



Recession Survival

Has state government woken up and smelled the coffee? New plans are in place to spur economic development in the current economic downturn. Professional services firms and colleges are in the mix as well, doing their best to grow businesses and individual careers.

By Tracey Regan, Contributing Writer

New Jersey businesses spent the final months of 2008 scrambling to stem their losses as sales, profits and employment levels plummeted amid a global credit crisis and downturn that jolted the state's economy.

"I wish I could point to a couple of major sectors and say that the problems were just there. It started in the housing, construction and financial services industries and spread across the entire economy," says Philip Kirschner, president of the New Jersey Business & Industry Association, Trenton.

"There has been a ripple effect as consumers cut back," says David Stafford, a managing director with the accounting firm, The Mercadieu Group, Princeton, who points to the growing financial strife in sectors ranging from business support services, to advertising, to information technology, to human resources.

Amid the chaos, businesses looked to government leaders at the federal and state levels for both novel and proven approaches to stabilize precarious markets.

“This is a national, even an international financial crisis, but the state has a role to play. And so far, we are impressed with what the state is trying to do,” Kirschner notes, pointing to several initiatives announced this past fall by the Corzine administration. While the federal government sought to ease credit markets by injecting capital into some of the country’s largest financial institutions, the state’s measures were aimed at smaller banks and businesses.

“Middle-market companies were having a hard time surviving, and no one was coming in to say, bail out the auto dealerships,” says Thomas Basilo, a partner at the accounting firm WithumSmith+Brown in Princeton.

One state initiative, the Main Street Business Assistance program, allotted \$500 million from state-managed cash and pension funds to invest in some of the state’s smaller banks through secured investments such as certificates of deposit (CDs) in order to boost banks’ capital reserves and bolster their ability to lend. While many of these banks steered clear of subprime lending, they were stung nonetheless by the credit crisis it engendered.

“Community banks in this market fall into two categories – those that can raise additional capital at a fair price and those that can’t. Because of regulatory capital requirements, and based on the number of years they have been around, banks can leverage their capital only up to about 10 times,” says Michael Mann, a partner in the Princeton office of law firm Pepper Hamilton. A bank that raises the statutory minimum of \$6 million of initial capital to start a bank, for example, can only grow to be about a \$60 million bank before needing to raise more capital, he says.

The state also established a \$50-mil-



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According to **Phil Kirschner**, NJBIA is impressed with what the state is trying to do, as he points to several initiatives announced this past fall by the Corzine administration.

lion program to provide lines of credit and financing to small- and medium-size businesses.

“Under legislation, the EDA would provide credit enhancement by guaranteeing lines of credit for some short-term and even some long-term investments, such as to a business that is looking to extend a mortgage on a building,” says Caren Franzini, executive director of the New Jersey Economic Development Authority (EDA).

“This is for businesses that have been healthy all along, but are experiencing a credit crunch and have no access to capital,” she notes. “In essence, the program will give more small- and medium-size businesses the opportunity to borrow from New Jersey banks.”

In order to boost employment, the state is offering New Jersey businesses a \$3,000 grant or tax incentive to create a job and retain it for at least a year. This measure expands on existing programs that provide tax incentives for businesses that relocate in the state, bringing jobs, and for those businesses that are under pressure to leave the state but opt to stay. The state will also expand the sales and use tax credit for capital investment in the state.

While offering individual businesses incentives to add jobs, the state also plans significant spending on infrastructure to both spur employment and invest in future growth.

“We’re taking a page from Franklin Roosevelt and spurring public works projects, including bridges, roads, tunnels and schools, that will put people to work immediately,” says Jerold Zaro, chief of the Governor’s Office of Economic Growth. “We are also committed to revitalizing our ports – from Newark, to Linden, to ports in South Jersey – to better capitalize on our economic development efforts and ensure our competitive advantage.

“We once had a wish-list, but we now have a to-do list,” he says.

Citing concern over the effects of the downturn on Atlantic City, which he described as the “economic engine of South Jersey,” Zaro says the state would encourage development projects in the region, such as the construction of casinos, if the administration felt there was a consensus among stakeholders to move in that direction. He cites MGM’s recent withdrawal from plans to develop a casino at Bader Field, the former Atlantic City municipal airport, as an example of slowing growth.

He says the state would also explore the feasibility of establishing a research park next to an existing Federal Aviation Administration training facility at Bader Field, a project he says has “real potential” to combine a research park and a hub for private aeronautics companies.

“This would make Atlantic City to commercial aviation what Houston is to NASA,” he says.

While businesses here look to government leaders to stabilize the economy, they are also turning to private sector advisors for more immediate counsel.

As business slows, firms cut back on such basic operations as marketing and production positions, while trying to maintain their sales efforts. It proves a difficult balancing act, prompting many accounting firms to advise their clients to review their operations to find efficiencies and eliminate wasteful expenses, while not undercutting opportunities for growth going forward.

“The first reaction is to cut jobs and that has a negative effect on the economy, while also limiting the company’s growth,” says Basilo, who adds that “the impact has really been greatest on companies looking for financing. They are facing something that is unique in their experience – they’re wondering how to

keep funding business operations and growth.”

“One of the things they are asking us is to help them identify where they are really making money,” says Stafford, adding, “Businesses are

looking carefully at where they’re putting their money and what return it is bringing. Our clients are looking at every expense that they have, including what sort of benefit packages they are offering and whether

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employees are using these benefits.”

Stafford says his firm advises clients to carefully evaluate their customers, so that they don't find themselves in the position of having to take write-offs if they don't get paid. The firm also encourages them to make sure they billed quickly and follow up on collections. He says companies are seeing their customers pay more slowly than previously, anywhere from 15 days to 45 days longer.

It has been a turbulent time for some smaller technology companies that have seen their revenues flatten and are trying to revamp cost structures that were predicated on earlier growth projections. Hedge funds, too, are feeling pressure as some investors seek liquidity by redeeming their interests, advisors say.

“We are urging companies to be proactive, to see where they can gain efficiencies in operations by cutting costs and trying to see what type of tax planning they can do. There is a general perception that tax rates are going to increase and they are trying to figure out in what manner they can minimize their 2008/2009 taxes,” says Anthony Minnefor, a partner with the Florham Park-based accounting firm Eisner, who advises private equity, hedge funds and technology companies.

WithumSmith+Brown introduced a tool called Project Forward to help businesses analyze their strengths, as well as areas in need of improvement, by closely scrutinizing factors such as profitability, productivity and cash flow, while providing accurate benchmarking that allows them to compare themselves with others in their industry.

“We're saying they need to figure out how to fix their business, to get out of the situation they're in and to stop spinning their wheels and get back to basics,” Basilo says. “And as to that, nothing should be off the table for discussion.”

The firm used a similar device in the previous recession in the late 1980s and early 1990s, but Basilo notes that the current model is “much more sophisti-



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cated – we didn't have the IT resources, for example. The benchmarking is more sophisticated.”

Liza Walsh, a partner at the Roseland-based law firm Connell Foley and chair of the firm's finance committee, says she is seeing an increase in restructurings, bankruptcies and litigation, but also a heightened focus on early resolution of disputes, including over severance terms.

“People are asking themselves how much money they are willing to invest in litigation in this environment, and we're finding they are apt to devote less resources than they were before the downturn,” she says. “Economic times like these make all parties more realistic.”

She notes that the firm is in close communication with clients during this turbulent period and has opted for flexibility in areas such as alternative billing arrangements while both sides weather the downturn. “We see the relationship as a partnership,” she says.

The downturn has generated business for corporate lawyers who are advising clients on ways to cope with the downturn and also, in some cases, healthy companies seeking opportunities in the current market.

Mann says corporate clients were seeking advice on downsizing, raising capital and creative approaches to structure debt and equity, but also for ways to take advantage of attractive deals during the downturn.

“We're seeing a lot of merger and acquisition activity, because companies are recognizing that there is a lot of value out there. If they have available financing, they can do deals,” says Mann, noting that although capital is tough to find in this market, it is still available from private sector entities that are seeking good investment opportunities outside of public markets.

“Middle-market companies – valued between \$25 million and \$1 billion – are still very busy in mergers and acquisi-

tions. There have been a lot of M&As in the consumer products, food business, transportation, and technology sectors. The economics are still there for businesses of value," says Frank Cannone, a partner with Newark-based law firm Gibbons PC, who chairs the firm's corporate department. "On the sell-side, there are owners who want to sell because they don't want to weather another downturn. It's a good time for strategic buyers to buy competitors.

"As an intermediary, we are busy," Cannone says. "What we're seeing is just a realignment of who the buyers and sellers are and what the price points are."

He notes that companies are using retained earnings, equity and mezzanine financing to do deals as credit markets remain sluggish. Sellers are issuing notes or taking back equity to get deals closed. "In 6-12 months, when commercial lending comes back to the market, they can refinance," he says.

Gibbons started at the end of September to put out a weekly financial crisis alert on critical events in the marketplace to keep its clients apprised. The firm also dedicated a portal to provide ongoing information, on a day-to-day basis, about financial news with links to key global financial events.

Colleges and universities in the state say that continuing education classes and graduate study programs are filling as workers seek to both retool and upgrade and look for practical information on the job market.

"Students are always concerned about the economy, but I would say they are three times as concerned now," says Richard Hendrix, dean of graduate studies and continuing education for New Jersey City University.

"It's a good time to strengthen

credentials," he says. "Some students are thinking that now might be a good time to get the MBA. They are hedging their bets and waiting out the recession. This is certainly true for some younger students."

He says the university has seen a jump in attendance at information sessions on career change as well.

"People want to become teachers, for example. Some of them have been working as business people and

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lawyers. They haven't lost a job, but they see the handwriting on the wall. We're seeing this also to some extent in new programs here in nursing," Hendrix says, adding, "People are savvy. We're not going to see a reduc-

tion in healthcare and a lot of teachers are scheduled to retire."

"We knew there were economic issues up to a year ago and we knew we needed to react by focusing on fast-track career changes," says Deb-

orah Robinson, director of continuing and professional education for Ocean County College, Toms River. She notes that the college began working on its fall course offerings brochure last spring, using Bureau of Labor Statistics data, among other sources, to let students know what sectors of the labor market are expected to grow, as in healthcare.

She notes the strong demand for health care training, adding that classes in EKG administration and medical office skills had filled up quickly. "And the phlebotomy technician training class filled the morning it opened for registration," she notes.

Robinson says that enrollment in the continuing education department's business classes, including courses in human resources and management, has also really picked up. Most of the students have jobs, but are "looking to upgrade," she says.

But Hendrix says he is also hearing from students who are having problems financing their graduate education.

"In a healthy economy, people can take a second mortgage, but the credit markets are already affecting student loans," he says. "Chase Bank, for example, has always been a big provider, but I saw a letter recently that said the bank was going to tighten its eligibility standards, and also raise its rates. This is coterminous with the housing bubble, when students were bombarded with loan offers - all you had to do was to have a pulse. But that really changed in October."

Looking beyond the current financial crisis, the state is now adopting some broad changes that policy makers here argue will spur long-term growth.

The state legislature, for exam-

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Marilyn Knight, instructor of Ocean County College Continuing and Professional Education's Medical Office Specialist class, is teaching students about the Cardiovascular System. Using a model of the heart, they are learning about the chambers, the valves, the coronary arteries and how blood flows through the body.

Board of Public Utilities in offering incentives to businesses that bring jobs in the renewable and energy efficient technology sector.”

Zaro says the state would consider measures to spur construction of what he called “workforce housing” aimed at people earning low to moderate incomes, although he declined to give specifics of any plan.

“We’ve got to have places that are affordable and make it attractive for companies to locate here. This issue has got to be front and center,” he says, adding, “We’re looking at a number of new and creative things. Now is the time for unconventional thinking.” **NJB**

ple, has approved several tax proposals the business community has long sought, including a measure to increase the number of years a business can extend its net operating losses from seven to 20, and the repeal of a law that has allowed New Jersey to tax businesses on income earned outside of the state.

The state is also overhauling its environmental permitting program to include such business-friendly provisions as allowing companies to extend permit approvals if they do not break ground before the permits expire.

“It will allow us to clean up polluted sites faster, while also putting people to work,” Zaro says.

The state has put together a package of incentives to encourage businesses here to adopt energy efficiency measures and to invest in alternative energy technologies.

“This is encouraging New Jersey in a positive way to go green by investing in the best ways to save energy by using it efficiently,” Franzini says. “We’re also partnering with the



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