



Case Study LMN Enterprises

Minority Business Development Institute staff met LMN Enterprises in July 2011. Initially owned among a large family, LMN made changes in ownership structure, among other things, to obtain bonding. The firm currently installs towers for major telecommunication companies throughout the New York region. Firm management, however, is looking to shift directions and become a General Contractor in the general construction area.

The Issues

When LMN Enterprises entered the DASNY Bond program, the one-on-one interview revealed a number of organizational issues that were severely limiting their growth. These included:

- Corporate structure – too many owners
- Poor Accounting presentation
- Improper Capitalization
- Large cash withdrawals from company

Summary of Change

Working with MBDI, the owners have addressed these issues as follows:

- Restructured corporate ownership
- Hired a Construction accounting CPA firm
- Infused capital into the company
- Revised its cash distribution policy
- Changed accounting systems
- Changed their lifestyle to keep more cash in the company
- Invested in relationships with larger trade firms to be able to work as a GC



A Closer Look

Disadvantageous Corporate Ownership Structure. The ownership of the firm was divided between the wife and husband and their children. Some of the children were legally adults. The General Indemnity Agreement, required for all surety bonds, requires that all owners and their spouses sign. After explaining how the indemnity agreement works, and our related concerns with their current corporate structure, the wife and husband owners changed the firm's ownership structure. The children no longer have any ownership in the firm. Cleaner ownership structure gave surety underwriters more confidence in the firm.

Poor Financial Presentation. LMN entered the program with financial statements prepared on a *cash basis* by an accounting firm that was *not a construction CPA firm*. At MBDI's recommendation, LMN hired a CPA construction accounting firm, at a higher cost to the firm. Their financials will now be prepared on cost-of-completion basis, which more accurately reflects their financial position, with proper footnotes and explanations. Proper financial presentation assisted them in qualifying for and obtaining surety bonding.

Improper Capitalization and Large Cash Withdrawals. The firm had retained earnings, but in lieu of paying the owners a set salary each month, withdrawals were made from the retained earnings account. This reduced the overall capitalization of the company, potential working capital and potential ability to qualify for bonding. At year-end 2011, the owners put additional capital back into the company. With a stronger equity position in the firm, LMN is now better qualified for a larger bond, since the equity in the company has been restored and no further withdrawals have been made.

Bonding Result. The overhaul of these organization problems took place over a 6-month period. Once changes were made, the firm was well prepared to qualify for a bond line. LMN recently qualified for a bond line with Travelers of \$600,000 single and \$1,000,000 aggregate. The largest completed project by the firm was in the \$850,000 range and they have experience in managing multiple projects throughout the NY metro region at one time. This has impressed the underwriters and has given the firm opportunity to bid on 2 sizable projects at one time, utilizing their \$1,000,000 aggregate limit.

The firm has good credit scores, is now well-capitalized, and has experience behind them. The goal moving forward is to have the firm successfully complete a number of GC contracts so the bond line can be increased to \$1mil single by next year.

This firm has made a considerable investment in both accounting fees, attorney fees (in changing the corporate structure) and in time, revamping the company's focus and moving in a different direction. They are continuing to align themselves with various trade contractors as they move into the GC arena.