

SUMMER 2011

# Leading EDGE

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ADVICE & INFORMATION TO HELP YOU MANAGE YOUR BUSINESS

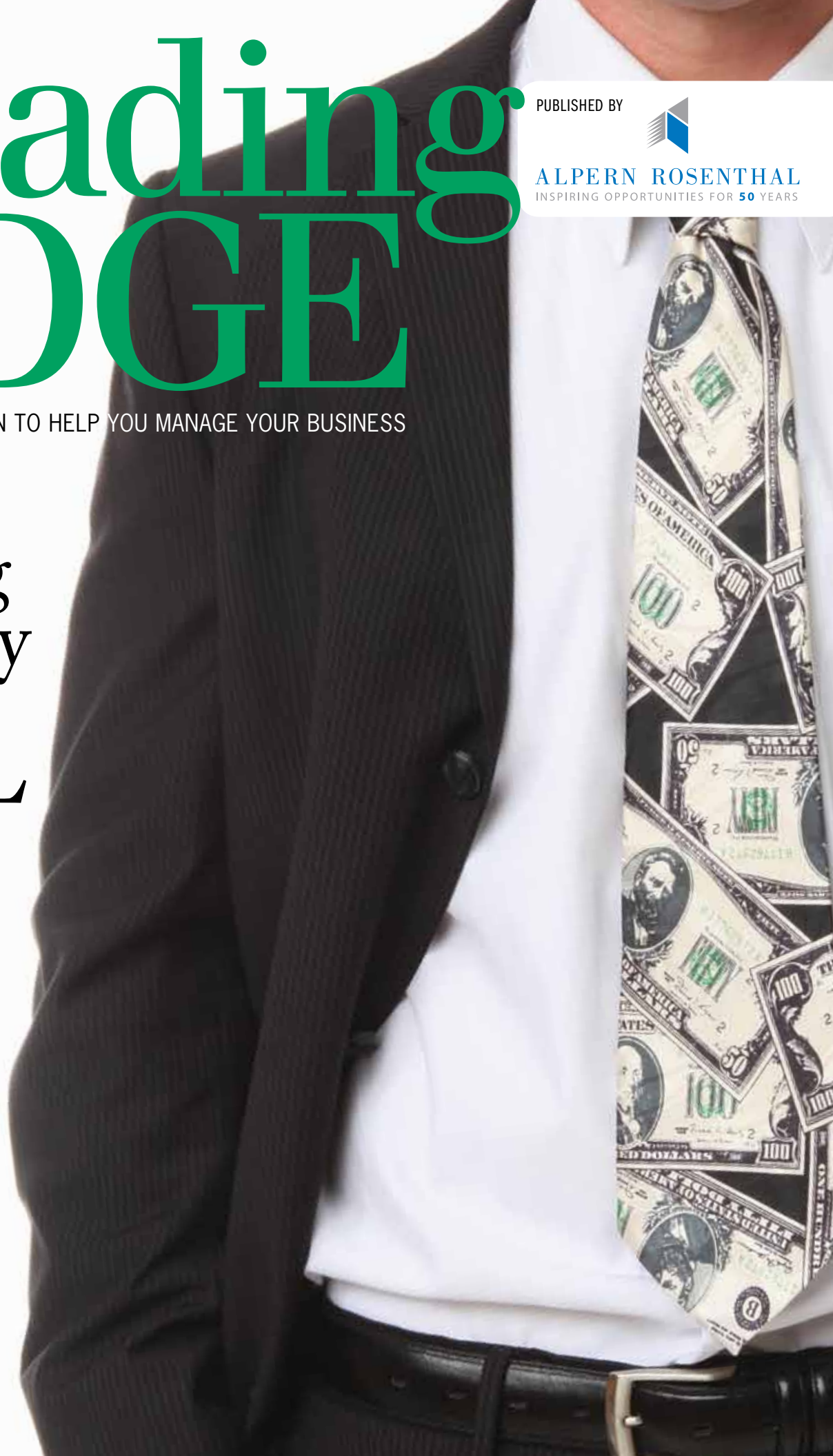
## Making Money *isn't* EVIL

*Done  
right, it  
can be good  
for all*

*Plus*

Globalize  
your business

Tech trends  
to know



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Alexander Paul

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## contents

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### features

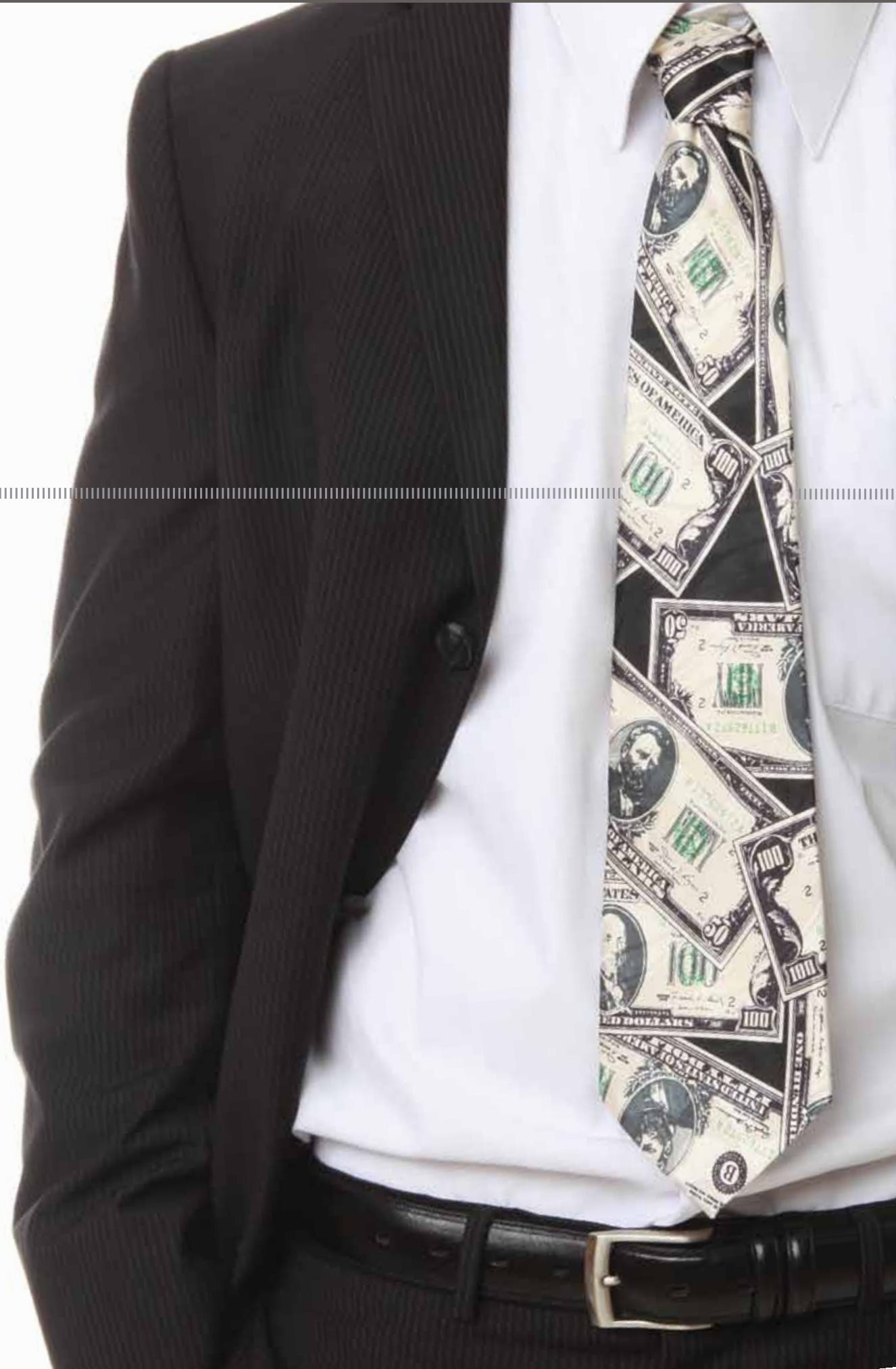
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- 4 Money is not evil**
- 8 5 talked-about tech trends – should you care?**
- 14 Experts talk about how to fly your business into the global marketplace**

### departments

---

- 9 News and information from our firm**
- 13 Bits & Pieces**
- 16 Top 10 things about doing business in ... China**
- 18 Workplace: Acquisition leads to merger of office policies, cultures**



# Money is *NOT* EVIL

MONEY ITSELF ISN'T INHERENTLY GOOD OR BAD—IT'S HOW MONEY IS USED THAT CREATES THE CONNOTATIONS. **By Ann M. Gynn**

**“M**oney is like any other social tool—and that’s all I think money is. There can be good uses of money and bad uses,” says Norman Kurland, managing director of the investment banking firm Equity Expansion International and president of the Center for Economic and Social Justice, a non-profit think tank.

Highly paid CEOs of failing companies, billion-dollar bailouts and nefarious ethics of executives make the headlines and further cement the idea to many that money is evil or at least problematic. So how does a company and its executives go about conveying money really can be a good thing and earning bigger profits is good for everybody? Make the case and get buy-in from all the stakeholders, from clients and employees to vendors.

## Raise the emotion

Ted Sun, chief dream maker at Executive Balance, an executive consulting firm, and author of *Survival Tactics: Top 10 Behaviors of Entrepreneurs*, has shared his insight across the country with BizJournals, NBC News and Academy of Management and International Business. His advice? Refocus the conversation to identify money as a means to an end.

“By doing that, people will become a lot more attached to their core values,” Sun says. “So many people are  
*Continued on page 6*



*Continued from page 5*

so disconnected with the outcome of their work. The outcomes are what people are working for.”

He explains that, too often, stakeholders see only the portion they create or are involved in and fail to see the big picture. Sun advises executives to talk about outcomes and how it influences customers rather than just talk about the person’s job.

“That focus allows them to have a much more emotional connection to it,” he says. To illustrate his point, he speaks of the Michelin commercial with a family driving a minivan. It’s not about the tires Michelin is selling; it’s about the family driving around safely.

“People are easily redirected if the emotional content is strong and well-designed. Help people understand that money is only a means to something else,” Sun says. “The end goal is something much more grand. Focus people on the purposes of the products/services.”

### Know what money means

Sun, who speaks frequently on executive development, says he asks two questions of his audiences. The first is “Why do you work?” Most people respond “to make money.” When he asks the second, “What’s your purpose in life?” most people do not say “to make money.”

“It gets people to think,” Sun says.

Business executives who understand what their stakeholders see as their purpose in life can work to promote the currency that helps them achieve that—and the means may not be money.

Billy Lowe, a celebrity hairstylist with salons in Beverly Hills, Los Angeles and New York, agrees with Sun. “In the beginning it’s important to figure what motivates a person. Some staff members are motivated by money; others are not,” he says. “Working with team members takes a little time in developing programs to help them set, see and meet goals.”

In turn, Lowe says, the business sees a direct benefit. “Team members who are rewarded well seem to take more pride in their work and in their environment,” he says. “They also seem to have a greater sense of business-building and enterprising. This is

obviously important to a salon owner because the team members are a bit more autonomous with their work, rather than waiting on the salon to drive traffic through the door.”

### Cultivate value

Nick Vaidya, profitability management specialist and president of The Global Alliance of CEOs, says leaders need to communicate their big picture vision to their team as often as possible so they see more than a paycheck. “Get out of your corner office and be there,” he says. “Create value and it will shine. Make yourself and your

vision visible and vulnerable.

“Do internal PR. Your employees are your constituents too. Mobilize them and you will have earned your salary. Let money be the by-product,” Vaidya says.

While some may balk at \$200 for a haircut at one of Lowe’s salons, he says it’s important to realize service is about more than a haircut. “I’ve always said, ‘If you look great, you feel great,’” Lowe says. “I believe looking your best keeps you feeling your best. Clients value their time in the salon and look forward to their visit—not just for the results after but for the relationships that happen in the salon.”

## START WITH W-2s

Many companies have been paying employee health and other benefits for years but never disclosing how much they were spending. Employees didn’t know the significant dollars spent behind the scenes on their behalf. Last year’s health care reform act changes that.

With an optional start in 2012 and mandated for 2013, companies now will show on each employee’s W-2 how much they spent on health care benefits. The new field isn’t taxable but it is educational so employees really will know what their employer spends on them.

## 4 Reasons: MONEY IS A GOOD TOOL

Frank N. Darras, one of the nation's top insurance lawyers, breaks down the benefits. Making money:

1. Helps people who need expertise and other assistance.
2. Creates jobs that boost the economy.
3. Creates more spending, which increases demands.
4. Allows people to give more to charities and favorite causes.

As such, he works hard to develop those relationships. Whether it's a glass of wine in the salon or an escort to the car, those added touches strengthen the business-client relationship. "It may be my southern roots, but I've always focused on outstanding customer service and giving clients a compelling reason to return time and time again," he says. "This is an industry that is truly built on relationships, and clients come to expect great service and excellence."

Sun explains building a connection is essential to achieving higher prices for your services or products. "People will pay you more if they trust you—if they really understand what emotion is all about," he says. "Once people focus on the positive outcomes of your products and services, the value will have higher emotional content. When organizations don't mention the emotional outcomes of their products and services, it allows people to create their own."

Lowe says businesses also must be willing to adapt their relationships to best serve the clients, further strengthening the emotional connection even if the money isn't there. At his salons, for example, if a long-term client is having a difficult time financially, he is more than happy to work with them. "We have a saying, 'Everyone gets in,'" Lowe explains.

### Serve wide income range

Frank N. Darras built his career as one of the nation's top insurance lawyers assisting poor

and disabled people. "It's never been about the money; it's always been about helping. For me, the money has really been just a by-product."

DarrasLaw, which has collected about \$750 million in claims over the last 25 years, may have started with the poor, but it's expanded to serve the wealthy. "Over the years, the poor came first to my practice, but the rich followed. Now my clients include professional athletes and high-profile actors," Darras says.

Growing his practice's revenue presented Darras with more opportunities and the ability to pick and choose his clients. "The richness of my practice enables me to help for free 1,000 people a month with questions, concerns and problems," Darras says, explaining the firm offers "free advice Fridays" and created [www.darraslaw.com](http://www.darraslaw.com) with high-quality videos and content to help people with their insurance-related questions.

### Spend more, get more

High-revenue businesses also find because they spend more money with manufacturers and other vendors, those stakeholders are more likely to help them. "Perhaps because they spend more in volume for products and equipment, manufacturers are happy to support high-end salons in providing more educational opportunities than smaller salons that might not spend as much," Lowe says, noting the additional support can be



*"People will pay you more if they trust you—if they really understand what emotion is all about."*

— Ted Sun, Executive Balance

invaluable to the business. "It's true that talent varies from person to person, and it varies based on the support that is provided."

Darras says high-earning businesses also gain leverage. "Insurance companies understand I have the largest practice in the country. That gives me stature. I see more cases. I can see what they're doing in real time. With 2,000 cases a month, I can see in two weeks if they're using a new claim device or changing program strategy," he says. "Money has allowed me to see the industry in real time."

In addition, Darras explains the firm also can use the money to better serve its clients by hiring the smartest people available. "It's allowed me to pay my people extraordinary dollars to do this work. It's allowed me to compete at the highest levels," he says.

### Rethink the perception

When Lowe was a child, his parents would say things like, "Rich people are stuck up."

"I never felt that way," he says. "I personally see the wealthy as some of the most generous people I have ever met. I believe the more I have, the more I can do good with."

"It doesn't do me or anyone else any good if I am suffering or challenged financially. I don't believe anyone should accept labels that are put on them because of limiting beliefs that others may have grown up with."

Sun says the key for business executives to overcoming the money-is-evil perception is understanding why the belief has some truth to it. "In today's world, the biggest challenge is when people amass large amounts of money, they lose touch with reality. They become arrogant, have an entitled mentality and don't treat others as well as they used to. That's where the evil association comes from—people who use money as a shield," he says. **LE**

## 5 talked-about tech trends – should you care?

By Danielle Toth

With technology constantly advancing, businesses may find it difficult to know which trends they can ignore and what they really need to know for their business. Jeff Rudolph, partner-in-charge of the technology division at Sikich LLP, a member of the Leading Edge Alliance, shares his thoughts on five talked-about tech trends.

### PAY ATTENTION TO

#### Smartphones

Smartphones will only continue to grow in popularity. About a half billion cell phones connect to the Internet, and that number is expected to jump to 5 billion in just two to three years, Rudolph says.

Businesses should look to smartphones as marketing tools (reaching out to connect with customers and prospects) and as communication tools. “Our company, for example, just brought in a new smartphone policy. Anyone can use any smartphone, and we reimburse them,” Rudolph says. “The employees are more productive – I mean work is 24/7.

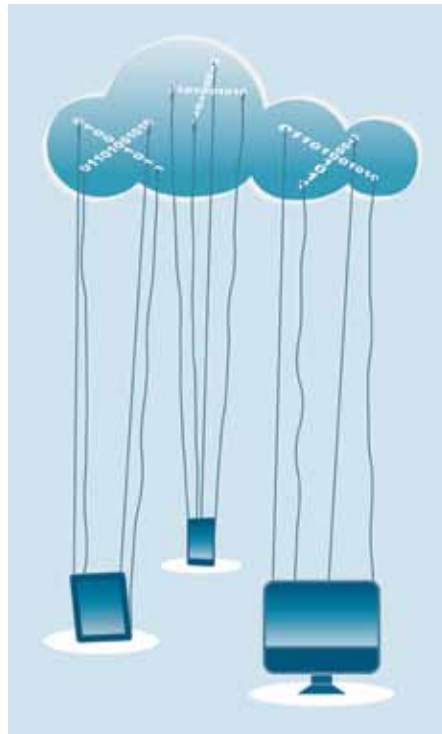
“The younger generation especially is used to being online and giving instantaneous answers all the time. There’s going to be a big push for businesses to respond to their clients and colleagues quickly due to the smartphone.”

#### Cloud computing

Another technology businesses should be talking about if they aren’t already is cloud computing, which allows companies to store and access their documents, photos, presentations and more online so they can access them anywhere with an Internet connection.

The lure for many companies is that cloud services cost significantly less than buying software and internal infrastructure equipment every few years as well as providing physical space to house that technology, Rudolph says.

In turn, the company’s IT department no longer needs to focus on maintenance and can take a more innovative role within the



business, he adds.

“The only real downside is the lack of privacy if you have many people using your company cloud, and if the cloud provider goes down, you’re out of luck,” Rudolph says. “Businesses should always back up their data.”

#### Virtualization

Virtual creation of a physical technology, such as a server or operating system, presents some opportunities. Businesses usually use multiple servers to handle their computing needs, but some of those are underutilized, Rudolph explains. For example, a server that holds a business’ payroll application is used at near-capacity only twice a month and rarely, if ever, used the rest of the month—that’s inefficient use of a server.

“Virtualization allows you to take one physical server and create virtual servers on it,” Rudolph explains. “So you’d have multiple servers residing on one physical server, and they would take advantage of the downtime of the server. You maximize the use of your servers and decrease cost because instead of

Businesses shouldn’t spend the time and money on an app just to have it.

five servers, you could have maybe two, and you save on electricity. It is also good for disaster recovery because the servers are smart and back themselves up onto other servers.”

### PROCEED WITH CAUTION

#### Apps

While it seems you can’t turn on the TV or surf the Web without hearing about a new app, Rudolph says only one in four apps are used.

“It’s very trendy to have an app right now,” he says. “I’d say a company should look into developing an app if it has a business model where an app makes sense. For example, it makes sense for a lot of banks. You can take a picture of your check and deposit it. Or a CPA firm could set up an alert when a client’s tax return is done. But businesses shouldn’t spend the time and money on an app just to have it.”

#### Tablet computers

While tablet computers receive a lot of buzz, it is a trend businesses can hold off on, Rudolph says. While many upper managers use and enjoy tablets for business, it will be a while before they find their way into mainstream business use.

“Tablet computers are really good for looking up information, but not so good for outputting information because the interface is not that great,” Rudolph explains. “You have the virtual keyboard on the screen, but it can be hard to type, and you can only type so much. While the tablets are very good at looking up information and getting information, I don’t think they’re really set up for heavy input.” **LE**

## INSIDE:

- **Are you an angel? Alternative way to invest**
- **Voluntary disclosure initiative for unreported offshore accounts ends Aug. 31**



# Valuation of drilling and exploration rights in the Marcellus Shale formation – a landowner’s perspective

**By Joshua Lefcowitz, CPA/ABV/CFF, CVA, CFE, ASA**  
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## What are my Marcellus Shale rights worth?

To answer this question, we turn to the fundamentals of valuing intangible assets. It is widely recognized that for valuation purposes, assets can be generally grouped in one of four categories:

- Tangible real estate
- Intangible real property
- Tangible personal property
- Intangible personal property

The right to explore and develop production of minerals, including those associated with the Marcellus Shale, is specifically categorized as real property intangible assets, which take the form of location related exploration rights. As such, they would be valued in a manner similar to other intangible assets.

In many instances, the value of an intangible asset is created as a result of the future income that asset is likely to produce. Marcellus Shale rights are no different; however, there is substantial difficulty in determining what those future cash flows might be.

So, considering the difficulty in preparing a geological study, and without actual data on a

particular piece of land, how can Marcellus Shale rights be valued? The answer lies in projecting future cash flows, using available data and analogous wells.

## Key Variables

In our experience, the key variables to projecting those future cash flows are:

- **Annual production:** It can be estimated based upon data from analogous wells. In our experience the two most important factors are where the land is and what producers are working in the area where the land is.
- **Commodity price:** What is the expected price of the natural gas commodity when it will be sold?
- **Timing:** When will the natural gas be extracted from the ground? This variable not only depends on the facts and circumstances of the specific project, but also upon the projected market. The analyst needs to consider where the land is, is it already under lease, and what the timeline is for drilling activities in that area?
- **Upfront cash consideration:** Many leases, provide for an upfront “bonus” payment. If the subject property is not yet under lease, the analyst needs to consider whether it is reasonable to include a provision for this potential cash in-flow.

## Other items

- **Expenses:** The analyst needs to consider if the landowner



has any expenses associated with generating this cash flow. If there are annual expenses and/or remediation costs not to be paid by the producer, the analyst should include those items.

- **Contributory asset charges:** If tangible assets contribute to the generation of the cash flow, consideration of relevant contributory asset charges is necessary.
- **Discount rate:** A prospective buyer of the subject asset would require a rate of return on its investment commensurate with the degree of risk associated with the investment. This variable is heavily dependent on the facts and circumstances of the specific engagement.

In general, many of these variables can be calculated based on the facts and circumstances in the particular case and using publicly available information. Nevertheless each variable must be considered, analyzed and

often discussed with the owner of the property.

Performing an analysis on Marcellus Shale interests can be extremely complicated and requires a delicate balance of making reasonable assumptions and usage of the information known as of the date of your appraisal. Nevertheless, projecting cash flows within a reasonable degree of economic certainty is possible. For those considering transactions involving shale interests, that projection and a valuation of the cash flows are advisable. For owners considering a gift or trustees administering an estate, that valuation is imperative. A careful analysis of each factor can provide those involved in Marcellus Shale transactions a well-thought, defensible, estimate of value. **LE**

For more information, contact Josh Lefcowitz at [jlefcowitz@alpern.com](mailto:jlefcowitz@alpern.com) or Brandon Otis at [botis@alpern.com](mailto:botis@alpern.com). Both can be reached at (412) 281-2501.

# Are you an angel?

## Alternative way to invest

By Jason A. Brown,  
CPA, CFE, MBA

Senior Tax Manager and Senior Leader of Emerging Business and Technology Services Group (West Palm Beach, FL)

What do Yahoo, Google, Cisco, Amazon.com and Costco have in common? They were all funded by angel investors. An angel investor provides capital for a business startup in exchange for convertible debt or ownership equity. The Centre for Venture Research has estimated that there are more than 300,000 angel investors in the United States and 125 formal angel investor networks nationwide. In 2010 angels invested \$20.1 billion in startups; up more than 14 percent from 2009.

Angels exist to fill the gap between friends-and-family funding and venture capital funding. Investments generally range from \$20,000 to more than \$1 million with an average in the \$300,000 range. Some angels are members of angel groups or funds. This participation increases access to investment opportunities and allows for joint investment with other angels to hedge their risk. This also allows angels to invest in companies without great financial commitments. The sectors in which angels most commonly invest: software/websites, medical devices, health-care services, alternative/green energy and life science/biotechnology.

The appeal of being an angel is that you can receive a significant return on your investment in a relatively short period. If a company is successful, angels may expect to receive a seven to ten times return on their investment within five to seven years. However, angel investing is a high-risk/high-reward type of investment. Most startups will not succeed. Angels should not invest money they can't live without. Angels often invest in companies in a field similar to which they have achieved success. They may act as advisors to companies and offer resources to help them succeed. For these reasons, angels often invest in companies in close proximity to them.

When investing in a company, angels invest in people just as much as they invest in the product or technology, so a strong management team is essential. Angels look for a market disruptor, game-changing technology or product that can obtain large market share quickly. Having a well-written business plan, qualified attorneys and CPAs, protected intellectual property and an exit strategy are all imperative for a startup to receive angel funding. Past entrepreneurial success also is looked at very favorably.

To encourage investment in early stage companies, the IRS is allowing investors who purchase stock in small businesses to exclude 100 percent of the gain on the sale of the stock if held for more than five years. This



rare opportunity to receive tax-free income expires at the end of 2011.

Angel communities are budding throughout the United States. In several areas throughout the country, you can find angel groups or forums that meet regularly. Joining an angel group or meeting with a CPA or attorney who works with startups can be a good resource to match angels with companies. If you are

a retired professional looking to stay active in your field or look to act as an advisor or mentor to young entrepreneurs, seek a high-return on your investment or perhaps just desire an alternative way to invest, then you may want to consider becoming an angel. **LE**

For more information, contact Jason Brown at [jbrown@alpernfl.com](mailto:jbrown@alpernfl.com) or (561) 689-7888.

# Voluntary disclosure initiative for unreported offshore accounts ends August 31

**By Gretchen Wyatt, CPA**  
Tax Senior Manager, International  
Taxation Services

The Internal Revenue Service announced recently that taxpayers will have a second chance to voluntarily disclose their foreign holdings to become compliant with foreign reporting requirements. The first disclosure initiative, which expired in October 2009, allowed more than 15,000 taxpayers to become compliant with information reporting requirements for foreign bank accounts and offshore assets. The new initiative—called the 2011 Offshore Voluntary Disclosure Initiative—includes some changes from the original 2009 Offshore Voluntary Disclosure Program. The new penalty structure is higher than in the original program, providing no reward to those who waited to comply. There are, however, some additional favorable features in the new initiative.

There is a new penalty framework requiring payment of 25 percent of the amount in foreign bank accounts in the year with the highest aggregate account balance between 2003 and 2010, the period covered under the voluntary disclosure. Some taxpayers may be eligible for a reduced penalty of 5 or 12.5 percent. All participants also must pay back taxes and interest for up to eight years as well as any accuracy related or

delinquency penalties. All original or amended tax returns and payment of all taxes, interest and accuracy related penalties must be remitted by the August 31, 2011, deadline.

A new penalty category of 12.5 percent applies to smaller offshore accounts. Taxpayers with foreign accounts or assets not in excess of \$75,000 in any year covered under the voluntary disclosure qualify for the new lower penalty rate.

## Potential candidates

- U.S. citizens living or doing business abroad
- Closely held U.S. business with operations abroad
- Dual citizens of the United States and another country
- U.S. green card holders
- U.S. recipients of gifts and bequests from foreign persons
- U.S. beneficiaries of foreign trusts
- U.S. immigrants

## Reported taxable income cases

The program also outlines

opportunities for taxpayers who have reported the taxable income but have not filed the required forms for foreign reporting purposes.

U.S. persons (U.S. citizens and resident aliens as well as domestic partnerships and corporations) are required to file a Foreign Bank and Financial Account Report for any foreign account that holds liquid assets or marketable securities for which they have a financial interest or control. The report is filed on form TD F 90-22.1 and is due to the Department of Treasury by June 30 of each calendar year. There are substantial penalties for failure to comply with these rules.

U.S. persons also are required to file Forms 5471 for any year in which they are a U.S. shareholder in a controlled foreign corporation (a foreign corporation owned greater than 50 percent by U.S. shareholders). U.S. corporations are required to file form 5472 for any transactions they may have with a 25-percent foreign owner. In addition, form

8858 should be filed if a U.S. person owns a foreign disregarded entity (100 percent ownership in a foreign entity that separately from its owner for U.S. tax purposes is not recognized on its own). There are substantial penalties for failure to comply with these rules even if you are reporting the income on your U.S. tax returns.

Taxpayers who have not filed these forms for any of the past eight years (2003-2010) may be able to avoid penalties and interest through this voluntary disclosure program. Under this program, the IRS permits filing amended returns for prior tax years that include the missing tax forms with an explanation as to why the forms had not been filed. The voluntary disclosure filing is due into the IRS by August 31 to the addresses noted for the specific forms being filed. Please note that this form of the program applies to taxpayers who have reported required income in the U.S. tax returns.

Individuals or entities currently under examination will not be eligible to come under the 2011 voluntary disclosure initiative. **LE**

For more information on international tax issues, contact Bob Brown, Tax Shareholder, at [rbrown@alpern.com](mailto:rbrown@alpern.com), or Gretchen Wyatt, Tax Senior Manager, at [gw Wyatt@alpern.com](mailto:gw Wyatt@alpern.com). Both can be reached at (412) 281-2501.



## Still sitting on the fence? Picking the best retirement plan for your business

It's common business knowledge that the key to getting, and keeping, good employees is to offer a benefit package they'll appreciate. But you also want to make sure that you—as the owner—get all the tax breaks to which you're entitled.

A retirement plan is a good place to start. Whether yours is a business just starting out or an existing business now ready to set up a plan, many of the considerations are the same.

### Not one-size-fits-all

Retirement plans aren't a one-size-fits-all proposition. Most small to midsize businesses implement 401(k) plans, Savings Incentive Match Plans for Employees (SIMPLEs) and Simplified Employee Pension (SEP) IRAs for their employees. Regardless of the plan, employer contributions are deductible, employee contributions are pretax and plan funds grow tax-deferred.

To determine which plan is best for your business, you'll need to consider a variety of factors. Tax treatment and contribution limits are obvious concerns. But other factors also matter: company size and employee limits, employee age and turnover, employee compensation and company profits, flexibility of contribution amounts, treatment for owners and other highly compensated employees, reporting requirements, and administrative costs.

### 401(k) plans top the list

401(k)s are by far the most popular form of retirement plan. They are contributory plans—meaning the employee makes contributions through redirected salary. You can choose to match the employee's contribution, up to certain limits.

401(k)s have a higher employee contribution limit than either SIMPLEs or SEP-IRAs—for 2010, contribution limits were \$16,500, plus \$5,500 for the age 50 and older catch-up amount.

Although the 401(k) has the advantage of higher employee contribution limits, it also has the most reporting requirements, making it more costly to create and maintain. Because annual requirements include filing a tax return (Form 5500) and compliance

testing, most businesses turn over plan administration to an outside professional.

Employees are always 100 percent vested in their contributions to their account. Although amounts redirected to a 401(k) aren't currently subject to income tax, the earnings are subject to FICA and Medicare tax.

You have some flexibility in determining whether to match your employees' contributions. Employer contributions can vest over time, based on plan schedules. If the plan is top-heavy (favoring highly compensated employees), employee-contribution matching and vesting become subject to IRS requirements. To maximize your own contributions—as the owner—you'll need to monitor and encourage employee contributions, perhaps by providing an employer match.

### Roths may be the way to go

If your plan is set up to accommodate a Roth 401(k), participants in a 401(k) or 403(b) plan may designate some or all of their elective contributions as a Roth contribution. Roth contributions are taxed [not tax-deferred as in a traditional 401(k)], but all qualified withdrawals will be tax free, which means participants may never have to pay tax on growth in the plans. Plus, there are no required distributions.

To have a qualifying Roth contribution program, your retirement plan must establish a separate designated Roth account for each employee and maintain separate recordkeeping for each account.

### SIMPLEs not just a runner-up

There are two types of SIMPLEs: a SIMPLE IRA and a SIMPLE 401(k). Both are contributory plans allowing employee contributions for 2010 of up to \$11,500, indexed for inflation, and an additional \$2,500 for employees age 50 and older.

With a SIMPLE, you're required to match employee contributions up to 3 percent of pay, or you can choose to contribute 2 percent of pay for each employee. This matching is mandatory, unlike with the traditional 401(k). All contributions vest immediately.

SIMPLEs have a major advantage over 401(k)s in that they are, in fact, simple. With

no annual tax return filing and minimal documentation requirements, SIMPLEs are easier to handle, and you may avoid administration fees altogether. However, due to their lower contribution limit, SIMPLE plans may not be a good choice for owners who are seeking to maximize their retirement plan contributions.

### SEP-IRAs funded entirely by employer

Unlike the SIMPLE and 401(k) plans, the SEP-IRA is a noncontributory plan—meaning no employee contributions are allowed. The SEP-IRA is entirely funded by employer contributions. Contributions are discretionary, but can't exceed a specified limit—25 percent of an eligible employee's compensation up to a maximum of \$49,000 in 2010. Participants are immediately vested.

SEP-IRAs are easy and inexpensive to set up and administer. No annual tax return is required, and you have until the due date of the company tax return (including extensions) to make your contribution. The company must include all eligible employees, but, because employer contributions are optional, contributions can be lower (or skipped) in a year in which your company is strapped for cash.

### You may get a credit for plan startup

If you're ready to take the plunge and implement a retirement plan, Uncle Sam may help with some of the costs. Small employers—those with 100 or fewer employees—may be eligible for a credit of up to 50 percent of the first \$1,000 spent on retirement plan administration and education for employees. This credit is available for the first three years of the plan—amounting to a maximum of \$500 credit for each year.

We've covered only a few retirement plans. Other possibilities include defined benefit plans and other profit-sharing or defined contribution plans. The greatest benefits may result from a mix-and-match approach. Combining plans could increase the allowable contributions for owners. You may also want to evaluate nonqualified deferred compensation arrangements to meet your retirement funding goals. **LE**

# bits & pieces

## EMPLOYEE-OWNED DEVICES CAN MEAN MORE TROUBLE

More than half of information technology leaders in the United States believe that employee-owned mobile devices pose a greater risk to a business than company-supplied mobile devices, according to a new member survey by ISACA, a professional IT governance association. However, 27 percent of respondents said they still believe the benefits outweigh the risks.

“BYOD (bring your own device) presents both opportunities and threats,” says John Pironti, advisor with ISACA and president of IP Architects. “It lets employees and organizations take advantage of technology innovations at limited cost to the organization.

Unfortunately, it also introduces new vulnerabilities due to the limited ability of most organizations to effectively manage and secure employee-owned devices accessing their information infrastructure.”

Pironti advises organizations to educate their employees on their BYOD security requirements and implement a comprehensive mobile device policy that aligns with the organization’s risk profile.



## MORE SOCIAL MEDIA: IT CAN HELP WIN NEW CUSTOMERS



The last year has seen a rise in U.S. companies using social networks to win new business, according to Regus, a global workplace solutions company.

According to a survey of more than 17,000 managers and business owners, 43 percent of U.S. firms are successfully using social networking to win new customers, up eight percentage points from last year’s survey.

The survey also shows more firms are using social media to engage existing customers, with 50 percent of businesses in the United States using social media platforms such as Twitter to engage, connect with and inform existing customers.

Sixty-nine percent of U.S. businesses and 74 percent of international businesses say social media plays a bigger role today in their marketing strategy. Furthermore, 64 percent of U.S. businesses and 61 percent of international businesses believe successful marketing campaigns need to balance traditional and digital techniques.

## BUSINESS CREDIT CARDS: MANAGE THEM BETTER

Your organization likely relies on credit cards to facilitate day-to-day expenses. The Better Business Bureau and CapitalOne Financial Corp. recently created a guide that can help with that.

Among the tips offered ([www.bbb.org/credit-management](http://www.bbb.org/credit-management)):

**Use the expense tracking feature.** Most business credit cards provide expense reports divided into categories that make it easy to track spending and report expenses for your taxes.

**Recognize higher limits.** A business credit card may have higher spending limits than a personal card, which can help with monthly cash flow. Make sure to separate your business expenses from your personal expenses to simplify reporting.

**Have employee-specific cards.** Business cards for your employees enable your organization to establish pre-set spending limits and streamline expense tracking and travel reimbursement.

**Strengthen credit.** A good history of managing a business credit card can help build your business credit record and improve your profile when applying for a business loan or line of credit.

**Research the added protection and perks.** Explore the added benefits the card can offer such as travel insurance and auto rental insurance for you and your employees. It also sometimes offers airport lounge memberships, concierge services, reward programs, cash rebates and other benefits.



# Experts talk about how to fly your business into the global marketplace

By Danielle Toth

With the post-recession environment and President Obama's goal of doubling exports by 2014 with the National Export Initiative, even more businesses are dipping their toes into international water. Companies already there are getting more deeply involved. The key to success, whether you are a newcomer or a veteran, is knowing both the opportunities and the caveats.

## Resources, demand, compliance

Small and medium-sized businesses can greatly benefit from the National Export Initiative, which provides a platform for U.S. companies to go international.

"This is a real opportunity for businesses that are not exporting or are afraid to enter international business to jump on the bandwagon," says James Min, vice president of international trade law and corporate compliance at DHL Americas, which is one of the largest logistic supply chain providers in the country.

"This initiative is coordinating the Department of Commerce and other agencies to provide support to these businesses so they can have a partner in international business," Min says.

Among the assistance provided through the National Export Initiative at [www.export.gov](http://www.export.gov): basic how-to and market information, educational webinars, financing resources and access to local trade specialists.

Min says DHL has seen the recession global slump change as demand is back up. Businesses are ramping up and doing so efficiently, rationally and intelligently because they're making sure their capacity meets their demand.

Many countries also have stepped up their enforcement of imports to ensure they're collecting the appropriate taxes, says Larry Harding, president and founder of international business services provider High Street Partners in Annapolis, Md.

"They're not necessarily increasing tax rates, but they're taking extra steps to make

sure all of the taxes that should be paid are being paid," he says.

In addition, Min says, countries are stepping up enforcement for security reasons. After Sept. 11, 2001, the United States required companies to submit data on imports at least four hours prior to their arrival in the country. With recent terrorism activity, security regulations are even tighter. Now shipment data must be submitted before it is even loaded onto an aircraft to come into the United States. Min says other countries will most likely follow suit, and eventually it will become a global standard.

## Where's hot?

EU countries and BRIC (Brazil, Russia, India and China) are excellent places to conduct business now because the U.S. dollar is weak, Harding says.

"To some degree, there is a little bit of a perfect storm pushing U.S. companies to look to overseas markets," he says. "The BRIC countries, and recently South Africa, are getting a lot of publicity for their huge growth rates and continued increased spending on technology and infrastructure. The weak dollar is making U.S. goods and services comparatively cheaper to the rest of the world than they have been in a long time."

The weak dollar creates a favorable Euro-dollar and pound-dollar exchange rate that makes U.S. goods and services inexpensive for EU countries, Harding says.

Min says he thinks many second-tier, non-BRIC economies such as Mongolia, Turkey, Israel, Chile, Peru, Vietnam and Colombia are also excellent areas for business right now.

"These economies are growing rapidly, and while they may not be as large as China or India, they have some great opportunities," he says. "Mongolia, for



example, has had GDP growth surpassing 10 percent for the past couple years, and a lot of that is driven by their supplying of raw materials and commodities to China. These countries have seen some solid GDP growth, very strong export activities and an obviously very well-educated workforce."

Harding offers that the only markets he thinks companies should avoid are places like United Arab Emirates because they have not yet recovered from the recession.

## What's hot?

The best industries right now are technology and infrastructure, including architectural firms and building suppliers such as concrete companies, Harding says.

"In India, China and Brazil, they're building more buildings and roads," he explains. "They're also upgrading their telecom networks and adding more broadband capabilities and mobile wireless capabilities."

The extraction industry, including oil, gas, minerals and other deposits, is hot as well, Min says, because commodity prices globally are still volatile and increasing rapidly, combined with the fact that demand is high for energy-related and other types of ore commodities.

Consumer-related IT has also seen a lot of activity, even with the recent tsunami and earthquake in Japan. "Many folks thought there would be a dampening in the IT sector, but we're seeing an indication that the

rebound is quite steady, and a lot of people are projecting Japan will recover well,” Min says. “Japan actually supplies 60 percent of the wafers used for semiconductors that the Asian economies such as South Korea and Taiwan produce. It shows the demand is there and Japan will continue to play a pivotal role.”

### When's the time?

Before any business enters the global market, it should have a proven brand, Min says. The information age has revolutionized the global market, he explains, and consumers all over the world, including underdeveloped countries, have access to the Internet to see if a brand is legitimate.

Businesses also need to time their entrance correctly into their target market. For example, if a business is targeting the Middle Eastern markets, it should avoid arriving during Ramadan or in Asia during the Chinese New Year. Know the market's calendar, and don't assume it's the same as the United States', Min advises.

Harding says businesses also should make sure they are equipped to handle international sales. That requires strong finance and accounting departments as well as logistics and system capabilities that can handle the additional workload. A business should have a strategy for each part of its organization before entering the international market, he says.

### What mistakes?

DHL's Min says the biggest error made by U.S. businesses is failing to understand the culture.

“There was a big retailer in an Asian market that sold products a consumer had to take and assemble at home,” he explains. “The consumers in that market were baffled by this concept because in that culture, most don't have tools at their house or apartment. Most retailers there deliver and assemble products free of charge. This just shows you really have to know your local market. Asia, for example, is a huge continent, and within it, there are major cultural and linguistic differences.”

Another mistake businesses make is assuming too much, Min says. Many businesses assume a culture acts or behaves a singular way or expect different cultures to respond uniformly. Research each individual market and the targeted audiences ahead of time, he advises.

Eddie Goldsberry, CPA and director of international tax at PKF Texas, a Leading Edge Alliance firm, agrees about the need for significant research. For example, he says,

businesses need to identify any potential customs problems both in importing and exporting.

“On the export side, there's usually not a lot a business is concerned about except getting paid,” Goldsberry says. “However, it becomes difficult depending on what country you're operating in. For example, the rules and regulations to open a bank account and take money out of China are voluminous.” **LE**

## Get going global

Eddie Goldsberry, CPA and director of international tax at PKF Texas, a Leading Edge Alliance firm, says companies can seek assistance doing business internationally through many outlets.

“There are a number of resources that go out of their way to help businesses conduct business internationally,” he says. “For example, I was on a trade mission with the Greater Houston Partnership, and our first stop was in Milan. The U.S. Commercial Service in Milan hosted our meeting and was instrumental in helping get companies involved.”

In addition to working with your local chamber or state development agency, here are some other resources suggested by Goldsberry:

**U.S. Export Assistance Centers:** Staffed by professionals from the Small Business Administration, U.S. Department of Commerce, U.S. Export-Import Bank and other public and private organizations, these centers are designed to provide export assistance for small- to medium-sized businesses. For more information and to find your local center, visit <http://www.export.gov/eac>.

**U.S. Commercial Service:** These offices are the trade promotion arm of the U.S. Department of Commerce's International Trade Administration. Located in more than 100 U.S. cities and more than 75 countries, they help U.S. companies get started in exporting or increase sales to new global markets. For more information or to find a local office, visit <http://trade.gov/cs/>.

**U.S. Chamber of Commerce International Division:** The chamber has 113 American chambers of commerce in 100 countries around the world. These chambers pursue trade policy initiatives, present publications and services and sponsor a variety of business development programs. For more information and locations, visit <http://www.uschamber.com/international/directory>.

# Top 10 things to know about doing business in China

## 1. What business structure should I choose for investment in China?

Foreign investors have several choices when it comes to structuring a China enterprise: the representative office, the wholly foreign-owned enterprise, the joint venture and the foreign-invested commercial enterprise. Generally, the representative office can be used to get a feel for the market (but not conduct business activities), while the wholly foreign-owned enterprise (a more committed choice) allows greater freedom in business activities and more control over business operations and is often used for manufacturing operations. A joint venture sacrifices the latter but brings advantages of its own, including an ability to invest in otherwise restricted sectors. A foreign-invested commercial enterprise, an increasingly popular option, is a trading company that permits the import and sale of foreign goods and services, as well as the export of Chinese products. Foreign-invested commercial enterprises also can be used for franchising. When deciding between the options, you will need to address questions such as:

- What do you need to do in China now? What about a couple of years down the line?
- Do you need to hire your people on the ground and rent an office?
- Do you need to invoice locally for services or products?
- Are you getting a feel for the market or have you committed to a larger-scale operation?
- Are you planning to set up a trading or production-oriented entity, or do you need only a representation in the country to carry out market research or liaison activities?

## 2. What sectors encourage foreign investment?

The Chinese government encourages, restricts

and prohibits investment by sector, according to the demands and the needs of the country and the particular time. However, China has become increasingly liberal in the scope of activities permitted for foreign companies, and standard import/export and manufacturing businesses wishing to sell to the China market are unlikely to face many restrictions.

## 3. Are representative offices still a good option for me?

Since Jan. 1, 2010, representative offices are no longer exempt from corporate income tax in China. A circular issued by the State Administration of Taxation on Feb. 20, 2010, explicitly stipulates that representative offices must pay corporate income tax on their taxable income, as well as sales tax and value-added tax, and will be required to assess corporate income tax liability using either the cost-plus method or actual revenue method. Representative offices must submit an annual report between March 1 and June 30 every year providing information on their legal status and standing, ongoing business activities and payment balance audited by accounting agencies.

The administrative regulations on representative offices issued by the State Council that took effect in March 2011 specify the activities in which representative offices are permitted to engage. These include market research, display and publicity activities that relate to company product or services, and contact activities that relate to company product sales or service provision, and domestic procurement and investment. Representative offices are forbidden from engaging in any profit-seeking activities except for those which China has agreed in international agreements or treaties. As such, a representative office may not directly invoice for sales or services in China and can only interact with Chinese businesses indirectly.

As of 2010, a parent company must have

been in existence for two years to establish a representative office. It can still be useful for pure market research and liaison activities, but these new regulations mean representative offices are no longer a cost-effective vehicle. Companies would be advised to set up a foreign-invested commercial enterprise or a wholly foreign-owned enterprise instead.

## 4. What can I do to protect my intellectual property rights in China?

China is a “first-to-file” jurisdiction, meaning the law protects the party who is successful in first registering the trademark or patented technology/design, as opposed to the party who first used it. This means that you should take action to protect your intellectual property rights as soon as possible and definitely before Chinese market entry. It is alarming how many companies do nothing to protect themselves, even though they are fully aware of the intellectual property rights-related risks in China. IP protection should extend to Internet domains, trademarks and patents, and these should be managed through filing in China. China is, however, a signatory to the various international protocols and does follow the normal filing and category procedures familiar to most foreign investors. However, copying is rife and legal action expensive.

## 5. What are the main guidelines for labor contracts in China?

China's top legislature, the National People's Congress, adopted a labor contract law in 2008. Among other key points, this law protects workers' legal rights by demanding a written contract between the employer and employee. If no contract is provided, then the employment relationship will commence from the employee's first day of work. An employer who fails to provide a contract after one month will be forced to pay the employee twice his or her monthly salary. The law only



allows for two continuous, fixed-term contracts, and any further contracts must be, in general, open-term contracts, which make it significantly harder to fire an unsuitable employee. In addition, the Central Government will double the minimum salary level in China within the next five years, meaning mandatory salary increases of about 20 percent per annum.

#### What are the mandatory additions and special circumstances of labor payments?

The company is required to pay mandatory welfare or social security payments for each employee, including pension, medical, unemployment, injury and maternity. Many cities also require mandatory housing fund contributions. These payments vary regionally but are generally about 40 to 50 percent of an employee's monthly salary. A new law including foreign employees in some of these payments took effect July 2011. It is important that these costs are built into the business plan as part of operational costs; it is a common mistake to omit them.

For overtime payments, the labor law states employees must not receive less than 150 percent of their normal wage for extensions of regular working days, not less than 200 percent in extensions on day of rest and not less than 300 percent for extension of statutory holidays. In addition, China has a relatively high number of national holidays.

#### What are some prevalent inaccurate accounting practices to know?

A common method of tax avoidance rampant in (but in no way unique to) China is underreporting accounts receivable in an attempt to hide sales to reduce taxable income. A slightly more country-specific accounting practice is multiple sets of financial accounts. While these multiple books are quite often used to avoid tax, they are also sometimes used to cover up other

inappropriate financial behavior within the company itself. Moreover, often the official set of accounts is prepared electronically whereas the other set is maintained manually, and accordingly, it is often very difficult or impossible to reconcile these accounts. Due to the structuring of China's tax laws and the liability window, local staff may commonly break the law to "assist" the company cash flow. Diligence, training and monitoring of accounts prepared by local staff need to be maintained. Fines for non-compliance can be as much as five times the original amount due plus the due amount.

#### What are the main taxes and tax rates?

China Tax Rates (May 2011)	
Corporate income tax	25 percent
Withholding tax	10 percent
Value-added tax	3 to 17 percent
Business tax	3 to 20 percent
Consumption tax	Varies widely, based on product
Stamp Duty	0.05 to 0.10 percent

#### How does value-added tax work in China?

All enterprises and individuals engaged in the sale of goods, provision of processing, repairs and replacement services and import of goods within China shall pay VAT. The rate for general taxpayers is generally 17 percent or 13 percent for some goods. For taxpayers who deal in goods or provide taxable services with different tax rates, the sale amounts for the different tax rates shall be accounted for separately.

The sales threshold for small-scale taxpayers is approximately \$77,300 (for enterprises engaged primarily in the production of goods or the provision of taxable services) and approximately \$123,600 (for enterprises engaged in the wholesaling or

retailing of goods). Non-enterprise units and entities that normally do not engage in taxable activities are given the choice of whether or not they are taxed as small-scale taxpayers, while individual (natural person) taxpayers with business turnover exceeding the threshold shall continue to be taxed as small-scale taxpayers.

#### What are exchange controls like?

China has tight exchange control policies. After a foreign-invested enterprise receives its business license, it is required to register with the State Administration of Foreign Exchange, upon which a "Foreign Exchange Registration Certificate" will be issued to the enterprise. The certificate is required for the opening of a foreign capital bank account and when handling all foreign exchange-related matters.

As for repatriating profit and dividends, the enterprise must submit receipts proving corporate income tax payments have been made in full, an annual audit report, a board resolution on the distribution of profit and dividends, a capital verification report and the Foreign Exchange Registration Certificate. Dividends from profits are subject to a 10-percent withholding tax. A lower withholding rate may be applicable under double tax treaties. **LE**

Leading Edge Alliance member Dezan Shira & Associates provided this article. Dezan Shira & Associates is a specialist foreign direct investment practice, providing business advisory, tax, accounting, payroll and due diligence services to multinationals investing in China, Hong Kong, India and Vietnam. Established in 1992, the firm is a leading regional practice in Asia with 19 offices in four jurisdictions, employing more than 170 business advisory and tax professionals. To contact the firm, please email [info@dezshira.com](mailto:info@dezshira.com) or visit [www.dezshira.com](http://www.dezshira.com).

# Acquisition leads to merger of office policies, cultures

By Mary Ellen Harris and Tyler Ridgeway, Kreischer Miller

## QUESTION:

Our mid-sized company acquired a smaller business earlier this year. Our policies and culture are a little different. How do we go about making sure the acquisition is successful on a personnel level?

## ANSWER:

One of the significant challenges associated with acquisitions is the integration of the people and cultures. Successful integrations are those where the employees of the two legacy organizations are able to come together for the greater good of the newly combined organization. This, of course, is easier said than done. Many factors are outside of the control of the leadership team. However, some specific actions that the leadership does have control over will improve the probability that the integration will be successful.

**1. Tell employees things will change.** The most common mistake during the integration process is that management makes statements, frequently during well-intended communication meetings, promising employees that things will stay the same or be very similar. This is factually not true. Practically everything will change: procedures, policies, seating assignments, compensation, benefits, etc. will be impacted by the acquisition. The best course of action management can take is to state very frankly that there will be significant change in the upcoming months and years.

**2. Have a communication plan.** Frequent communications with employees is essential to retain their engagement. When facts are absent, employees make things up. Combat the rumor mill by providing as many truths as possible. During the first few months following the public announcement of the

acquisition, management should provide weekly updates at a designated time and day. The consistency of communication will provide employees comfort because they can expect to receive updates at regular intervals.

**3. Take your time when making decisions.** Often, the frenetic pace associated with the integration process causes a sense of urgency to have everything decided right away. Rushing to make decisions can result unintentionally in creating additional change and anxiety for your employees. The best course of action is



to slow down and take a methodical approach to decision-making that involves a plan or a schedule of all of the major decisions that need to be made that takes priorities into consideration. A systematic process for analysis and decision-making increases the probability for success.

**4. Include people from both of the legacy companies in the decision-making process.** If only employees from the acquiring company are included, the employees from the acquired company will resist the changes and disengage. Inclusion and collaboration are essential for gaining buy-in and support for the new direction, new policies, procedures, etc. There are a variety of ways to include a cross section of employees. For example, you

could set up specific teams with representatives from each step in the process. The key is to have a cross-section of people and to share who those members are so employees know their best interests will be represented in the decision-making process.

**5. Adopt a “we” attitude and demonstrate the “we” attitude at every possible opportunity.**

Mergers and acquisitions inherently result in us-versus-them attitudes at all levels.

Therefore, it is imperative that all levels of management clearly demonstrate by their behaviors and the words they choose that they are committed to the collective “we.” Middle management are the most at risk for perpetuating the us-versus-them attitude because they are in the trenches of the day-to-day operations and frequently have to juggle the challenge of keeping the operation going while attempting to keep employees engaged and focused on performing their respective jobs. Pay close attention to your middle management level. Check in on them regularly and provide them

with as much support as possible. If this group of employees is on board and supportive of what the overall organization is trying to accomplish, then the other employees will be too.

This list is not all-inclusive, but is intended to provide you with a quick, actionable list of essential items associated with successful acquisitions. It is our intention that these five actions will provide you with food for thought and help generate ideas and thoughts that will aid in the integration process. **LE**

Mary Ellen Harris is director, human resources, and Tyler Ridgeway is director, executive search practice, at Kreischer Miller, a Leading Edge Alliance firm.



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