you have actually written these cases



# Warnings!

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- This is a very stressful topic
- Some of you may be in very tough situations
- So laughter helps....there will be a few jokes

# Bankruptcy dinner bill joke



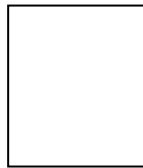




# Another note

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- There is a \$48 fine if you look at Instagram or Twitter during this session



# Let's set expectations

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- I don't have the "solution" for your crisis
- There may be no overall/single solution, but lots of big and small steps to take





# Let's set expectations

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- Some of you will know some points I share
- This could confirm that what you are doing, has been done by others, is not unusual....
- I will give you some different ideas
- Some tips will just get you thinking, which could inspire you to develop related tips that fit your context
- Hopefully there will be a handful of nuggets for your situation



# We will not cover

- Specific restructuring for your business
- This is not a course on the details of the new programs from governments to help businesses in crises – but there will be some tips on them
- Bankruptcy, Companies' Creditors Arrangement Act (CCAA), receivership legal aspects





# However

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- If you just cannot meet your liabilities, even with major deferrals, negotiations and reductions, and many are taking you to court, or large secured creditors are pressing:
- Bankruptcy, CCAA, may need to be considered
- (By the way, your owner(s) may be able to buy the business back this way, after bankruptcy....)



# Personal experience

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- With three different companies, I have sought the advice of an LIT, during crises
- Licensed Insolvency Trustee (LIT)  
(formerly called Trustees in Bankruptcy)
- An LIT has attended this course...and praised the content



# You all come from different places...

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- Foreign subs, public companies, owner-managed businesses, NPOs, charities....
- Different sizes, billions, millions, thousands
- Different industries
- Projects, goods, services, large receipts, many small receipts...
- Some of you are from governments
- Different financing agreements & suppliers
- Different degrees of financial stress



# Be patient

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- Different tips will apply to different folks
- You have no bank debt, so bank tips not applicable...
- You can't issue shares to employees, but some can....







# Note

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- How things work, will be impacted if you had a plan for the lean times before this hit
- Even though this crisis hit unusually fast
- Conservatism in business sometimes pays off....

# Where does the content come from?



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- My experience! (which may be different than yours)
- I have been in a cash crisis a number of times, driven by: recessions, bad management, market crash, start up issues (I wish I had taken this course when I was young!)
- In different contexts: Gov't owned, public, private: family-owned, foreign-owned, VC funded
- I have never gone bankrupt



# Roadmap

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- Introduction
- The overall approach
- Cash flow forecasting
- Banks & other lenders
- Government programs
- Dealing with suppliers
- Employees
- Other financing options
- Creativity solutions
- Miscellaneous tips
- Conclusions



# CPA Quebec new ethics

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- Effective date of changes, May 9, 2024
- The only impact on this course is one Rule number change, the content is effectively the same
- Rule 34 general ethics, now Rule 26
- The Handout and Completed slides have been updated, the video will be updated later

# NPOs/charities

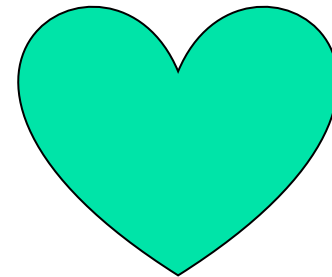


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- Some of you work for them, advise them or sit on their Boards
- Most but not all tips in the course will apply to NPOs/charities
- A moderate drop in the economy, will likely mean a large drop in donations for most charities...
- Government funded NPOs may soon get squeezed by governments, short of cash

# You need the right attitude

- In my first cashflow crisis, the CEO's aggressiveness shocked me, but I soon realized it was needed
- You may need to be aggressive to save the organization
- But also compassionate, you need to have a heart





# Note

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- If your crisis is only moderate, or mild, you will adjust the advice I give you today, for your context



# NPO/charity attitude

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- Tricky area – NPOs/charities are sometimes too slow to let people go in crises, because they are more compassionate...than businesses





# It is possible

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- They don't believe there is a crisis
- Someone once said to me: **"I was fired because I told them there was a crisis"**

# You must be in crisis management style

- Focused almost entirely on the immediate and the urgent
- You may want 30, 60 and 90 plans...
- (You can't have this approach in the long run)



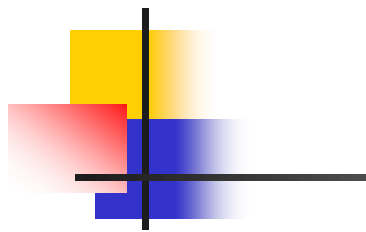


# Leadership

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- Finance becomes even more important, gets more respect & power!
- (Makes your job more secure hopefully)
- In larger organizations, a key finance/operations crisis team will be essential
- You need to be creative, get outside the box for solutions





KEEP  
CALM  
AND  
TRUST THE  
CFO



# Cuts

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- You will likely have to trim, cut, chop....
- There is always more fat than you realized before the crisis
- Do you cut gingerly and then have to say, oops, we didn't cut enough, here are more cuts
- Do you cut too aggressively, and ruin the business/organization??? (short vs long-term)
- Do you cut aggressively and wisely, and then can reverse some cuts?
- Do you trim early, even before the difficult times?



# You need the right advisors

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- Hard-nosed HR person/people
- Not recruiters, but de-cruiters!
- (Get them on contract if you don't have them in-house)
- Your accounting firm can help in many areas



# Legal notes

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- You have got to be close and working well with your legal team
- Strong in creditor matters, employment matters with good negotiating advice
- Make sure they don't over-charge you!
- So we need a lawyer joke

# A lawyer joke

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# Polling question

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If you have ever been in a cash flow crisis before, did you ever face an ethical issue because of it? (**don't answer if you have never been in a crisis**)

Yes – **typically about 50%**

No



# You still need ethics!

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- There are definitely more temptations
- People might try to justify various things, due to the survival of the organization
- We need to follow the laws of the land and the CPA Code of Ethics
- May include laws in other countries if you have foreign operations





# Examples

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- The new federal program Canada Employment Wage Subsidy (75% of wages..) requires that your sales have dropped over certain comparative periods
- Tempting to mis-state so you qualify
- A US program I saw says you must sign that you are a US citizen and owner of the company, do you just sign to get the \$?





# The key rule for CPAs

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# Rules of Professional Conduct

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Quebec effective May 9, 2024

**26.** Le comptable professionnel agréé ne doit pas préparer, produire ni signer des déclarations, des lettres, des attestations, des opinions, des rapports, des exposés, des états financiers, des avis ou tout autre énoncé ou document, par complaisance ou alors qu'il sait ou devrait savoir :

1° soit qu'ils contiennent des informations fausses ou trompeuses;

2° soit qu'ils omettent ou dissimulent des informations dont l'omission ou la dissimulation est de nature à induire en erreur;

3° soit qu'ils contiennent des informations non conformes aux lois, aux règles de l'art ou aux normes applicables.

De la même façon, il ne doit pas non plus s'associer à de tels énoncés ou documents.



# Rules of Professional Conduct

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CPA Code of Professional Conduct

## 205 False or misleading documents and oral representations

### **RULE:**

*A member or firm shall not*

- (a) sign or associate with any letter, report, statement, representation or financial statement which the member or firm knows, or should know, is false or misleading, whether or not the signing or association is subject to a disclaimer of responsibility, nor*
  - (b) make or associate with any oral report, statement or representation which the member or firm knows, or should know, is false or misleading.*
-

# Actual situation an Ethics Advisor told me about

- CPA tells creditors at a creditor meeting that “you will all get paid”
- They don't all get paid and one complains to CPA body
- Rule 205/26 violation: “false and misleading oral statements”





# Someone asked me this once in an email

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- “I am a controller. We borrow based on receivables”
- “Invoices are issued prior to actual shipment to obtain funding from the asset-based lender ....signatures on the shipping documents are forged”
- “If the lender finds out about this, we will go bankrupt. I would like to find a way to comply with my ethical standards and continue in this position”





What would you tell the CPA?

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# Analysis

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- Obviously being done because of financial difficulty
- Not acceptable, this is fraud, lots of false/misleading information being put out
- CPA is involved in the fraud, even if not doing it directly (invoices from their accounting system)
- CPA is in likely trouble at least because of "association" part of rule 205
- I said "you can't stay ethical there - you actually need to get disciplined ..." – I don't know what happened...



# We could also discuss...

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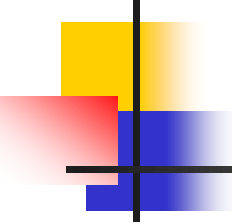
- Stop the fraud today, and then it is ethical to work there
- What negotiations/steps could be taken so the finances work without a fraud?
- What should be done about telling the lender? .....revenue recognition may also be wrong
- And the other big questions....what else is going on there?...and who is involved?



# The people in this company offer a course called

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- **How to Cheat Your Way Through a Cash Crisis course**
- This one webinar covers:
  - *How to defraud your lender*
  - *How to rip off your suppliers*
  - *How to deceive your bank*
  - *How to take advantage of your employees*



I recently noted some  
unethical behaviour during  
one of my webinars by a CPA!



# I recently noted some unethical behaviour during one of my webinars by a CPA!

- The webinar can only be watched by the members who paid (California), but somebody wrote in the chat:
- *"I'm gathering my virtual learning kids around to watch this. Better than any other entertainment"*





# Other situations

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- Colleague was lying to the LIT, CPA I knew reported it, criminal issue
- Business owner Dad pushing CPA daughter to falsify bank reports, daughter (and Mum) disagree with Dad...
- CPA fired for refusing to bill inflated NRE charges
- Accountant went home at 5 PM, inventory valuation changed at 11 PM for bank reporting





# Note

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- These raise other issues which I am not going to try to address:
  - Legal action for getting fired
  - What to tell the bank in the morning and how to deal with that colleague

# Your owner/boss/exec

- Is moving toward the unethical
- You don't want to go to
- Or



NOTICE OF DISCIPLINE SUMMARY





# Talk with boss/owner?

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- “By the way, I am not going to do these types of things:
  - Falsifying any documents, even to save the company
  - Telling any lies to creditors or employees or government
- “Just give me a severance package now, if you need someone to do these things”



# Personal

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- I once chose to be out of a job for a while, with 5 dependents, rather than compromise on ethics, where the unethical behaviour would have helped the company succeed in a crisis...
- I have personally surveyed about 7,000 CPAs and about 15% have quit a job, or dropped client for ethical reasons (this cost them cash!)



# Key point

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- If your personal ethics before you became a CPA were very different from CPA ethics, it will be hard to follow CPA ethics
- All CPAs know the rules, but do they have the moral courage to follow them in a crisis
- Moral courage is more than just worrying about getting caught
- It is about seeking to always do the right thing regardless



# For more, different, useful ethics content:

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- **Ethics - More Than Just the Code**  
2 hour video, 2.5 hour webinar
- **Ethics – Where The Rubber Meets The Road**, 2 hour video
- **Ethics – That Feeling In Your Gut**, 2 hour video

# Reminder: don't fail to remit on time

- Source deductions
- GST/HST/PST/QST
- Registered pension plan remittances
- This is not your employer's money, it is being held in trust!





# Director liability

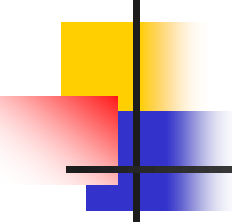
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- Keep your directors continuously informed about their personal liabilities under law
- I have seen directors get burned by this, it may not be covered by D&O insurance
- I have seen directors resign over this, it depends on their risk tolerance and their shareholdings
- I am a corporate director x4, and don't want to get sued



# Director liability schedule example

<b>Trouble Company Limited</b>	
<b>Director liability</b>	
<b>At March 31, 2020</b>	
GST/HST/QST	\$ 66,894
Source deductions	284,034
Employee expenses	42,433
Accrued salary	199,433
Banked hours	69,425
Vacation pay	297,528
Registered Pension Plan	<u>44,550</u>
	<u>\$ 1,004,297</u>



# Big picture – your business in crisis

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- Assess root causes
- Commodity price, management, strategy, business model, competition, cost structure.....



# Run the numbers internally for every scenario

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- If sales recovery after the crisis is 90%/80%/60% of before, what do the numbers look like?
- Is the business viable with the debt and interest payments?



# An example

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	Best case	Best estimate	Worst case
000s			
Revenues	56,336	54,230	49,323
COGS	<u>35,999</u>	<u>35,683</u>	<u>33,046</u>
	<u>20,337</u>	<u>18,547</u>	<u>16,277</u>
SG&A	17,384	17,292	15,977
Capital	<u>402</u>	<u>208</u>	<u>24</u>
	<u>17,786</u>	<u>17,500</u>	<u>16,001</u>
Cash before:	2,551	1,047	276
Interest	394	394	394
Debt payments	<u>866</u>	<u>866</u>	<u>866</u>
	<u>1,260</u>	<u>1,260</u>	<u>1,260</u>
<b>Cashflow</b>	<b>1,291</b>	<b>- 213</b>	<b>- 984</b>



# We all know cash is king

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- Cash is a fact (bank balance, available credit)
- Profit is more of an "opinion"
- And we all know profit does not mean cash



# Cashflow crisis

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- You must adopt a zero-based budgeting approach
- There must be central approval of all disbursements



# Zero-based budgeting

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- The original budget for the year is gone!
- Everybody's budget is zero for new expenditures, i.e. nothing is pre-approved
- If you really, really need something, bring a very good case for it, to the crisis expenditure decision-makers

# Disbursements

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- A/P units can only issue payments approved by key crisis finance decision-maker
- Tighter control/shut down of corporate credit cards
- Cancel auto debits if you can, so you can pay when you want







# Cash flow forecasting



- You have to live and die by your cash flow forecasting in a crisis
- Are there any tools out there to help?  
Basically no! You and your team and Excel and an understanding of your business
- History won't be as helpful as it used to be in forecasting
- (There may be statistical help for forecasting for example micro payment trends)



# Question – what are the forecast periods?

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- No crisis, I do monthly
- In a crisis, weekly (daily if very tight!)
- Can be in aggregate or by accounts and currency
- But I have now found it is better to do it around payrolls the biggest single cost hit
- It could be also done around cheque runs, or both
- I find this works much better...
- Obviously evergreen and rolling



# Do multiple case scenarios

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- Optimistic, pessimistic, most likely
- How much a contingency or cushion do you put in?
- Which one becomes your planning tool?
- Stress-test it
- Get another set of eyes on it  
(knowledgeable colleague not involved in preparation?)

# Bank reconciliations

- Your people definitely have to reconcile the bank accounts daily in a crisis
- It is a good practice anyway



# Brinks/evergreen cashflow

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- You control disbursements, they are “hard”
- What to do with soft receipts in a cash flow forecast? (you can't afford to be wrong)



# Let's work through and example



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- Company has four month cash flow forecast divided by pay periods, the biggest hits
- Focusing on the next month, the rest is incomplete, have \$500K line only
- Have ranked types of payables
- Giant customer will hopefully pay in May



# Note

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- We will talk about how you might be able to “control” this customer payment later



We can forecast this in several  
different ways

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# Hopefully coming in 2H May, 1H problem

	Allaborn Company				
	Critical Cashflow forecast				
	<u>1H May</u>	<u>2H May</u>	<u>1H June</u>	<u>2H June</u>	<u>1H July</u>
<b>Receipts</b>					
Known customer receipts	647,859	718,422	314,202		
Revised trend small customers	48,000	48,000	48,000	48,000	48,000
Giant customer		459,428			
	<u>695,859</u>	<u>1,225,850</u>	<u>362,202</u>	<u>48,000</u>	<u>48,000</u>
<b>Disbursements</b>					
Tier 1 payables	557,522	344,258	345,225	345,225	345,225
Tier 2 payable - nice to pay	344,525	345,222	94,555	94,555	94,555
Government amounts	42,422	34,822	36,000	36,000	36,000
Payroll	<u>458,444</u>	<u>449,422</u>	<u>420,000</u>	<u>420,000</u>	<u>420,000</u>
	<u>1,402,913</u>	<u>1,173,724</u>	<u>895,780</u>	<u>895,780</u>	<u>895,780</u>
<b>Net</b>	- 707,054	52,126	- 533,578	- 847,780	- 847,780
<b>Opening balance</b>	155,333	- 551,721	- 499,595	- 1,033,173	- 1,880,953
<b>Closing balance</b>	- 551,721	- 499,595	- 1,033,173	- 1,880,953	- 2,728,733
<b>Line of credit available</b>	500,000	500,000	500,000	500,000	500,000

# Pessimistic – assume not coming at all – huge problem

Allaborn Company					
Critical Cashflow forecast					
	<u>1H May</u>	<u>2H May</u>	<u>1H June</u>	<u>2H June</u>	<u>1H July</u>
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	<u>1,402,913</u>	<u>1,173,724</u>	<u>895,780</u>	<u>895,780</u>	<u>895,780</u>
Net	- 707,054	- 407,302	- 533,578	- 847,780	- 847,780
Opening balance	155,333	- 551,721	- 959,023	- 1,492,601	- 2,340,381
Closing balance	- 551,721	- 959,023	- 1,492,601	- 2,340,381	- 3,188,161
Line of credit available	500,000	500,000	500,000	500,000	500,000







# Suppose

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- Your owner/CEO/CFO has a different cash flow forecast than yours?
- Reconcile the differences
- I believe and trust yours, not theirs
- Yours will be proven “right” in eventually, but there might be wrong decisions from theirs
- A story of how I solved the problem once



# Note

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- Crisis or not, look back to analyze how statistically accurate your forecasts are

<b>Justin T. Corporation</b>	
<b>Cash Flow Accuracy</b>	
<b>1H 2020</b>	
Net cash accuracy - 3 months out	92.10%
Net cash accuracy - 6 months out	120.20%
Cash receipts - month, 3 months out	87.20%
Cash receipts - month, 6 months out	104.20%
COGS - 3 months out	111.40%
COGS - 6 months out	67.30%
G&A costs - 3 months out	106.70%
G&A costs - 6 months out	88.50%



# Dealing with banks and other lenders in a crisis

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- A very important topic
- Someone attended the webinar and wrote:
- *"I was a 30 year Banker, leading corporate lending teams for a big 6 Bank, and found the information very on point and would be useful for people having to deal with their Bank in this environment"*





# Dealing with banks and other lenders in a crisis

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- Most banks are great when your business is good, things are fine, but when it changes...they are less than helpful
- “Banks offer you money when you don’t really need it, and take it away when you do need it...”
- (In defence of banks, they are not high risk lenders and are heavily regulated)



# Banker joke

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- An accountant for a computer company called her bank to ask for mercy on a payment coming up Friday
- The banker said “no”
- The accountant asked, “do you want to be in the computer business”
- The banker said “no”
- The accountant said, “you will be on Friday”

Your bank/lender may be squeezing you right now...





# First thing

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- Maximize what you already have from your banks/lenders, any way you can



# Did you know this?



- Your line of credit may have a bubble, that is the ability of the bank to lend you more than the stated amount, but this is not in the financing agreement
- I called my Big Five bank once, and was told my \$2M line of credit, had a 10% bubble, if:
  - a) the covenants were on side; and
  - b) the account manager signed off
- You should call your bank after the course to find out!



# Margining receivables & inventory

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- Many businesses borrow based on a formula related to A/R and inventory at each calendar month end
- The higher the A/R and inventory, the more you can borrow (50% inventory, 60-75% on receivables, usually)
- The end of the month margin report must be submitted, before the end of the following month

# Margining receivables & inventory

- You reported this on May 10, so this is your current margin base, after reporting:

	30-Apr-20
Marginable A/R	854,204
Marginable inventory	500,142
	<u>1,354,346</u>

- At the end of May, it is:

	31-May-20
Marginable A/R	904,252
Marginable inventory	654,722
	<u>1,558,974</u>

- You submit it at 7 AM June 1!

# Margining receivables & inventory

- You reported this on May 10, so this is your currently margin base:

	<u>30-Apr-20</u>
Marginable A/R	854,204
Marginable inventory	<u>500,142</u>
	<u>1,354,346</u>

- At the end of May, it is:

	<u>31-May-20</u>
Marginable A/R	704,252
Marginable inventory	<u>454,722</u>
	<u>1,158,974</u>

- You submit as late as possible, June 30





# Margining receivables & inventory

- Suppose in mid-May, you got a large order from a customer, so it is:

Marginable A/R	912,444
Marginable inventory	<u>582,422</u>
	<u>1,494,866</u>

- Then you call the bank and ask permission for margining immediately, before May 31
- Also, try to get a seasonal increase in margin calculations, I have heard of 66 2/3% on inventory, instead of 50%



# Dealing with banks and lenders - offensive

---

- Can you add some credit facilities or loans now, to help you get through?
- Know exactly what you want and put together your well thought out submission package – key question, **do you have enough collateral?**
- The banks and the government are talking about lending a lot due to loosening credit, I am not very convinced

Did you catch the name of the bank that called?





# They want to call your loan

---

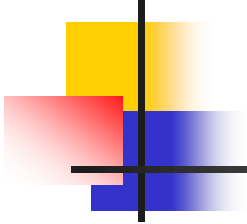
- Do they have the strict legal right under the agreement (likely yes)
- How many days before you have to pay it?
- Ask for an extension
- Get full or partial refinancing from another institution
- Will they accept partial payment and then a plan?



# A big picture view

---

- Is your going concern value greater than your liquidation value? (big problem if not)
- Would your liquidation value cover the first secured creditors? second secured creditors? other creditors?
- Would the values of assets specifically secured satisfy the obligations of those lenders?



**Going concern value**

**Liquidation value**



Or

---

- Business can generate \$2M a year in cash before loan interest and
- Business would liquidate for \$7M
- Therefore going concern value, based on any reasonable risk multiplier, is greater than liquidation value of assets





# Negotiating with secured creditors

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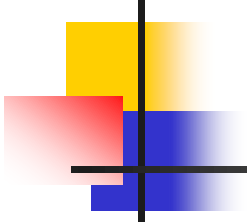
- (Assumes your going concern value is greater than your liquidation value)

# Negotiating with secured creditors



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- “We can’t pay you and we believe the business would produce at best \$100M now on liquidation, we owe \$75M to you, you will have a poor realization in liquidation, I think you need to work with us to get repaid over time, now is not the time to put us into receivership”
- “If you bear with us, we think you will realize more”



**Total first secured loans**

**Liquidation value**



# Personal guarantees

---

- A huge issue in small business
- (I have 12 ideas to avoid/reduce/eliminate them in new financing agreements in another course)
- You may be helping protect your owner's personal residence!

Sharpen Your Business Loan Negotiation Skills

I once saw two families who  
just lost two homes from  
personal guarantees





# Other notes

---

- Try to draw down on the bank relationships you have, not just the account manager, hopefully some of their senior colleagues you have got to know
- Seek legal and insolvency advice



# Dealing with banks in a crisis - defensive

---

- “The borrower is servant to the lender”
- They usually have got you with all kinds of clauses
- Should you hide your problems or be transparent? I suggest the latter
- Go the bank with your well thought out **“survival plan”**
- It has solutions, not just problems



# Don't forget financial reporting impacts of the crisis

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- Write downs, impairment
- And the impact on the financials and bank covenants
- This can be a big problem area





# Covenant violations

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- They usually can call your loan due to covenant violations
- They might hold off and then....



# They can do what they want when you have violated covenants

---

- The public co I was Controller of had violated covenants and was in some trouble
- The bank said “we have decided to charge you a \$15K a month, risk fee”
- “Now, we have decided to send a some independent accountants in to check your situation weekly,, the monitor will be PWC, oh yes, and you are paying...”
- Our loans were likely now with the “special or crisis” loans dept of the bank



# Get ahead on covenant violations

---

- You see one coming
- Check if you have a “covenant cure” clause
- Example: *In the case of violation of a covenant, under Section 4.3 of this agreement, the borrower has 20 days to cure the violation, before the Lender can take the actions set out in Section 5.6.*



## Business tip

---

- In future, always ask for breach cure clauses... in financing or any agreements with “breaches” that have bad consequences

5.3 Termination for Breach. If either party materially breaches any of the terms of this Agreement, and fails to cure such a breach within ten (10) business days after receiving written notification of such breach from the non-breaching party, the non-breaching party may immediately terminate this Agreement and may, in addition to all other remedies available at law and in equity, protect its interests by any means available to it.



# Get ahead on covenant violations

---

- Give the bank the heads up (you might be required to)
- Explain that it won't last long
- Explain the plan to get out of the problem



# Negotiations

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- Beg them to just wait until the crisis is over
- Ask for a holiday, that is a principal holiday or a deferral
- Ask for a temporary loan bulge if there is no bubble





# Watch outs

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- Defer all payments you can defer, but don't forget about them, and interest accruing
- Beware just going deeper and deeper into debt, even in terms of government supported loans if there a reasonable chance you can't service and repay them

EncoreFX, a Victoria, British Columbia-based foreign exchange firm, filed for bankruptcy on March 30. After suspending its trading activities, the company advised clients that the restructuring had become necessary as a number of customers to whom the company granted credit defaulted on their obligations to the company because of the rapid changes in the FX market caused by COVID-19. Most of the company's clients were importers and exporters doing \$10.0 million to \$50.0 million in FX transactions a year. EY is the bankruptcy trustee.



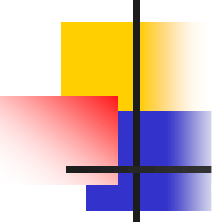
# Other watch outs

---

- Cross default clauses that trigger demands on other loans
- Uncommitted lending facilities are withdrawn, and you are not made aware
- Large foreign exchange moves, resulting in increased usage of credit facilities, or margin calls
- Insolvency of foreign exchange broker, causing your problems



# Problems & solutions example



Problem	Solution - Us	Solution - Bank	Notes
Need \$150K more operating facility by June 1	Since partly for export, we are requesting EDC help	Can we margin inventory at more than 50%	Inventory has 45% average margin
Need deferral on May 31 30 term loan payment \$74K	We can pay June 10	Grant deferral	
Current ratio covenant may be offside at next 2 month ends	Shareholder cash injection might be able eliminate first one	Is waiver possible for 2 <sup>nd</sup> , only offside a little	
Need to margin new German A/R	Getting credit insurance		90% margin with credit insurance



# A banker took this course recently – his comments

---

- *"Keeping close relationships with your bankers during the bad and good times is very important"*
- *"Being forthcoming when it comes to anticipating future banking needs is very helpful for myself and my team"*
- *"The work load on myself and my team has been very heavy, client requests are constant"*



## Note

---

- I have a 2 hours on negotiating good bank deals up front, (not negotiating after you in trouble), in my course **Sharpen Your Business Loan Negotiating Skills**



# EDC help

---

- Loan guarantees
- BDC co-lending
- Advance payment insurance
- Foreign exchange facility guarantee
- Performance security guarantee
- And another area we will discuss furtheron



# EDC

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- Provides credit insurance for foreign A/R
- Usually allows companies that margin A/R to get 90% from their bank, instead of 0-75%



# BDC



bdc\*

---

- This government-owned niche lender has been tasked with helping businesses more now
- Better a government lender than a commercial lender if you have troubles or covenant violations
- May have less than the usual credit scrutiny than a Chartered Bank, that you would not be able to pass
- BDC still often wants personal guarantees

# Crisis – cash in

---

- Your best source of cash is your customers (existing and new)
- Know how you fit into their world
- What creative ideas will get more/new cash from them?
- Don't assume contracts can't be renegotiated creatively



# Don't assume contracts can't be renegotiated creatively



---

- “We will change the contract, so if you give us deposit toward next project/season/order, your price is dropped 15%”
- “If we can increase the price for the summer 10%, we will drop it for Q4, 20%”
- Can you pay us up front instead of monthly?





# An aggressive approach

---

- Your customers are in a crisis too
- Pre-empt their request for a reduction in what they owe you
- Tell them: we will cut prices X%, but keep buying/paying in this crisis (if you are late paying, the deal is off..)
- I have seen this work



# Crisis – cash in

---

- Can you factor A/R to get cash quicker?
- Otherwise use special discount & negotiation



# Special discount & negotiation

---

- “I know our net 60 invoice was only invoiced 12 days ago and you would be paying it some time in May, based on your past pattern
- We would prefer to get the cash very early in May, knock 2% off and wire the money, here is our bank account information”



# Special discount & negotiation

---

- The future of discounting/factoring
- It might be this model: [www.C2FO.com](http://www.C2FO.com)
- Your customer must be set up with them
- Go on their site, and click if you accept the discount to get paid (6% for me), and you get paid immediately



# From EDC email

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- For **domestic credit insurance**, we are teaming up with Coface for domestic insurance so they still cover for domestic but we did a reinsurance agreement with them so we agree to cover 50% of the losses in exchange for them keeping the domestic limit for our clients. The reinsurance agreement has specificity so not all buyers can be part of the reinsurance agreement”

# Collections humour





# Other collections advice

---

- Use \*67 to block call display or collection clerk's personal cell phone if they don't answer calls
- File a lien against them (get legal advice)
- Outsource your collection calls
- For laggards, take credit card payment, even if not the norm in your industry
- Collections humour!





# NPO/charity specific tips

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- Get your funding in faster, is easier than cutting/delaying expenditures
- Change your year end if it gets funding in earlier, in some cases





# NPO/charity tips

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You have money in a restricted fund

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	General Fund \$	Building Fund \$
<b>Assets</b>		
Cash & investments	\$39,067	\$6,324,986



# NPO/charity tips

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- Ask donors for a restricted fund change (if donors are dead, public trustee approval could possibly be sought)
- Hold a key stakeholder meeting and explain the situation, if appropriate
- (Board, exec's, donors, members, suppliers, lenders...)



Let's talk about suppliers

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# Suppliers are pressing in the crisis

---

- You have no obligation to disclose all your employer's financial problems to your suppliers
- In fact you have CPA confidentiality so be careful what you say, and employer confidentiality as well
- Having said this, everybody knows that lots of business/organizations are hurting these days



# Situation

---

- You are quite behind on your trade accounts payables
- One raw material supplier says they are taking you to court
- Another calls every day asking for \$
- In total you have \$676K of trade A/P overdue, only \$200K in the bank after payroll to pay A/P
- What are you going to do?

A/

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Advantekss Inc.		12,127	-	-	-	12,127
Amadi Canada Health Limited	22,100				12,500	12,500
400500 Canada Inc.		8,000				8,000
LMK Corporation		12,323				12,323
Jones Vones Bark LLP				8,054		8,054
Wing Family Supply Inc			19,500			19,500
GD Inc.		8,054	18,767			26,821
Kenney Inc.			102,000			102,000
Notley Corp			17,956			17,956
Calgary Flames Inc			1,005	1,005	-	2,010
Percy Real Estate Inc.		85,000				85,000
Gallivan (USA) Inc.				57,253		57,253
Farley Consultants Inc.			11,300			11,300
Rachel Demski				6,050		6,050
City of West Village	9,102					9,102
Edmonton Oilers Truck Centre		856				856
Cruel Construction Corp			84,822			84,822
Lake Community College				500		500
Dept of Environment USA			6,050			6,050
John Horgan Corp				14,562		14,562
Coley Insurance Broker			2,348		-	2,348
Trump Inc.		10,000				10,000
Christopher Corp				24		24
Price Limited	3,127	3,127	3,127	-	-	9,380
Bill Morneau Inc		-	26,054	-	-	26,054
JGaudreau Inc		4,542				4,542
McDavid Inc			22,044			22,044
Hasbun Smith LLP	10,500					10,500
Whi Canada Corp		5,000				5,000
Clarke Inc.		84,503				84,503
Provincial Electricity		14,554				14,554
	<u>44,829</u>	<u>248,085</u>	<u>314,972</u>	<u>100,447</u>	<u>12,500</u>	<u>720,833</u>

# More information

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Amadi Canada					12,500		12,500	pay oldest first
Health Limited	22,100						22,100	1.5% 10, net 30
400500 Canada Inc.		8,000					8,000	18% interest if overdue
LMK Corporation		12,323					12,323	they are at reception
Jones Yones Bark LLP				8,054			8,054	our lawyer
Wing Family Supply Inc			19,500				19,500	very small family business
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Percy Real Estate Inc.		85,000					85,000	main landlord
Gallivan (USA) Inc.				57,253			57,253	sister company
Farley Consultants Inc.			11,300				11,300	did one time project last month
Rachel Demski				6,050			6,050	employee expenses
City of West Village	9,102						9,102	property taxes
Edmonton Oilers Truck Centre		856					856	truck repair
Cruel Construction Corp			84,822				84,822	new facility build half complete
Lake Community College				500			500	March courses
Dept of Environment USA			6,050				6,050	Environmental project
John Horgan Corp				14,562			14,562	connected to a critical supplier
Coley Insurance Broker			2,348				2,348	D&O insurance
Trump Inc.		10,000					10,000	foreign
Christopher Corp				24			24	calls three times a day
Price Limited	3,127	3,127	3,127	-	-		9,380	local
Bill Morneau Inc		-	26,054	-	-		26,054	doing business with for 20 yrs
JGaudreau Inc		4,542					4,542	poor relationship, need long-term
McDavid Inc			22,044				22,044	your friend works there
Hasbun Smith LLP	10,500						10,500	auditors
Whi Canada Corp		5,000					5,000	got us through last crisis
Clarke Inc.		84,503					84,503	
Provincial Electricity		14,554					14,554	
	<u>44,829</u>	<u>248,085</u>	<u>314,972</u>	<u>100,447</u>	<u>12,500</u>		<u>720,833</u>	

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**WRONG ANSWER!**



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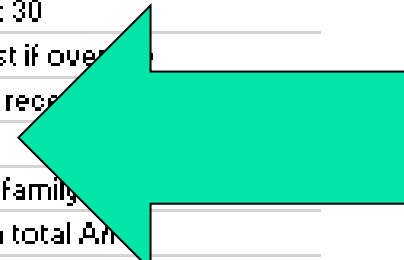
**Pay everyone a little a bit**

**WRONG ANSWER!**

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PAY NOBODY

**WRONG ANSWER!**

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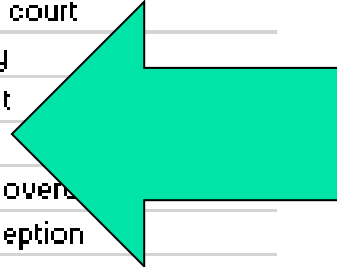
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**PAY NOBODY**

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City of West Village	9,102					9,102	property taxes
Edmonton Oilers Truck Centre		856				856	truck repair

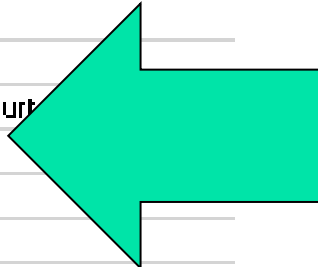
**WRONG ANSWER!**



# More information

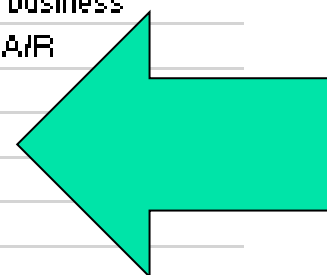
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Advantekss Inc.		12,127	-			12,127	calls every day
Amadi Canada							pay oldest first
Health Limited	22,100						.5% 10, net 30
400500 Canada Inc.		8,000					18% interest if overdue
LMK Corporation		12,323				12,323	they are at reception
Jones Vones Bark LLP				8,054		8,054	our lawyer
Wing Family Supply Inc			19,500			19,500	very small family business
GD Inc.		8,054	18,767				
Kenney Inc.			102,000				
Notley Corp			17,956				
Calgary Flames Inc			1,005				
Percy Real Estate Inc.		85,000					
Gallivan (USA) Inc.							
Farley Consultants Inc.			11,300				month
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Percy Real Estate Inc.		85,000				85,000	main landlord
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# Creditor preference

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- All provinces have laws on creditor preference/fraudulent preference
- This generally means that where certain creditors were preferred in the months before bankruptcy, the LIT will reverse the transaction
- This is intended to stop funny related party deals, not bona fide business decisions on prioritizing payment



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## OVERVIEW OF QUEBEC CIVIL LAW

a.	Juridical Acts .....	3
b.	Requirement of Prejudice .....	4
c.	Debtor's Intention .....	5
	<i>i. Presumption of fraud - acts by gratuitous title</i> .....	5
	<i>ii. Presumption of fraud - acts by onerous title</i> .....	6
d.	Requirements relating to the claim .....	7



# An alternate strategy – send all your suppliers this

---

Our system has rejected your invoice due to one of the following reasons. Please fix your invoice and re-send. The company will pay 90 days after the date of the re-submitted invoice:

- \_ You put 400, not Suite 400 in the company address
- \_ there was a mis-spelling in the company address
- \_ our company phone was not included
- \_ Your company contact was not included in the invoice
- \_ The name of your company contact was mis-spelled
- \_ abbreviations were used – our system does not understand them
- \_ the product or service was mis-spelled
- \_ Other unknown reasons you must fix

Yours sincerely

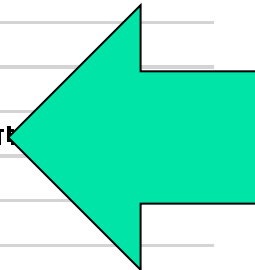
**Accounts Payable**

**Bill Payment Slowing Unit**

# More information

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**WRONG ANSWER!**





# All the wrong answers

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- You prioritize for payment, your mission critical, strategic suppliers, who can shut you down, who drive the next dollar of revenue and so on



# You should actually

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- Understand these critical and strategic suppliers and manage them well
- Meet with them early in the crisis, and discuss extended payment and other topics as you seek to manage them



# Question

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- Is there a near term forward-looking benefit from paying the supplier?
- What kind of short, medium and long-term trouble do we get in by deferring payment





# Negotiating with unsecured creditors taking legal action

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- Do you have an alternate source of supply for the raw material?
- Delay them and get legal advice



# Negotiating with unsecured creditors taking legal action

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- “The business would yield an estimated \$12M cash and assets on liquidation, we owe \$13M to secured creditors ahead of you, you will get nothing in liquidation, so work with us, don’t try to push under”
- Would you be willing to take partial payment or barter, goods or services?



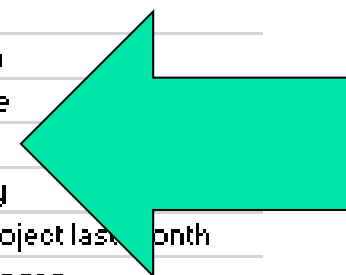
# Discounts

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- Terms: 1.5% off if pay in 10 days, other wise net 30
- You are paying 1.5% for 20 days
- Annualized interest rate of return 27.3%
- But this is an available source of financing for you to make payroll if you can't borrow otherwise

# More information

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# Landlords



- Are landlords a critical supplier?
- Most would say "of course"
- I would say, "maybe not"
- (New government plan may help you)
- "Look we have fallen on hard times, but the economy is bad, I know you could lock the doors or seize our equipment, but no one will take this space if you kick us out and we need it to generate revenue to pay you, let's work out a partial payment/delayed payment plan"
- Also, ask to draw down deposits



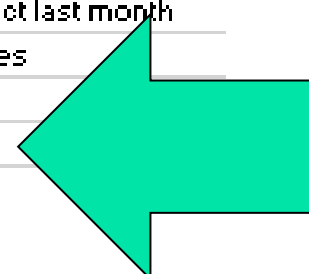
# Are employee expenses critical?

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- Yes, I think so, don't force them to finance you (they may choose to, we will discuss that later)

# More information

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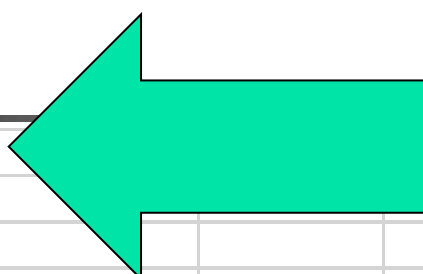


# Truck repair – mechanic's lien

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Lake Community College				500		500	March courses
Dept of Environment USA			6,050			6,050	Environmental project
John Horgan Corp				14,562		14,562	connected to a critical supplier
Coley Insurance Broker			2,348		-	2,348	D&O insurance
Trump Inc.		10,000				10,000	foreign
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Price Limited	3,127	3,127	3,127	-	-	9,380	local
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Clarke Inc.		84,503				84,503	product drives revenue
Provincial Electricity		14,554				14,554	will shut us down
	<u>44,829</u>	<u>248,085</u>	<u>314,972</u>	<u>100,447</u>	<u>12,500</u>	<u>720,833</u>	

# Construction lien

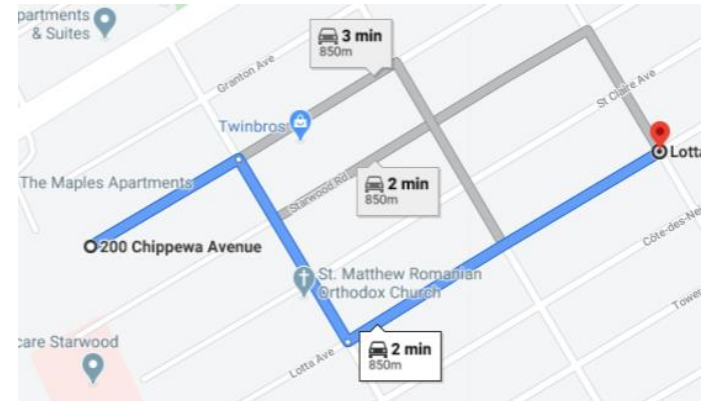
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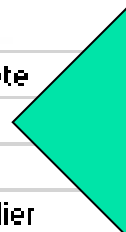


**Guide to Legal Construction Hypothecs in Quebec:  
Your Lien Rights and Responsibilities**

August 31, 2022

# Local supplier – small town

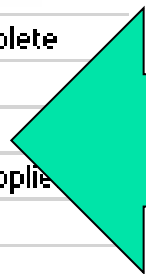




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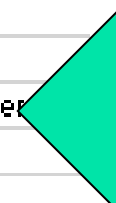


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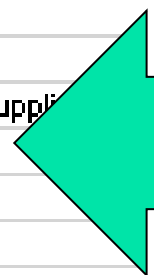


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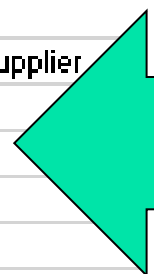


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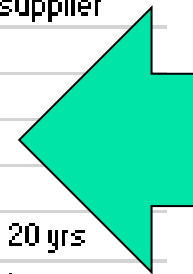
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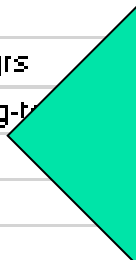




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	<u>44,829</u>	<u>248,085</u>	<u>314,972</u>	<u>100,447</u>	<u>12,500</u>	<u>720,833</u>	

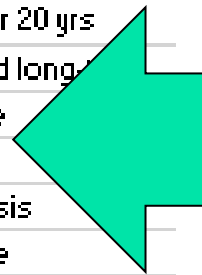


Cruel Construction Corp			84,822			84,822	new facility build half complete
Lake Community College				500		500	March courses
Dept of Environment USA			6,050			6,050	Environmental project
John Horgan Corp				14,562		14,562	connected to a critical supplier
Coley Insurance Broker			2,348		-	2,348	D&O insurance
Trump Inc.		10,000				10,000	foreign
Christopher Corp				24		24	calls three times a day
Price Limited	3,127	3,127	3,127	-	-	9,380	local
Bill Morneau Inc		-	26,054	-	-	26,054	doing business with for 20 yrs
JGaudreau Inc		4,542				4,542	poor relationship, need long-t
McDavid Inc			22,044			22,044	your friend works there
Hasbun Smith LLP	10,500					10,500	auditors
Whi Canada Corp		5,000				5,000	got us through last crisis
Clarke Inc.		84,503				84,503	product drives revenue
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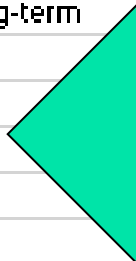


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	Gallivan Inc.		Accounts Payable					
	Current	1-30	31-60	61-90	> 90	TOTAL	Notes	Conclusion
9226-2674 Canada Inc		-	-	13,000		13,000	is taking us to court	Delay if not critical
Advantekss Inc.		12,127	-	-	-	12,127	calls every day	Delay if not critical
Amadi Canada					12,500	12,500	pay oldest first	Delay if not critical
Health Limited	22,100				-	22,100	15% 10, net 30	Available financing, delay
400500 Canada Inc.		8,000				8,000	18% interest if overdue	Available financing, delay
LMK Corporation		12,323				12,323	they are at reception	Delay if not critical
Jones Vones Bark LLP				8,054		8,054	our lawyer	Delay if don't need current work
Wing Family Supply Inc			19,500			19,500	very small family business	Special consideration
GD Inc.		8,054	18,767			26,821	has \$2B in total A/R	Delay if not critical
Kenney Inc.			102,000			102,000	supplies	Delay if not critical
Notley Corp			17,956			17,956	owner's cousin	Delay if not critical
Calgary Flames Inc			1,005	1,005	-	2,010	credit reference	Special consideration
Percy Real Estate Inc.		85,000				85,000	main landlord	Negotiate
Gallivan (USA) Inc.				57,253		57,253	sister company	Let parent co decide
Farley Consultants Inc.			11,300			11,300	did one time project last month	Delay if not critical
Rachel Demski				6,050		6,050	employee expenses	Pay!
City of West Village	9,102					9,102	property taxes	Delay as long as allowed
Edmonton Oilers Truck Centre		856				856	truck repair	Careful if need truck, lien
Cruel Construction Corp			84,822			84,822	new facility build half complete	Delay if no project not critical
Lake Community College				500		500	March courses	Delay soft supplier, not critical
Dept of Environment USA			6,050			6,050	Environmental project	Delay soft supplier, not critical
John Horgan Corp				14,562		14,562	connected to a critical supplier	Special consideration
Coley Insurance Broker			2,348		-	2,348	D&O insurance	Special consideration
Trump Inc.		10,000				10,000	foreign	Easy delay
Christopher Corp				24		24	calls three times a day	Pay out small harassers?
Price Limited	3,127	3,127	3,127	-	-	9,380	local	Special consideration
Bill Morneau Inc		-	26,054	-	-	26,054	doing business with for 20 yrs	Special consideration
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Clarke Inc.		84,503				84,503	product drives revenue	Pay!
Provincial Electricity		14,554				14,554	will shut us down	Pay!
	<u>44,829</u>	<u>248,085</u>	<u>314,972</u>	<u>100,447</u>	<u>12,500</u>	<u>720,833</u>		



# Notes

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- Delaying \$476K of A/P a while is liking getting a \$476K line of credit from a lender
- Applying this all with good judgement, take my recommendations as universal....





# A recent comment on all this

---

- *"I think that the most under-rated tip that most accountants are afraid to implement is to order your accounts payable in strategic order or "mission critical" rather than who screams the loudest or which payable is oldest "*



# Yes, it is

---

- Time-consuming and tiring versus just, telling A/P “pay all approved bills when due...”



# More ways to analyze payables

---

- Can you call them and ask for a X% cut, and you will pay right away (easier with small businesses, so no approval delays in bureaucratic organizations)?



## Some lines...

---

- “We are hurting right now (like everybody)
- We know you are probably hurting
- We need to work together for mutual benefit, we want to work with you in the long run (if true), so let’s work something out, we need to share the pain, our customers are squeezing us”

# Post-dated cheques

- Often will get suppliers to leave you alone
- Yes, they know you can bounce them, or put stop payments on them
- (If your bank cashes a cheque in error, insist they reverse it)





# Charities note

---

- Suppose a supplier is not a critical but a major donor to the charity → special consideration for them!
- Suppliers may be nicer to you than a business in financial trouble, “we are trying to find a cure for –type of cancer, can we have 40 more days to pay”



# Tricky area

---

- Be careful when signing credit forms with suppliers
- Sometimes in the small print, the signer is personally responsible for the corporate debt if not paid
- I don't think you want to personally guarantee anything accidentally – I have seen it happen: a \$15K successful legal action against a President on this, who was not the owner

# Credit Application Form

**SCIENTIFIC**

Dear Customer,

Thank you for your order/quotation request. Please complete the form below to enable us open a credit account for you.

We would like to take this opportunity to thank you for your interest in our products.

## Company Details

Company Name	<input type="text"/>	Contact Name	<input type="text"/>
Address	<input type="text"/>	Tel. No.	<input type="text"/>
Reg. Office <i>(if different from above)</i>	<input type="text"/>	Fax. No.	<input type="text"/>
		Email Address	<input type="text"/>
		VAT No.	<input type="text"/>
		Registration No.	<input type="text"/>
		Date of Incorporation	<input type="text"/>
		Required Credit Limit	<input type="text"/>

## Bank Details

Bank Name	<input type="text"/>	Bank Address	<input type="text"/>
Sort Code	<input type="text"/>		
Account No.	<input type="text"/>		

## Trade References

Name/ Address Tel. No.	<input type="text"/>	Name/ Address Tel. No.	<input type="text"/>
Nature of Business	<input type="text"/>	Nature of Business	<input type="text"/>

## Declaration

In making this application for credit facilities with Campbell Scientific Ltd, I/We acknowledge that I/we have read and understood the





In making this application for a credit account with Scientific Ltd., I acknowledge that I have read and understood the company's terms and conditions for trade (see overleaf) and agree to abide by them. If the corporation defaults on the debts incurred, I agree that I will be personally responsible.

Name

Position

Signed

Date



Suppliers you can't pay are  
calling

---

# Have a recording

---

- Thank you for calling, your call is important to us. Call volume has been higher than normal. Please leave your message after the tone, we will respond to all enquiries within 5 business days...!





Or

---

- Thank you for calling, your call is important to us. Call volume has been higher than normal. Your estimated wait time is 462 minutes....! (and play the most irritating music possible - in one minute loops!)



# Or tell them you use the hat method...

---



# Suppliers you can't pay are calling

- Answer the phone or emails (senior person)
- Don't lie or fail to meet your new commitments (Rule 205/26 ethics)
- (Helps your reputation) - also don't bounce cheques





# Reputation and ethics

---

- Don't promise what you can't deliver
- If the President says, "we will pay them next Thursday" don't tell the supplier "we will pay you next Thursday"
- Say the President said "we will pay you next Thursday"
- Then you are covered, if the President changes their mind
- This has paid off for me..



# Delaying payments

---

- From the course **How to Cheat Your Way Through a Cash Crisis course**



# Delaying payment

- They say mail the cheques but....



# Delaying payments

- They recommend you spill coffee on the cheque, so the supplier can't cash it



# Put the cheque in the envelope, but

- Only send them half a cheque!
- The partial payment....





# Delaying payments a week

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- Put void on the cheque
- Stale-date the cheque (May 17, 2018)
- Send them a cheque with holes in the bank coding!
- Fold it in the envelope, so they will rip it when they open it
- (never done, never would, not teaching this to you, don't do this, not ethical)



# More seriously

---

- I normally pay my suppliers early or on time
- This helps in price negotiations and if you ever have to stretch



## More seriously...

---

- My overall intention is that all my trade and other suppliers get fully paid out except for agreed upon reductions, although there may be delays
- Only a few suppliers in my entire career didn't get fully paid out – but it was after my time, due to owner decisions, not a bankruptcy, and it still bothers me...



# People costs

---



- A huge cost for most of us
- More sensitive from a human perspective, and hard to deal with
- You want to make it as least painful for all, as reasonably and economically possible

# Those difficult human decisions...

All other things being equal/who goes/stays?

- The recent hire
- They annoy you
- They will get another job easily...
- You personally hired them
- They tell everybody they have enough \$ to retire
- Laid off the last three times
- Single Mom – several dependents







## Also difficult if...

---

- If your employer is in a small town...
- The manager is laying off a neighbour, spouse's colleague, etc.



# The big question that you might want to air

---

- “Do we want to shut the doors soon, and all be out of work, or try to get through this together?”
- “We have say \$20M margin, we can’t increase them. We have \$22M of costs, mostly payroll, so something has to be done about reducing payroll...”



# Leadership

---

- Do the employees trust senior management/owner
- Before difficulties, did you have a good or an adversarial relationship with your employees?
- If you have consistently treated your employees well, everything is easier....



# Leadership

---

- Make sure everybody knows that the senior executives are volunteering for the biggest cuts
- You volunteer for a major cut of course, perhaps to zero!
- (I once took a cut to minimum wage!)



# Sometimes it is

---

- Not enough money to pay people, not much work to do → temp lay-offs, terminations
- Not enough money to pay people, still lots of work to do → must work out deals



# Do the easy cuts first

---

- Owners and family, if any, get cut/defer pay
- Low performers are gone
- Contractors – end the agreement
- Term employees – don't renew
- Hourly employees with no minimum hours, reduce hours



# Also

---

- Hiring freeze, so reduce payroll by attrition
- (But feel free to come with a business case if there is a really good person available and there is a need. There may be some excellent candidates around - soft market, lower salary demands)



# Another good option

---

- Leaves of absences (voluntary)
- Normally, no employment law implications
- Go back to school
- Spend time with your family
- Travel
- (You don't want your key people to opt for this...)





# Accept any who volunteer

---

- “I will bank some hours”
- I will sacrifice myself for -----
- “I offer to cut my hours”
- “I will take some shares”
- Document that they volunteered, were not forced



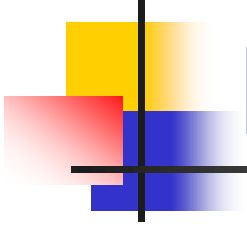
# Other less painful ideas

---

- Increase working working hours to drive more revenue (some businesses), without increasing pay
- Stop or delay RRSP matching is voluntary by the employer

But now you have to do more  
painful cuts

---





# Information

---

- You need to know who is really needed and who is not
- You need your severance cost by employee
- You need employment contract highlights
- You or managers need to know their people, who might be litigious to be more careful
- You need to know employee's pain points (frank discussion, what can you live on?)
- You need to know the share pool that could go to employees (2% of company, 10% etc)



# You need the individual analysis

---

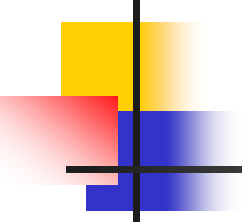
- Current loaded cost
- Hours you need them
- What they would get on EI
- Ability to be incented through shares & other ways
- Net cash cost to the company after you implement your plan



# Temp layoff

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- Saves payroll, no immediate termination costs, and bring them back when you can
- Works better in some provinces than others
- Check your provinces latest rules



---

## Layoff

A layoff temporarily suspends the employment contract between the employer and the worker for economic, organizational or technical reasons. The person may be recalled to work. The employment relationship is maintained during the layoff.

At the time of a layoff of more than 6 months, the employer must give the [worker notice of termination of employment](#) in accordance with the prescribed notice period. If they do not do so, the worker is entitled to an indemnity.

In the case of a layoff that is indefinite or scheduled to last less than 6 months, but which exceeds that period, the employer must pay the compensation at the end of the 6-month period. The payment of compensation at the end of the six-month period does not sever the employment relationship with the laid-off worker.

Other features of the layoff apply to the calculation of the compensation.



# Terminating people

---

- Never a laughing matter, but how about this line in the layoff meeting...



“I don't know how we are going to manage without you, but we are going to try”





Share or ease the pain

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# Work-sharing program - federal



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- Cut hours across the board in a “work unit” doing similar work, but EI can still partially top them up
- Must be approved 10 days before you start by the federal government they are backlogged
- Union must be involved
- Can be difficult to manage



## Mini case

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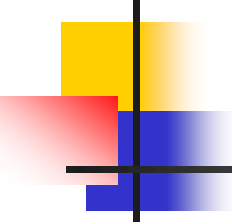
- 25 employees now only have 40% of the regular workload
- Do we terminate or temp layoff 60% of the group, or do we do work-sharing, everyone works 2 days a week and get some EI



# Work-sharing numbers

---

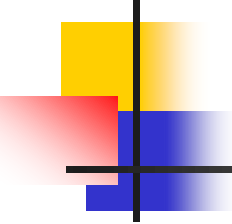
- Normally, an employee working 2 days a week would get EI reduced 50% for those days of work
- With work-sharing 2 days a week, they get 3/5 of the regular EI



# Supplemental Unemployment Benefit Plan (SUBP)

---

- Not so well known
- Allows you to top up the pay of people who make more than insurance earnings limit, without grinding EI, up to 95% of normal weekly earnings
- “Payments from SUB plans **that are registered with Service Canada** are not considered as earnings and are not deducted from EI benefits”



# Supplemental Unemployment Benefit Plan (SUBP)

---

- Laid off, EI is \$573/week, \$29,796 annualized, but company tops up with \$31,954, there is no EI reduction
- Best used to keep higher paid people happier on EI (used for mat/pat leave and other situations...)
- Paperwork to do and approval needed
- There has to be a trust and a trustee



# Announcement

---

- Your salary has been cut 50% during these tough times





# Cut people's pay for a time

---

- Wait, this is constructive dismissal
- You are probably correct: an employer unilaterally changing a material term of an employment contract negatively, they could demand their severance package
- This is true, but...



# Cut people's pay for a time

---

- I have never had a legal action for pay cuts
- They want the company to succeed
- They agree in writing and are incented by shares, stock options, or conditional bonuses, or reduced hours
- I have seen all kinds of cuts for different durations of time (10%, 20%, 50%, 80%, 100%)



# Recent polling question

---

QUICK POLL

**You are currently being paid less than full normal salary due to employer cash limitations**

Total views: 225 (single answer required):





## bonus example

- You will be in line to get a bonus after next fiscal year for taking the pay cut (reduces your fixed costs)
- Pool = Pre-tax income 2021 fiscal year - \$1.5 million (to a max of \$800,000)
- Pool will be split between employees with the company at April 1, 2022, based on foregone salary during 2020



# A bonus example

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- Pool = \$2.74 million pre-tax income  
2021 fiscal year - \$1.5 million (to a max  
of \$800,000)
- Therefore, pool is \$800,000
- 113 employee took pay cuts
- Employee took 2.36% of the total  
foregone salary
- Bonus is \$18,880



# Another idea

---

- \$20K bonus to employee who got pay cuts, and is with company on December 31, 2020, and Q4 sales are at least 90% of Q4 2019 sales
- Both bonuses incent employees to stay with the company and work hard
- No need to pay if business is doing bad



# A real case I know of

---

- Large business says to workers: “we either lay off 10% of employees or cut wages 10%, you can vote on this”
- Result: Unanimous vote to share the pain, keep all colleagues employed...





# Remind them

---

- If their salary is cut, soften the blow for them, with your tax knowledge
- 50% pay cut example
- Wait, your take home pay is not cut in half (graduated income tax rates)
- Eg \$60K income, monthly take home goes from \$3,806 to \$2,076, only a **45.5%** drop



# Unions

- A different situation, more tricky
- Historically, unions have sometimes taken pay cuts

## **Union concedes cutbacks to protect basic pay**

- Let's work together, so more of you have jobs...
- You will have to open the books

# Watch out

---

- I once witnessed a public company CEO announce across the board pay cuts to all in a company cafeteria, with a smile...NOOOO!



# Shares



- A good alternative in some situations, saves cash, gives out some ownership instead
- Can give to certain employees, not necessarily all
- Some of you can't (sub of foreign parent, family won't give any out, NPO, etc)
- No immediate tax implications for CCPC employees if structured carefully using options (Section 7 ITA, you need advice)



# Share complications for employees and the company

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- Valuation may be lower, not good for existing shareholders
- They will likely be bound by the Unanimous Shareholder Agreement restrictions (limited ability to sell)
- Valuation issues and voting rights
- Have the company retain Power of Attorney to vote the shares into perpetuity, this helps
- Tricky area: negative tax implications if shares are sold for less in the future



# Taking shares

---

- I knew this guy whose employer owed him significant unpaid wages
- He finally exchanged this for shares (and some cash)
- It worked out quite well for him
- I don't know him personally, but he was the greatest points per game scorer in NHL history



# Taking shares

---



- I knew this guy who was an unpaid creditor of a company
- He finally exchanged this for shares (and some cash)

It worked out quite well for him

I don't know him personally, but he was the greatest points per game scorer in NHL history

He now owns the Pittsburgh Penguins, one of the great professional sports franchises, with three recent Stanley Cup wins

- Have you ever heard of Mario Lemieux?





# The story

---

- “Years of deferred salaries, adding up to \$32.5 million, had made him the Penguins' largest creditor in bankruptcy. He converted \$20 million of his deferred salary into **shares**, with another \$5 million in cash (77 cents on the dollar cash and shares), enough to give him the controlling interest

Forbes: Penguins value remains flat at **\$650M**. The Penguins aren't the defending Stanley Cup champions anymore, but they're still worth a lot of money. Forbes valued





# Watch outs

---

- Keep funding the benefit plan, even if employees are on layoff
- Suppose someone gets cancer...
- Suppose someone is disabled...



# Deferring pay

---

- Probably get their written consent
- Remember director liability
- Remember employment standards Pay them and have them loan the net back, avoids these issues
- Example: \$4,000 gross pay, \$2,800 net, loan that amount back



# Be nice to your people

---

- Due to cuts/temp layoff, an employee is going to make \$60K this year, and \$120K next year
- What is the smart thing to do to save them income tax?



# The answer

---

- It is not good to make \$60K this year, and \$120K next year
- Better to make \$90K/\$90K
- Therefore give them an advance on Q1 salary at the end of December
- Income tax saving in \$7K range
- May need to protect the company if they quit in early in Q1

# For your people who are living on less

- Make it all easier by offering a family financial seminar
- Obviously, must be taught by a financially responsible accountant (you)
- Teach them how to track expenses and have a budget if they don't
- Re-finance debt with lower rates
- Tell them to reach out to you if in crisis, answer personal tax questions, but be careful, you are not a tax specialist





# Note

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- Implement all this carefully with very good, HR, employment law and tax advice



# Emergency financing sources

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**WHOEVER CLICKS ON THIS  
BUTTON FIRST TO REVEAL  
WHAT IS UNDER, WINS \$100,000**



# Emergency financing sources

- Buy lottery tickets in the name of the company!



Or get a pay day loan



# Emergency financing sources

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- I heard of a small business owner who got 28 credit cards for emergency financing!...(not a joke!)





# Emergency Financing Sources

---

- Only borrow if it makes sense, if there is hope, for bridging, for a specific purpose
- You will generally pay a lot for emergency financing sources....
- There are boutique high risk lenders for this



■ Today trouble

Key payment



# A real loan offer, high risk company and situation

September 29, 20[REDACTED]

[REDACTED]  
CAPITAL PARTNERS

**PRIVATE & CONFIDENTIAL**



Attention: [REDACTED] President

RE: Memorandum of Terms for Secured Bridge Loan to [REDACTED]



# The actual offer

---

- 24% nominal rate, with commitment and other fees, 54.25% effective rate, partly due to 90 day time frame
- We did not take it
- Note: usury is a criminal offence in Canada, at 60% (Section 347, Criminal Code)

# Pay day loan rates





# Pay day loan rates

- Payday loans used to be 59.99% but they got exempted so now they charge...



...Cash

or

\$200

Loan amounts are subject to net pay and other qualification requirements and this offer is available for new customers only that are British Columbia residents. The maximum charges permitted in British Columbia for a Payday Loan is 15% of the principal. Under this offer, on a \$300 loan for 14 days, the cost of borrowing is \$20, with a total payback amount of \$320 and an APR of 173.81%. Regular fees apply on subsequent loans and the cost of borrowing at Cash Money in British Columbia is \$15 per \$100 borrowed. 081018\_BC\_RQ110523 • BC

ON FIRST LOAN ONLY

Loan amounts are subject to net pay and other qualification requirements and this offer is available for new customers only that are British Columbia residents. The maximum charges permitted in British Columbia for a Payday Loan is 15% of the principal. Under this offer, on a \$300 loan for 14 days, the cost of borrowing is \$20, with a total payback amount of \$320 and an APR of 173.81%. Regular fees apply on subsequent loans and the cost of borrowing at Cash Money in British Columbia is \$15 per \$100 borrowed. 081018\_BC\_RQ110523 • BC Licence #56824



# Question

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- How can a special bridge lender get first security, when there is an existing lender with a first security ranking?
- Answer: temporary subordination agreed to by first secured lenders for a specific purpose and a limited time



# Charities

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- Find a special funder
- No interest!

# Emergency financing sources

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- Talk to your existing shareholders, and potential new ones
- Liquidate any excess assets (lease back)
- Ask employees for loans
- Look for a strategic investor





# Existing shareholders might

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- Inject new equity
- Guarantee loans (be careful)
- Loan more money
- Exercise warrants/options



# Also new equity investors

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- Float a special share offering for new investors
- I have sold shares to employees for cash in a crisis (I bought some)
- I have sold shares to a contractor for cash in a crisis
- Explain valuation is down, due to the crisis, to incent them
- Ensure you comply with all applicable securities regulations

# Liquidate any excess assets



ebay





# Release hidden equity

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- Sell anything that is not being used now
- This includes intellectual property
- If you still need it, lease/license it back
- Example: company sells its six trucks for \$210,000, leases them back for \$2,500/month

# Liquidate business units



BUSINESS | News

— Bombardier is out of commercial aviation with plan to sell C Series stake

Montreal

## **Bombardier sells train-making division to French multinational Alstom**

'Most importantly, we have protected 3,300 jobs,' CEO says as only business-jet unit remains

- Use proceeds for operations, or to pay down debt

# Smile

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- A professional ice-sculptor filed for bankruptcy...
- They will have to liquidate his assets





# Strategic investor

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- Perhaps an industry player, a key supplier, competitor even
- You don't have a strong negotiating position
- They may say we will pick up the pieces after you go bankrupt...



# Charity/NPO

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- Merge with another charity/NPO doing similar things

# Emergency financing watch out



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- Family loans – various family members advancing money to help company survive
- Get the ranking and priority clear, or there may be family trouble later!
- I have a seen a father-daughter legal action on this account, and I had warned them....

# Getting outside the box

- Unusual ideas are especially important in a cash crisis
- You must challenge your assumptions, and think creatively



# Getting outside the box

- Hibernate/mothball the business for a period
- Volunteer employees might be able to get shares and EI!
- Loans so there is no LTD premium tainting for tax
- Accountant got CEO treatment for crack cocaine habit once solved a crisis for company I know
- A different class of shares for work







# A different class of shares

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- You incent people with common shares, and existing shareholders may get diluted
- There may not be much chance of cash for employees from common shares
- So how about a special class of preferred shares?



# Special class of preferred shares

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- Bear dividends, cumulative at a reasonable rate, say 5%
- Are redeemable by the company in the next three years
- Convert to common at a favourable rate in say three years
- (Another possibility - increasing redemption prices or dividend rates to motivate the company to redeem earlier)



# Preferred shares from an employee perspective

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- “Interest” accrues at a reasonable rate
- They have to get their dividends, before the common shareholders
- Dividends are taxed favourably (although ineligible)
- There is a reasonable chance they will get cash, the company has some incentive to redeem



# Preferred shares for the company

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- Not a real liability with balance sheet and covenant implications
- Not a director liability for unpaid wages
- No “interest” that has to be paid
- The company has choices, if it prospers
- Motivates employees and helps retain them
- Yes, expensive financing, no tax deduction, but there is a crisis!
- Could also be used for suppliers, not just employees (bad for tax)



# Tax note

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- These are tricky to implement as incentives
- You may want to structure with options



# Outside the box

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- A first secured lender is pressing us
- An existing shareholder purchased the secured, first priority loan from the lender!
- Took away a lender that was pressing and replaced it with a “friendly” lender
- Shareholder now in first place security with a number of advantages (better than lending the company to repay the loan)
- (No new cash for the company)



# People ideas

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- Recession-linked pay formula employees for new employees (how about this for all government employees!)
- New roles for groups, eg HR not busy, you now have to do payroll

# More

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- Work at home during COVID-19 shows you can do this more, cut real estate costs







# Don't be afraid to turn things around, re-invent the business

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- The crisis could propel some thinking that might really improve your business
- There have been some great temporary ones, eg from distilling alcoholic beverages to making hand sanitizer
- But maybe permanently re-invent for the better

# My business - SureWx

- Was selling this equipment

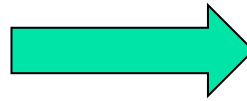
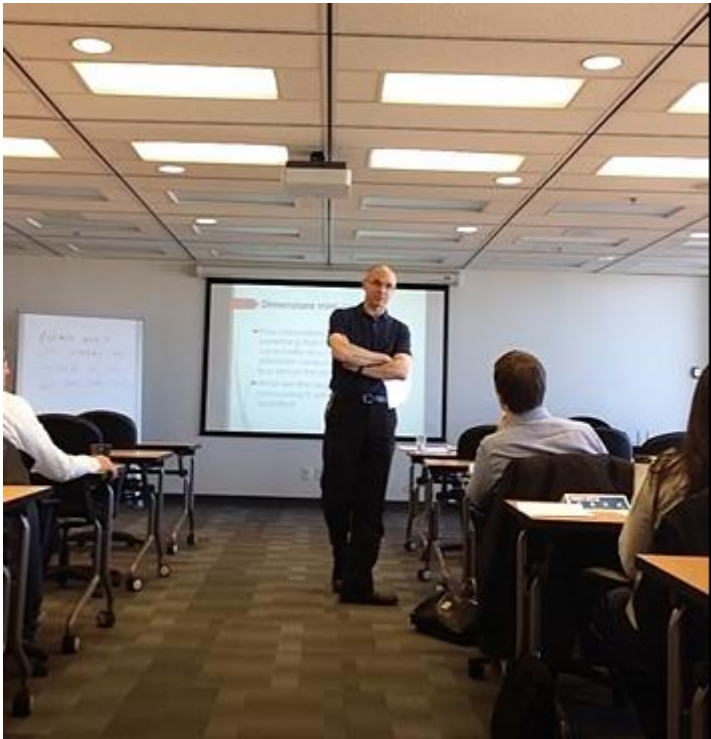


- And now



REAL-TIME HOLDOVER TIME DATA IN YOUR HANDS

# Obviously, I had to re-invent my speaking business





# Restaurant re-invention

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- Simple: go 100% takeout
- More creative: can't open, long-term purchase contracts, sell groceries
- High-end steak-house, refuses to go takeout, but I just heard they now offer



# Initially refusing to re-invent

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**THE KEG**

**CELEBRATION KIT**

A make-at-home meal kit with everything you need for a celebratory Keg Classic Dinner, for two or four (or six, or eight!) - at home.

# Notes

- I try to re-invent things, example baklava!





# Don't be afraid to turn things around, re-invent the business

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- Another of my employers was strictly in electronic engineering design services, then decided to sell products
- Sell assets/parts of business to employees, and have them back on contract to do work for you (trucks, cleaning)



# Outside the box financing

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- Idea: create a non-traditional vehicle to meet the investor's needs and the company's
- In a crisis, we created a secured loan, without interest, but with a warrants to purchase common shares as an "equity sweetener"! \$750K
- Who were the investors?
- I can't tell you but collectively the three of them played for these hockey teams...and were recently retired...



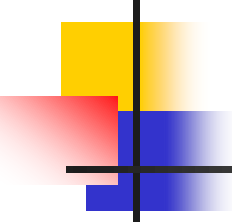




# A lot of miscellaneous tips

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- Return inventory to supplier, regardless of re-stocking charge – effectively a financing cost
- Slash inventory levels – fire sales
- See if you can get back any deposits on anything, perhaps with a penalty



# Cut all the small things you were thinking of cutting, but delayed

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- Telephone lines – go VoiceOverIP (VOIP)
- Stop paying for any software or support you are not using – you would be surprised, there may be quite a bit
- Turn cloud/hosting software off during non working hours, if there are time-based charges



# All costs under the microscope in a public company

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- Free coffee/hot choc/juice - gone
- Reception - gone
- The weight room expansion - gone  
(\$40K saving)
- We sublet some rooms and cubicles



# Tax ideas

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- Get the big shipment the last day of month, not the first day, because of GST/HST/QST refund timing
- Ask if tax installments likely not needed now due to losses, can be offset against source deductions or GST/HST/QST



# Tax ideas

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- Change your year end, to get large Scientific Research & Experimental Development (SR&ED) refundable tax credit claim in early
- Rush SR&ED submission - once I did financial statements and tax returns and SR&ED technical reports filed 13 working days after year end, due to the crisis need for the cash (I started well before year end)



# Tax ideas

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- Government owes you \$? Beg them to speed it up, or offset against source deductions

# More ideas

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- Travel freeze (or CEO must approve only well-justified travel)
- Cancel training and PD courses...!





# Miscellaneous tips

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- Cancel/defer capital expenditures, even if there are penalties or lost deposits
- Perks are gone, cell phones, parking
- You become a sales person (part-time) to help drive revenues
- Trim the benefit plan (drop vision care, reduce dental limits etc) if possible contractually



# Miscellaneous tips

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- Stop/delay advertising and promo
- Do you really need that insurance, self-insure for a while (check contractual requirements)
- Incent suggestions from employees, with rewards (the suggestion box)

British Airways saves £600,000 in fuel costs from just one suggestion



# Payroll tips

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- Move payroll to semi-monthly instead of bi-weekly (spreads cash, more symmetrical)
- Sell it to employees: your pay cheques will all be bigger, you will get more per month except for two months a year, better for your monthly expense cycles for both you and the company
- Your payroll service is sitting on your money, before making CRA remittances
- Tell them to calculate the remittances and you will make them to improve cash flow



Let's talk about our stress

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## **STRESS REDUCTION KIT**

- 1. PLACE KIT ON HARD SURFACE**
- 2. BANG HEAD ON CIRCLE**
- 3. REPEAT STEPS AS NECESSARY OR UNTIL UNCONSCIOUS**
- 4. IF UNCONSCIOUS, CEASE STRESS REDUCTION ACTIVITY**



# Stress

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- Personal financial stress is less, if you are careful with your finances, which has other advantages



# Stress management for you

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- You bear a lot of the brunt of the stress
- (It is worse for an owner!)
- You need distractions
- Whatever works for you, this works for me
- I am not recommending any legal or illegal addictive substances!
- Bigger picture, you are alive, you have a job, you will get by, your loved ones are safe...

# Spend time with the care-free!

- 
- 
- For me, two grandsons who live nearby



# Cashflow crisis – overall comments – big picture

- Can the organization recover?
- Is the business fundamentally unhealthy even apart from COVID-19
- Do you want to be around during bankruptcy/receivership?
- Should you then **abandon ship** find another job, if you can?



# Key question

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- Is this a temporary or permanent problem – is the business riding a dead horse, or is it just starving or sick? If the latter, you are a financial/business doctor.





# What do many org's do with the dead horse?

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- Say things like "This is the way we have always ridden this horse"
- Hire consultants to advise the dead horse
- Ask for donations of more dead horses (charities)
- Arrange to visit other companies to see how they ride dead horses
- If all else fails, appoint a committee to study the dead horse!

The only real option





# Personal

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- I have avoided a later receivership by abandoning ship once, and I am glad I did
- I am glad I stuck with some other companies, back to prosperity!



# If you think you should abandon ship

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- And you have other, better options
- And they want you to stay
- It might be time to ask for retention bonus and turnaround success bonuses....(I never have)



# You have a question for me

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- Are all the companies you work for in perpetual cash crisis?
- No! Only about 2 years of my career in total out of 35 years have been spent in a cash flow crisis....I just had a lot of stories on them in this course

# Successes and failures - personal



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- I have written off \$100K and \$10K worth of shares, obtained for salary during crises from two different former employers
- But I got large dividends recently from crisis shares I received for salary or bought, also sold some of these shares for large profit to a public company – partial buy out





# Conclusions

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- Best wishes in your cash crisis, if you are in one
- An opportunity to learn a lot
- When times are good again, put something aside...
- I would love to meet you one day and hear this course helped you get through...



# Want Ad



## **Wanted**

An accountant who has been through a cash crisis, and doesn't want to go through another one

## **Responsibilities:**

- Perform monthly, quarterly and annual account reconciliations
- General ledger reconciliations
- Inventory management
- Assistance with the preparation of financial statements
- Complete financial analysis
- Coordination and completion of annual audits
- Reviewing and maintaining internal controls and related documents

## **Compensation:**

\$190,000.00 to \$210,000.00

- You can apply for this job one day with your experience, and help avoid crises!

# All my live seminars/webinars have an opportunity to win prizes

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I can't do that on the self-study version  
BUT, send me an email with:

- example of how you plan to apply a tip
- another tip idea
- useful feedback
- clean relevant joke

and you will enter a draw for a prize  
(value at least \$30) [spriddle@bell.net](mailto:spriddle@bell.net)





I have many created many  
other practical courses

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# My other courses

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- I have many other courses



# Ethics

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- **Ethics – More Than Just The Code, 2 hours**
- **Ethics – That Feeling In Your Gut, 2 hours**
- **Ethics – Where the Rubber Meets the Road, 2 hours**

# Other courses of interest – 6-7 hours



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- **Practical Tips for Controllers & CFOs**, nearly 11,000 have taken it
- **Practical Tips for Not-For-Profit Financial Leader**
- **Practical Tips for Government Accountants**



# Other courses of interest

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- **Practical Work Smarts for Accountants** 2 hours
- **Practical Tips to Get Through a Cash Crisis**, 2.5 hours
- **Practical Financial Negotiation Tips** 4 hours
- **Practical Work Solutions From Case Discussions**, 2 hours
- **Practical Brainstorming - Top Ten Trouble Spots and Other Useful Topics for Financial Leaders**, 4 hours





# New

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- **Sharpen Your Business Loan Negotiation Tips, 2 hours**
- **Practical Tips to Improve Your Internal Financial Reporting, 1.5 hours**
- **Contract Review Tips for Accountants, 1 hour**
- **Practical Foreign Exchange Management, 1 hour**



# Closing comments

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- Was the video boring?
- Please complete seminar evaluations
- Maybe we will meet at a live session one day!
- You can do LinkedIn with me
- Thanks for attending, stay safe