



## FAS 150 Action Plan

**1) Evaluate your firm's exposure.** FAS 150 poses potential risk to law practices that draft buy-sell agreements for their closely held business clients. To avoid malpractice exposure, attorneys should review existing client buy-sell agreements to assess the potential applicability of the new standard.

**2) Have clients consider "cross-purchase" agreements.** One type of buy-sell agreement *not* subject to FAS 150 standards is the cross-purchase agreement. This calls for shareholders to buy each other out personally, outside of the corporation. By sitting down with company owners and converting traditional "redemption" agreements to cross-purchase agreements, the entire issue becomes moot in the eyes of FAS 150.

**3) Advise clients on credit decisions.** Small business clients need to take heed when seeking to establish lines of credit. To avoid debt ratio problems, companies should work with their lenders to establish covenants that reference agreed-upon, fixed definitions rather than Generally Accepted Accounting Principles (GAAP) definitions, which can change. If lenders will not agree to non-GAAP definitions, companies should insist that calculations be based on GAAP definitions as of the date the credit is established, or negotiate sufficient cushions in covenants.