How to Pay Business Debts You Can't Afford

A Do-It-Yourself Guide

Association of Small Business Development Centers

CORPORATE TURNAROUND

How to Pay Business Debts You Can't Afford
(After all, you can't give what you don't have!)

Dear Business Owner:

The U.S. Small Business Administration reports that approximately 40,000 businesses close their doors or file for bankruptcy each month. Many of these companies were mired in debt and didn't have a viable plan to work themselves out of it. All they had were hopes that things would get better. If your business is experiencing problems with debt, read on so you don't become a statistic.

Corporate Turnaround has helped thousands of businesses get out of debt. The strategies in this guide have been instrumental in reaching over 25,000 affordable settlements for our clients. Now we are sharing our most closely guarded secrets with you to help you work your way out of debt on your own.

Why? Because if you can afford 8% a month or more to pay off your problem debts, you should be able to satisfy your creditors on your own. If you think you can't afford 8% a month, this guide will give you other viable options as well. In any case, reading the guide will help you better assess your situation and options.

Getting your business out of debt on a limited budget requires a methodical, disciplined and patient approach. If you are willing to spend the time and effort necessary to honorably repay your creditors to the extent you are able, then this guide can help. Go through this guide completely to get a good understanding of what to expect and what to do.

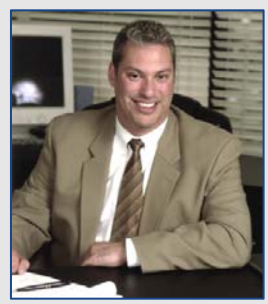
You'll see the criteria to use in determining whether you can satisfy your creditors on your own or if you need to take alternative action. You'll learn how to create a budget to enable you to meet your post-settlement obligations. You'll determine which debts are your "problem debts" and craft your own settlement offers for creditors. You'll find out how to best present your hardship to make it easier for a creditor to accept any of your settlement offers.

You may decide that it's best to close your business because even if your debt problem can be properly addressed, you still won't be able to make a profit going forward. But some business owners do not have this freedom of choice. Often, their fate is tied to the business and they can't just walk away--they've signed contracts with banks, suppliers, landlords and finance companies for which they may be personally liable. You may have no choice but to try to work things out. If the debt is too heavy, you may need professional help. If the situation isn't so bad, you may be able to work things out on your own.

The most dangerous option is to do nothing. Without making a decision, the company can sink deeper into debt and it could be only a matter of time before creditors seize your assets and put you out of business.

Sincerely,

Jerry Silberman
CEO and Founder
Corporate Turnaround

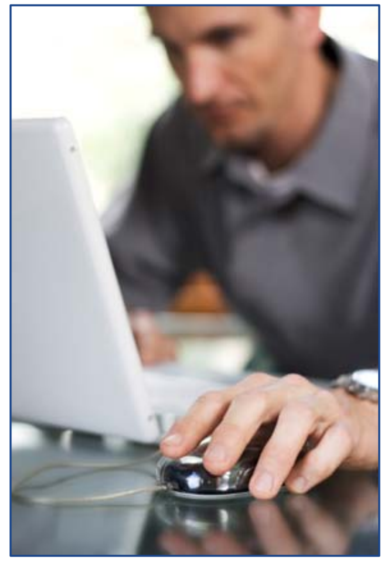


Jerry Silberman is the CEO and Founder of Corporate Turnaround. He has pioneered the Debt Restructuring industry for small businesses and revolutionized the collection industry. In 1990, he started Interstate Department Services, a nationwide collection agency.

He went on to found Commercial Credit Counseling Services, now Corporate Turnaround, in 1998.

He is considered the pre-eminent authority on helping small businesses emerge from overwhelming debt within their means. He co-authored "Small Business Survival Book", which has been endorsed by Steve Forbes. Silberman has lectured across the country and has been a featured expert on Bloomberg TV, WABC-TV, News 12 New Jersey and on numerous radio shows. Find out more about Debt Restructuring by calling 800.646.9330 Ext. 7700 or by visiting www.NegotiatePayables.com.

What is Debt Restructuring?



Debt Restructuring is the process of negotiating new payment terms with existing creditors. The purpose is to **satisfy your creditors based on a budget you can realistically afford** in an effort to hopefully avoid lawsuits and bankruptcy. Restructuring includes reducing the amount owed and/or stretching out the time period for making payments to creditors. Variables to consider before undertaking a restructuring on your own include:

1. Determining how critical your debt problem is.
2. Identifying which debts need to be restructured.
3. Projecting how much you can afford to pay toward these debts on a consistent monthly basis.
4. Considering the future profitability potential for your business.
5. Deciding how much time and effort you are willing to devote toward the restructuring process.
6. Creating affordable settlement offers.
7. Negotiating with collectors and countering offers.

Does my company need Debt Restructuring?

Here are some warning signs:

1. You're having trouble paying current bills as well as past due debts.
2. You're putting off debts that you had planned to pay.
3. You've already negotiated new payment terms with creditors, but can't afford them.
4. You're paying smaller creditors first while ducking larger creditors that potentially pose a bigger threat to your company.
5. You're being contacted by a collection agency or are being sued.
6. You're bouncing checks.
7. At least 30% of your payables are over 90 days old.

Warning: If any of these signs apply to you, it's time to develop a well thought out and realistic plan to satisfy all your creditors.

Should I restructure debts on my own?

Shouldering this responsibility is a matter of both personal strength as well as the financial ability to handle repayment. Here are a few guidelines:

1. If you can afford to pay off your past due debts over the next three months (that's about 33% per month), you can handle these creditors with no problem on your own.
2. If you need six months to pay off these debts (that's about 17% per month), it's feasible that you can negotiate with your creditors on your own, but it will be considerably more difficult and time-consuming.
3. If you can't foresee paying off these debts in a six-month period, you will need to develop a plan that will enable you to effectively stretch out payments up to a year. If you can afford 8% per month, this guide is intended to help you do just that.

Warning: If you need more than a year to pay back these debts, we strongly suggest that you seek professional help. *See Further Options on page 7.*

Will restructuring hurt my credit score?

When you don't pay bills on time, your credit score typically deteriorates. Chances are, if you are reading this guide, your credit rating has already been damaged. By restructuring your debts, you can save money and/or extend payments out over time, but expect your credit score to take a hit.

> *Important:* The primary goal is to save your business, not your credit score.

I've already broken established payment plans. Why would my creditors be open to another negotiation?

1. As tough as collectors may seem, most have a human side. **If a true hardship is properly presented, most of the time they can go outside of their normal settlement parameters.**
2. You control what they want – the money they are owed.
3. A creditor that has not already placed you for collection or suit can save money by working out a deal directly with you.
4. If you are already dealing with a collection agency, a new repayment plan can ensure the collector will receive at least something for his/her efforts.
5. If you're being sued, you can still negotiate, but you should always contact an attorney to find out what your options are.

Which creditors should be restructured?

One of the many benefits of this guide is that you don't have to renegotiate with all your creditors. Here is a simple method to determine which creditors you should and shouldn't restructure.

You will need to put all your creditors into 3 groups.

1. *Should Be's* - Creditors that should be restructured.
2. *Could Be's* - Creditors that could be restructured.
3. *Vitals* - Creditors that should not be restructured.

Should Be's are creditors that:

- no longer want to do business with you.
- you no longer need to do business with.
- have stopped giving you credit.
- are not critical to your survival.
- have threatened or placed you for collection.

Could Be's are creditors that:

- are still willing to sell to you.
- are not pushing for any past due balance.
- their products, services or equipment may be important, but can be purchased somewhere else.

Vitals are creditors that:

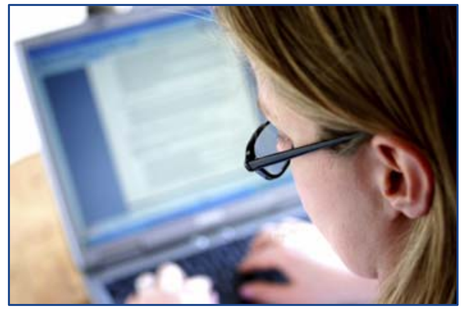
- are critical to your survival – meaning that without their products, services or equipment, you would be forced to close your doors and there is absolutely nowhere else you could get those products, services or equipment.

> *Note: As far as **Vitals** are concerned, we say "tough times call for tough decisions". When you're in a serious financial predicament, you may have to find new suppliers and resources. The truth is that <u>some</u> creditors will do business with you on a COD or cash basis while you negotiate a past due balance with them. If they refuse to do business with you, their competitors may jump at the opportunity. Remember, the primary goal of a restructuring is to satisfy the debts owed to your creditors. Preserving a relationship is nice, but secondary to your ultimate goal.*

Once you have classified your creditors, add up the amounts owed in each group. The first thing to make sure of is that you can afford to pay your Vital creditors according to terms. The more creditors you include in your restructuring, the more cash flow you'll free up for Vital creditors. All of the "Should Be's" should be restructured. Go through the "Could Be's" and decide who and/or how much should be restructured. The tighter your cash flow is, the more "Could Be's" you'll need to include. Finally, add up all the debts that you'll be restructuring. Hereafter, these will be referred to as your "Problem Debts" or simply "debts".

Determining your Monthly Budget.

Now that you have established which debts to restructure, you will need to determine an amount that you can afford to pay toward these debts on a consistent monthly basis. We strongly suggest that you are conservative when making projections about your revenue and expenses. Being conservative will give you a cushion that may come in handy if your cash flow is exceptionally tight.



See the worksheet **Calculating your Monthly Budget** on page 9. This worksheet can be copied directly from the guide and is only for your internal use. By filling in the boxes and doing some calculations you will be able to determine your Monthly Budget, the amount you can afford to pay toward your problem debts.

What percentage of my debt can I afford to pay each month?

The final calculation is to take the amount of your Monthly Budget from the **Calculating your Monthly Budget** worksheet and divide it by the amount you are restructuring. This will be the monthly percentage you can afford to pay toward your Problem Debts and will enable you to decide if restructuring on your own is right for you.

$ ______ (F) ÷ $ ______ = ______ % ← **This is the monthly percentage you can afford to pay toward your Problem Debts**

Monthly Budget   *Problem Debts*

> *Warning: If the percentage is 8% or more, it is feasible to restructure on your own. However, if the percentage is less than 8%, we recommend professional help. See Further Options on page 7.*

From this point, we'll assume that you can afford 8% a month or more. If you want to restructure more of the Could Be's, you can add them now. Just make sure to recalculate these figures so you can still afford at least 8% per month. Shouldering this responsibility is not only a matter of having the financial ability to meet your Monthly Budget, but also having the discipline to walk away from tempting but unaffordable settlements.

Prove Your Hardship.

Creditors are human too and may be persuaded to go beyond their normal settlement parameters if you can demonstrate your hardship. Create a hardship letter to explain the situation. It should be personal and adequately describe all the bad things that have happened to you and your business that contributed to your company's financial dilemma.

Back up your hardship with numbers. Where necessary, disclose specific financial information from your tax returns, bank statements, balance sheet, profit and loss statement or other documents that substantiate your hardship. Make sure that if a creditor requests to see those documents, they verify what you reported. The more information you can provide that proves your hardship, the more likely a creditor will accept a settlement you offer.

> *Warning: If a creditor asks you to document your claims and you are unwilling or unable to back up what you say, you will lose credibility and likely be in a worse position than when you started. Be careful when disclosing information to creditors as the information could be used against you.*

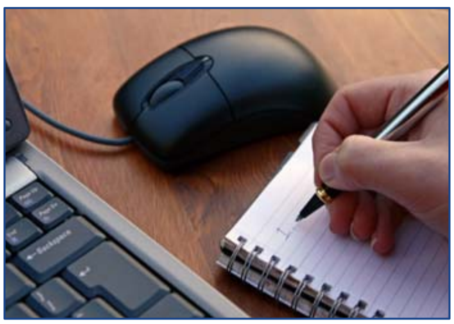
Your hardship letter should be on your company's letterhead and address:

- Any personal tragedy such as a serious illness, divorce or death in your family.

- Any disaster, such as a fire, flood or adverse weather conditions.
- Any serious business problems such as over-expansion, loss of a key employee, loss of a big customer, inability to collect receivables, competition, a construction project that hurt sales or simply a major drop in revenues.
- If you were the victim of any illegal activities such as theft, embezzlement or fraud.
- If you were subject to any government regulations or fines.
- If you are behind on any taxes and whether there are any tax liens against you.
- If your home is in, or close to being in, foreclosure or that there is no equity in your home.
- If you have been turned down for financing or whether any existing loans have been called.
- The cost of doing business has increased dramatically.
- The loss of key equipment due to repossession or breakage.
- An SBA or bank loan that is secured and is in default or workout.
- Any existing lawsuits or regulatory issues.

You should be able to document whatever you state, but only if requested to do so. You should also describe how each of these events affected you and your company.

A complete settlement proposal to your creditors should include:



- Hardship letter.
- Payment Plan cover letter. See the **Payment Plan Cover Letter** on page 10. This document must be retyped and printed on your company letterhead.
- Payment Plan. See **Payment Plan Template** on page 11. This document must be retyped and printed on your company letterhead.
- Business History Profile. See **Business History Profile** on page 12. This document can be copied directly from the guide for completion and distribution to creditors. It will give your creditors a bird's eye view of your finances and the basic reasons for your hardship.

Your initial settlement offers.

A basic rule of negotiating is to make your worst or lowest offers first. If you made your best offers first, you'd have no room to negotiate if there is a counter offer. You can use the **Payment Plan Template** on page 11 in creating written offers to your creditors. For legal reasons, ask an attorney if the language used meets your needs.

Dealing with the fallout.

Don't expect your creditors to settle quickly or easily. They won't. Each creditor will react differently. Some may call and start screaming. You may hear threats. Expect to hear that they want payment in full and want it now. You may get placed for collection if you weren't before and if you were, the creditor may take your account back from the agency. Other creditors may require that you back up what you say in your hardship letter or want to see your financials before making a decision. Some creditors may even write-off the debt entirely.

Do not expect creditors to cease their collection activities when they receive your proposal. Credit card companies and financial institutions have two basic functions: lending and collecting money. They're very persistent and methodical. Vendors, suppliers and service companies may be aggressive or just the opposite. And don't be surprised if a creditor makes *no attempt to collect* after you've explained your hardship.

Often, the longer a debt is owed, the more willing a creditor might be to accept a reduced amount and/or extend payments. Conversely, debts that are barely past due will meet with greater resistance. Some creditors may be anxious to write-off a debt or willing to accept a lump sum settlement while others will want to be paid in full, even if it means waiting a year before their first payment.

The goal of the restructuring is to satisfy creditors with what you can afford. Again, this can be done by a combination of reducing debts and extending payments out over time.

Reserve funds.

The day you send out your first set of offers is the day you should set aside the amount of your Monthly Budget. These funds are sacred and not to be used for anything else. If you don't want to set up a separate account, keep clear records of exactly how much you've put aside for the restructuring and how much has been paid out.

We've already established that your creditors won't necessarily jump at your first settlement offers, however, <u>the longer it takes for a creditor to settle, the more money you can accumulate for future settlement purposes</u>.

For example, let's say you're restructuring $30,000 in debts and your monthly budget is $2,500. Your first creditor settles a week after you sent your initial offer. That creditor was owed $10,000 and accepted Class A, a lump sum settlement of $1,600. Technically, you'd have until next month to pay, but for illustration purposes we'll assume you paid the settlement out of the original $2,500 leaving you with $900 at the end of your first month. You have accumulated $900 in reserve that can be used to sweeten offers as you go forward. If no settlements were made after only two months, you would already have a reserve of $7,500; $2,500 the day you started, $2,500 one month later and another $2,500 one month after that - which is 25% of the total debt.

Reserve funds are to be used prudently. Just because a creditor makes an offer that sounds good, doesn't mean you can or should jump at it. Here's why:

Affordable counter offers.

First of all, before we get into affordable counter offers, don't be so anxious to settle. The faster you settle, the faster you'll have to pay out and the more strain there will be on your cash flow. If a creditor does not agree to one of your initial settlement options or respond with a counter offer, don't be surprised or disappointed. They may not know how to handle your situation or may not know which option to choose. Ideally, it would be great if your offer sat on someone's desk for a few months before they did anything.

There are two simple rules to determine if an offer is affordable:

1. The payments that the offer calls for must be less than or equal to that creditor's share of the monthly budget.

2. If the settlement will save you a substantial amount of money, but the payments exceed that creditor's portion of the budget, you can dip into your reserve account. Your reserve funds should only be used to take advantage of substantial savings or to placate a creditor that has tremendous leverage over you.

Using the above example, the creditor was owed $10,000 which was one-third of the debt. That creditor's share of the monthly budget is therefore one third or $833.33 per month. Therefore, any settlement should call for payments that are $833.33 per month or less.

In a separate example, let's say your largest creditor is owed 50% of your problem debt and offers you a settlement of 48% payable immediately. If they came to you with this offer after only two weeks into the restructuring, you'd only have 8% in reserve which would be 16% of this creditor's debt yet only one-third of the settlement offer. Though the offer is generous, it exceeds this creditor's share of the budget plus the entire reserve. It is unaffordable. However, in order to take advantage of this settlement, you could go beyond your budget and reserve if you have the extra money available, but better yet, try to get the creditor to accept payment over 6 months. That way it would be within budget. If you can't get the creditor to bend that much, the <u>most</u> you should offer them using the current reserve and budget as limitations would be one-third of the settlement now (all your reserve funds) and then 8% (your budgeted share for that creditor) for four months which would total 48%. In any case, you'd need to stretch the payment terms out over time.

Savings: Saving money is great but not your primary goal. Your primary goal is to save your business by settling with ALL your creditors for payments you can afford to make. Giving too much of your budget and/or reserve to one creditor may be shortsighted. What if a lawsuit pops up that could have been settled with reserve funds that you used to satisfy a less aggressive creditor? What if there's an unexpected emergency that requires all your money? What if another creditor offers a greater percentage reduction, but you've already used up your reserve? Be smart – expect the unexpected!

Important: Don't be pressured to accept a creditor's counter offer to you. Even if labeled "one time only" or "good only for three days", first determine if it is affordable based on your budget and reserve. In some cases, an offer may sound like a good deal, but it may be beyond your means and by accepting it, it may put you in a bigger bind later.

Note: A reduction in the amount you owe can result in taxable income to you. A creditor that writes off a debt or any part of a debt of $600 or more must report it to the IRS.

Will negotiating with my creditors cause them to sue me?

There's no guarantee one way or the other, but most of the time creditors won't sue if you are making a genuine effort to satisfy the debt, you prove your hardship and your offers are reasonable. If you are sued, contact an attorney for advice. If you have been, or are, placed for collection, it may be advantageous because more often than not, collection agents are given more leeway to settle than the actual creditor themselves.

Living with your repayment plan.

You've gone through all the hard work of choosing the right creditors, establishing a budget and negotiating settlements. You can see the light at the end of the tunnel. Within 12 months, you could be debt free reaping the rewards you deserve and enjoying the fruits of your labor.

But things don't always go as planned. An unexpected business problem can arise to derail your repayment promises. Stay on track by retaining your credibility and keeping creditors informed of any changes that may affect them.

10 Tips to Ensure Success

1. Put aside your monthly budget like clockwork, even if no payments are scheduled to go to creditors.
2. Keep a separate bank account or a good accounting of your reserve funds.
3. Just because a settlement sounds good, doesn't mean you can afford it.
4. Don't promise more than you can deliver.
5. Don't be in a rush to settle what you can't afford to pay.
6. Some collectors can be rude. Never sink to their level. If they are unprofessional, just ignore their rudeness and maintain your composure. If a collector gets to you emotionally, you've lost.
7. Cut expenses. If feasible, scale back on an employee or two.
8. If the business is going well, you may even have extra cash (money not already committed to repayment or other expenses) that can be put into your reserve fund and used to help settle debts.
9. Take all calls from creditors - don't avoid them.
10. If you can't make a scheduled payment, call or write to the creditors you are having trouble paying *before* they contact you. Express your regret at having to fall behind on the promised repayment and explain whether you expect to have the ability to resume scheduled payments and when.

Further Options.

You want to get out of debt, but your debt load is too overwhelming to handle on your own. What are your options?

1. Cut expenses:
One way you can deal with your debt problem is to reduce expenses. For example, by eliminating a position on staff and taking on more yourself, you can free up thousands of dollars a month and that can be enough to make all the difference. Or, if the balance of your office space lease is more than you can handle, you may be able to decrease your liability by negotiating for reduced space or subletting space.

Questions to consider:

- Are your expenses too high?
- Do you have too many employees?
- Are you paying too much rent?
- Are you paying for things you no longer need?
- Are you paying your outside consultants too much?
- Is your car payment too high?

2. Financing:
If you are reading this, chances are your credit, whether business or personal, has already been compromised to some extent. You are also probably looking to borrow an amount that is *too small* for most lenders. For those reasons, conventional financing will be harder to obtain.

You may be able to take cash advances on your credit cards, but you may have already maxed out your cards. The easiest path after that is to borrow from a friend, relative or other party. If that's not possible, finding the right lender basically depends on what you have that a lender may rely on for repayment. Depending on the type of financing, lenders may consider things like your personal credit score, your business credit score, the creditworthiness of any co-signers, the type of collateral you have, the value of that collateral or a combination of those.

The good news is that there are several types of financing that even struggling small businesses can take advantage of. Some finance companies buy or lend against receivables. If you have equity in real estate, you may be able to refinance the property or borrow a portion of the equity. If your company takes credit cards, you may be able to borrow against your future credit card receipts. If you have equity in equipment, you may be able to borrow against or refinance the equipment.

You can contact an SBDC Counselor (See page 13) for free advice on how to obtain financing or call our company, Corporate Turnaround, to find out what types of financing may be best suited for your specific circumstances.

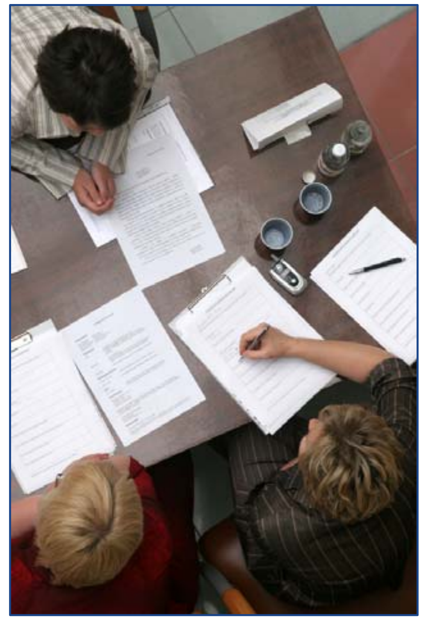
Warning: Each type of financing has its advantages and disadvantages. Be sure you understand them before committing.

3. Bankruptcy:
Bankruptcy is usually a last resort. However, sometimes it's the best solution for a bad situation. There are several types of bankruptcy. To determine which may be appropriate for your situation, contact an attorney.

4. "PLAN B" - Professional Debt Restructuring –
Read only if you CAN NOT afford 8% a month or feel you can not do it on your own:

By this point you've determined that you cannot afford to pay the 8% minimum we recommend to satisfy your problem debts on your own. Don't panic. You still have options. In fact, if you can afford as little as 2% of your debts per month, you can restructure your debt through a professional Debt Restructuring firm.

What to look for in a Debt Restructuring (DR) firm:



1. A written contract between the business owner and the DR firm that clearly outlines the fees and when they will be assessed.

2. Authorization to electronically withdraw funds from the business owner's bank account. Otherwise, the DR firm and the creditors are subjected to the day-to-day whims of the business. Also, it gives the business owner credibility by allowing this access.

3. A consistently affordable budget must be established. Without the existence of a budget, the DR firm has no basis for negotiations and therefore has no idea what the business owner can afford.

4. Authority to bind the business owner to a settlement. If a business owner has the option of rejecting a settlement that was negotiated by the DR firm, what's the point of negotiating? If the business owner refuses or can't afford the settlement, the DR firm has wasted valuable time in negotiations and concessions. The DR firm must be able to commit to a settlement without the involvement of the business owner unless the settlement requires funding that exceeds their budget.

5. Proof of Hardship. To a creditor or collection agency, a business owner that can't or won't prove their hardship is a Deadbeat and a reputable DR firm requires a certain amount of proof before they will represent a business owner. A reputable DR firm will require certain hurdles that distinguish their clients from Deadbeats. Any DR firm that negotiates on behalf of business owners without establishing their hardship is trying to reduce the debt for their own personal gain.

6. Creditors must be given a vast array of settlement options including payment in full. A good DR firm understands that creditors have different needs and is prepared to work with those parameters. Creditors should be able to choose how much they are willing to settle for or over what time period they would like to be paid. Absent this option, the DR firm is essentially trying to shove an offer down their throat. This is also a reason many restructuring plans fail.

7. Financial Alternatives. A good DR firm can explain different types of financing that are appropriate for these types of debtors. (See Financing on page 7)

5. Free Business Counseling from America's Small Business Development Center Network

America's Small Business Development Center Network is the most comprehensive small business assistance network in the United States and its territories.

The mission of the network is to help new entrepreneurs realize their dream of business ownership, and to assist existing businesses to remain competitive in the complex marketplace of an ever-changing global economy.

Hosted by leading universities, colleges, and state economic development agencies, and funded in part through a partnership with the U.S. Small Business Administration, approximately 1,000 service centers are available to provide no-cost consulting and lowcost training.

To learn more about America's Small Business Development Center Network and to find a center near you, visit www.ASBDC-us.org or call 703.764.9850.

Continued on page 13.

THIS DOCUMENT CAN BE COPIED DIRECTLY FROM THIS GUIDE FOR YOUR INTERNAL USE.
IMPORTANT: *DO NOT SEND THIS DOCUMENT TO CREDITORS!*

Calculating Your Monthly Budget

Now that you have established which debts to restructure, you will need to determine an amount that you can afford to pay toward these debts on a consistent monthly basis. We strongly suggest that you are conservative when making projections about your revenues and expenses. Being conservative will give you a cushion that may come in handy if your cash flow is exceptionally tight.

By filling in the boxes below and doing some calculations, you will be able to determine the monthly percentage you can afford to pay toward your problem debts.

If you have difficulty calculating your *Monthly Budget*, and/or would like a detailed, no obligation analysis, call our Marketing Department at 800.646.9330 and we'll go through the calculations and email you the results.

STEP 1 – How To Calculate Your *Average Projected Monthly Expense*

What are your ***projected revenues*** over the next 12 months? → $ ______ (*Projected Revenue*) ÷ 12 = $ ______ (A) → This is your ***Average Projected Monthly Revenue***

What is your ***HIGHEST projected monthly revenue***? → $ ______ (*High Proj. Mo. Revenue*) - $ ______ = $ ______ (B) → This is the ***Greatest Difference in your Monthly Revenue***

What is your ***LOWEST projected monthly revenue***? → $ ______ (*Low Proj. Mo. Revenue*)

What will your ***expenses*** be over the next 12 months? (excluding your Problem Debts) → $ ______ (*Expenses*) ÷ 12 = $ ______ (C) → This is your ***Average Projected Monthly Expense***

STEP 2 – How To Calculate Your *Average Monthly Gross Profit*

$ ______ (A) (*Avg Proj. Mo. Revenue*) - $ ______ (C) (*Avg Proj. Mo. Expense*) = $ ______ (D) → This is your ***Average Monthly Gross Profit***

STEP 3 – How To Calculate Your *Profit Variable*

$ ______ (D) (*Avg . Monthly Gross Profit*) x .75 x $ ______ (B) (*Greatest Diff. Mo. Rev*) ÷ $ ______ (*Problem Debts*) = $ ______ (E) → This is your ***Profit Variable***

STEP 4 – How To Calculate Your *Monthly Budget*

$ ______ (D) (*Avg . Monthly Gross Profit*) - $ ______ (E) (*Profit Variable*) = $ ______ (F) → This is your ***Monthly Budget***

THIS DOCUMENT MUST BE RETYPED AND PRINTED ON YOUR COMPANY LETTERHEAD.

Payment Plan Cover Letter

Your Company Letterhead

Date

Creditor, Collection Agency or Law Firm
Address
City, State Zip

Attention: Accounts Receivable <or a contact name if you have one>

Re: Restructuring the debts of <Your Company's Name>
Reference #: <use the reference or account number of the party you are addressing>

To Whom It May Concern:

As you may already be aware, our company is having difficulty paying you according to terms. Let us assure you that our desire is to pay you while also satisfying our other creditors. We understand and agree that you are entitled to what we owe and regret that we are unable to pay as previously agreed. The good news is that we are making an honest attempt to satisfy our creditors with what we can realistically afford. We would like to establish new payment terms that meet your needs as well as ours.

You are due an explanation. Attached is a separate letter that details the misfortunes we have endured that put us in this predicament. Despite our issues, we want to continue operating and humbly ask you to work within our means. We have committed to a monthly budget that will be used to pay our creditors. These funds are intended to be distributed according to the Classes explained on the attached Payment Plan.

This plan was developed to give our creditors several payment options in light of our limited cash flow. Your cooperation is essential. Your choice of terms will enable us to pay you in the most efficient manner we know of.

The options presented are certainly more favorable than if we are forced to close our doors or file for bankruptcy. In the event of a bankruptcy, any secured creditors would be paid before a distribution to unsecured creditors. We respectfully ask that you hold any legal or collection activity in abeyance throughout this process.

Please read the additional enclosed documents, authorize one of the payment options and return the Payment Plan form before the expiration date. We truly appreciate your help in this endeavor to save our business.

Sincerely,

<Name>
<Title>
<Your Company Name>

Enclosures

THIS DOCUMENT MUST BE RETYPED AND PRINTED ON YOUR COMPANY LETTERHEAD.

Payment Plan Template

<CreditorName> is owed $_____________ from <Your Company Name>.

Full Satisfaction: By circling a settlement offer and signing this agreement, creditor agrees to this settlement as complete satisfaction for all claims creditor may have against <Your Company Name> and any guarantors or liable parties. Creditor agrees to cease any and all collection efforts until such time as <Your Company Name> defaults on this agreement.

Circle One Offer Only

1. Class A: Any creditor who will accept a settlement of 16% of its approved claim amount. There will be one lump sum payment under this Class and it will be made one month after this agreement is authorized.

2. Class B: Any creditor who will accept a settlement of 32% of its approved claim amount. Payments under this Class will begin two months after this agreement is authorized and in three monthly installments.

3. Class C: Any creditor who will accept a settlement of 64% of its approved claim amount. Payments under this Class will begin five months after this agreement is authorized and in seven monthly installments.

4. Class D: Any creditor wanting to be paid in full on its approved claim amount. There will be one lump sum payment under this Class and it will be made one year from the date you sign this agreement. Only principal balances will be paid under this Class.

5. Option E: Diversification of the Classes - This option is for any creditor that wants to be paid from the inception of this plan and receive a settlement of 53% of its approved claim amount. Your claim will be divided as follows: 25% into Class A, 25% into Class B, 25% into Class C and 25% into Class D and will be paid accordingly. By diversifying, you are decreasing the risks inherent by opting for any specific Class.

Variance: Due to the financial condition of <Your Company Name>, creditor hereby agrees to a sixty-day moratorium from the payment terms being agreed to herein.

Default: Default shall be defined as the failure of <Your Company Name> to make payments according to the terms agreed to herein, which is not covered by any variance. In the event that any payment is not received according to the terms herein, inclusive of the variance, you agree to notify <Your Company Name> by certified mail and provide <Your Company Name> with a ten-day period to cure before declaring <Your Company Name> in default.

Expiration Date: The offers contained herein expire in thirty days from the date of this letter. If any settlement offer contained herein is authorized by creditor after the expiration date or is received by <Your Company Name> after the expiration date, <Your Company Name> may at its sole discretion reject or accept the settlement.

This schedule will commence the month following the month this settlement is received and accepted by <Your Company Name>. Payments will be sent on or about the 15th of each month. This represents the entire agreement between <Your Company Name> and creditor.

Read, understood and agreed to by:
Authorized Signer for creditor

____

Print Name Title

____

Signature (My faxed signature will serve as original)

____

Date

PLEASE FILL OUT, AUTHORIZE AND FAX THIS FORM TO US AT <YOUR FAX NUMBER>.

Business History Profile

General Company Information

Company Name: ______________________

Name: ______________________

Title: ______________________

Co. Start Date: ______________________

Current Salary: $ __________ Previous Salary: $ __________

Business Type: ❑ Sole Proprietor ❑ Partnership ❑ Corporation or Limited Liability Entity

Company Description:

____

____

Underlying Financial Hardships

Sales have been affected by:

- ❑ The economy
- ❑ Loss of sales personnel
- ❑ Less demand for products or services
- ❑ Loss of a major customer
- ❑ Major client filing for bankruptcy
- ❑ Increased competition
- ❑ Other: ________________

Cash flow has been affected by:

- ❑ Uncollected receivables $____________
- ❑ Customer(s) filing bankruptcy
- ❑ Business was purchased with excessive debt
- ❑ Insufficiently capitalized
- ❑ Inability to raise capital
- ❑ Bank account was seized
- ❑ Mechanics lien
- ❑ Other: ________________

Expenses have been affected by:

- ❑ Major rent increase
- ❑ Increased prices of goods and services
- ❑ Business expansion exceeded anticipated costs
- ❑ Other: ________________

Operations and service issues:

- ❑ Goods purchased presented quality problems
- ❑ Suppliers were late delivering goods
- ❑ Equipment has broken down causing delays
- ❑ Other: ________________

The extenuating circumstances are:

- ❑ Company was embezzled from Amount: $ ________
- ❑ Company was robbed Amount: $ ________
  - ❑ A Police Report was filed
- ❑ Underinsured for a major loss
- ❑ Fire
- ❑ Flood
- ❑ Drought
- ❑ Divorce
- ❑ Personal illness
- ❑ Family illness
- ❑ Other: ________________
- ❑ Other: ________________

The following actions have been taken in an attempt to remedy the situation:

- ❑ I no longer take a salary
- ❑ I took a salary reduction of ______%
- ❑ Employees took a pay cut
- ❑ Employees were laid off
- ❑ Employee benefits were cut
- ❑ Excess inventory was liquidated to raise cash
- ❑ The business relocated to a less expensive location
- ❑ The business closed a location
- ❑ Marketing strategy was changed
- ❑ I am renegotiating prices with vendors
- ❑ I used personal money or credit to fund the business
- ❑ Other: ________________
- ❑ Other: ________________

Financial Information

Year	Sales	Expenses	Net Profit (Loss)
Year to date			
Last year			
2 years ago			

I owe back taxes. ❑ Yes ❑ No

Amount of back taxes: $ ____________

There are tax liens against me. ❑ Yes ❑ No

Number of secured lenders that I have: ____________

Legal Information

There are ________ lawsuit(s) pending against me.

There are ________ judgment(s) against me.

The above information is true and correct to the best of my knowledge and I will substantiate the information contained herein upon request.

______________________ ______________

Signature *Date*

It's your move.

So now, we've taken you full circle. We started with an objective, an assessment of your situation, we've evaluated and identified your options, we've explained to you whether or not restructuring is right for you and if it is, how to do it on your own and when it's appropriate.

We've shown you how to develop your strategy and shared with you the repercussions that might occur. At this point, we strongly recommend you evaluate whether or not your situation is one that lends itself to going it alone.

The longer you wait to take action, the worse your situation will get and the harder it will be to dig yourself out.

At the very least, we'll tell you our best reasoned assessment about whether you should go it alone or whether we can help. This manual is intended to help relieve the stress, the fear, the confusion, and the paralysis that keeps most business owners who have financial struggles from successfully resolving their issues.

Whatever you decide, we wish you great success.

ASBDC Association of Small Business Development Centers.

ASBDC
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Burke, Virginia 22015

Call:
703.764.9850

Visit online:
www.ASBDC-US.org

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We want to hear your success stories.
Please email them to cevans@corporateturnaround.com.

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